

First Savings Financial Group Inc  
Form 10-Q  
August 14, 2014

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, DC 20549**

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended June 30, 2014

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)

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

**Indiana** **37-1567871**  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification Number)

501 East Lewis & Clark Parkway, 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, 2014 was 2,177,412.



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, 2014 and September 30, 2013 (unaudited)</u>	3
<u>Consolidated Statements of Income for the three months and nine months ended June 30, 2014 and 2013 (unaudited)</u>	4
<u>Consolidated Statements of Comprehensive Income for the three months and nine months ended June 30, 2014 and 2013 (unaudited)</u>	5
<u>Consolidated Statements of Changes in Stockholders' Equity for the nine months ended June 30, 2014 and 2013 (unaudited)</u>	6
<u>Consolidated Statements of Cash Flows for the nine months ended June 30, 2014 and 2013 (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>	43-55
<b><u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u></b>	56-58
<b><u>Item 4. Controls and Procedures</u></b>	59
<b>Part II <u>Other Information</u></b>	
<b><u>Item 1. Legal Proceedings</u></b>	60
<b><u>Item 1A. Risk Factors</u></b>	60
<b><u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u></b>	61
<b><u>Item 3. Defaults Upon Senior Securities</u></b>	61
<b><u>Item 4. Mine Safety Disclosures</u></b>	61
<b><u>Item 5. Other Information</u></b>	62

**Item 6. Exhibits**

62

**Signatures**

63

-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, 2014	September 30, 2013
<b>ASSETS</b>		
Cash and due from banks	\$9,477	\$ 9,607
Interest-bearing deposits with banks	9,908	11,208
Total cash and cash equivalents	19,385	20,815
Interest-bearing time deposits	1,500	1,500
Trading account securities, at fair value	5,254	3,210
Securities available for sale, at fair value	185,764	164,167
Securities held to maturity	5,744	6,417
Loans held for sale	122	399
Loans, net	423,793	408,375
Federal Home Loan Bank stock, at cost	5,675	5,500
Real estate development and construction	7,253	7,178
Premises and equipment	14,456	14,842
Other real estate owned, held for sale	714	799
Accrued interest receivable:		
Loans	1,274	1,208
Securities	1,470	1,183
Cash surrender value of life insurance	18,297	12,933
Goodwill	7,936	7,936
Core deposit intangibles	1,811	2,069
Other assets	1,363	1,924
<b>Total Assets</b>	<b>\$701,811</b>	<b>\$ 660,455</b>
<b>LIABILITIES</b>		
Deposits:		
Noninterest-bearing	\$57,580	\$ 50,093
Interest-bearing	467,615	427,633
Total deposits	525,195	477,726
Repurchase agreements	1,337	1,335
Borrowings from Federal Home Loan Bank	79,749	89,348

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

Other long-term debt	4,855	4,973
Accrued interest payable	163	184
Advance payments by borrowers for taxes and insurance	535	707
Accrued expenses and other liabilities	4,314	3,929
Total Liabilities	616,148	578,202

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 2,177,412 shares (2,299,654 shares at September 30, 2013)	25	25
Additional paid-in capital - preferred	17,120	17,120
Additional paid-in capital - common	26,027	25,464
Retained earnings - substantially restricted	46,087	42,870
Accumulated other comprehensive income	3,459	1,468
Unearned ESOP shares	(577 )	(865 )
Unearned stock compensation	(227 )	(422 )
Less treasury stock, at cost - 364,630 shares (242,388 shares at September 30, 2013)	(6,251 )	(3,407 )
Total Stockholders' Equity	85,663	82,253
Total Liabilities and Stockholders' Equity	\$701,811	\$ 660,455

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, 2014	2013	June 30, 2014	2013
<b>INTEREST INCOME</b>				
Loans, including fees	\$5,262	\$5,183	\$15,744	\$15,942
Securities:				
Taxable	1,147	1,081	3,400	3,180
Tax-exempt	445	367	1,289	1,156
Dividend income	58	48	186	151
Interest-bearing deposits with banks	10	10	27	21
Total interest income	6,922	6,689	20,646	20,450
<b>INTEREST EXPENSE</b>				
Deposits	589	642	1,799	2,172
Repurchase agreements	1	2	3	5
Borrowings from Federal Home Loan Bank	233	255	726	814
Loans payable	50	10	155	23
Total interest expense	873	909	2,683	3,014
Net interest income	6,049	5,780	17,963	17,436
Provision for loan losses	300	560	904	1,562
Net interest income after provision for loan losses	5,749	5,220	17,059	15,874
<b>NONINTEREST INCOME</b>				
Service charges on deposit accounts	322	304	919	921
Net gain on sales of available for sale securities	122	-	123	1
Net gain (loss) on trading account securities	210	(30)	572	201
Unrealized gain (loss) on derivative contract	(5)	7	(10)	6
Net gain on sales of loans	72	235	191	414
Increase in cash surrender value of life insurance	133	98	364	289
Commission income	77	77	217	225
Real estate lease income	157	86	418	190
Other income	203	258	983	713
Total noninterest income	1,291	1,035	3,777	2,960
<b>NONINTEREST EXPENSE</b>				



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

Compensation and benefits	2,742	2,515	8,451	7,825
Occupancy and equipment	626	651	1,901	1,648
Data processing	313	262	917	887
Advertising	134	96	274	312
Professional fees	310	163	942	650
FDIC insurance premiums	112	133	334	366
Net loss on other real estate owned	82	76	190	173
Other operating expenses	731	777	2,226	2,408
Total noninterest expense	5,050	4,673	15,235	14,269
Income before income taxes	1,990	1,582	5,601	4,565
Income tax expense	534	441	1,581	1,238
Net Income	\$1,456	\$1,141	\$4,020	\$3,327
Preferred stock dividends declared	43	43	129	129
Net Income Available to Common Shareholders	\$1,413	\$1,098	\$3,891	\$3,198
Net income per common share:				
Basic	\$0.68	\$0.51	\$1.83	\$1.48
Diluted	\$0.64	\$0.48	\$1.74	\$1.41
Weighted average common shares outstanding:				
Basic	2,092,938	2,173,914	2,130,599	2,164,281
Diluted	2,201,323	2,277,824	2,237,193	2,261,821
Dividends per common share	\$0.11	\$0.10	\$0.32	\$0.60

See notes to consolidated financial statements.

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

(In thousands)	Three Months Ended		Nine Months Ended	
	June 30, 2014	2013	June 30, 2014	2013
Net Income	\$ 1,456	\$ 1,141	\$ 4,020	\$ 3,327
<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	2,086	(5,060 )	3,189	(5,250 )
Income tax (expense) benefit	(743 )	1,826	(1,123 )	1,861
Net of tax amount	1,343	(3,234 )	2,066	(3,389 )
Less: reclassification adjustment for realized gains included in net income	(122 )	-	(123 )	(1 )
Income tax expense	48	-	48	1
Net of tax amount	(74 )	-	(75 )	-
Other Comprehensive Income (Loss)	1,269	(3,234 )	1,991	(3,389 )
Comprehensive Income (Loss)	\$ 2,725	\$ (2,093 )	\$ 6,011	\$ (62 )

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)*

(In thousands, except share and per share data)	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Unearned Stock Compensation and ESOP	Treasury Stock	Total
Nine Months Ended June 30, 2013:								
Balances at October 1, 2012	\$-	\$25	\$42,021	\$39,917	\$5,609	\$(1,880)	\$(2,766)	\$82,926
Net income	-	-	-	3,327	-	-	-	3,327
Other comprehensive loss	-	-	-	-	(3,389)	-	-	(3,389)
Preferred stock dividends	-	-	-	(129)	-	-	-	(129)
Common stock dividends (\$0.60 per share)	-	-	-	(1,393)	-	-	-	(1,393)
Stock compensation expense	-	-	184	-	-	195	-	379
Shares released by ESOP trust	-	-	290	53	-	294	-	637
Purchase of 16,444 treasury shares	-	-	-	-	-	-	(331)	(331)
Balances at June 30, 2013	\$-	\$25	\$42,495	\$41,775	\$2,220	\$(1,391)	\$(3,097)	\$82,027
Nine Months Ended June 30, 2014:								
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

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

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

See notes to consolidated financial statements.

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

(In thousands)	Nine Months Ended June 30,	
	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$4,020	\$3,327
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	904	1,562
Depreciation and amortization	1,084	861
Amortization of premiums and accretion of discounts on securities, net	466	484
(Increase) decrease in trading account securities	(2,044 )	1,285
Loans originated for sale	(5,517 )	(12,168)
Proceeds on sales of loans	5,985	12,992
Net gain on sales of loans	(191 )	(414 )
Net realized and unrealized (gain) loss on other real estate owned	(64 )	11
Net gain on sales of available for sale securities	(123 )	(1 )
Unrealized (gain) loss on derivative contract	10	(6 )
Increase in cash surrender value of life insurance	(364 )	(289 )
Deferred income taxes	(118 )	11
ESOP and stock compensation expense	926	870
Increase in accrued interest receivable	(353 )	(296 )
Decrease in accrued interest payable	(21 )	(50 )
Change in other assets and liabilities, net	135	138
Net Cash Provided By Operating Activities	4,735	8,317
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of securities available for sale	(35,809 )	(45,882)
Proceeds from sales of securities available for sale	808	801
Proceeds from maturities of securities available for sale	6,233	12,133
Proceeds from maturities of securities held to maturity	409	568
Principal collected on securities	10,158	15,215
Net increase in loans	(16,705 )	(17,066)
Purchase of Federal Home Loan Bank stock	(175 )	-
Investment in cash surrender value of life insurance	(5,000 )	(4,000 )
Proceeds from life insurance	-	606
Proceeds from sale of foreclosed real estate	513	835
Investment in real estate development and construction	(216 )	(2,713 )
Purchase of premises and equipment	(299 )	(997 )

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

Net Cash Used In Investing Activities	(40,083 )	(40,500)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net increase (decrease) in deposits	47,469	(9,851 )
Net increase in repurchase agreements	2	5
Increase (decrease) in Federal Home Loan Bank line of credit	(4,599 )	11,359
Proceeds from Federal Home Loan Bank advances	272,000	55,000
Repayment of Federal Home Loan Bank advances	(277,000)	(43,056)
Proceeds from other long-term debt	-	2,830
Repayment of other long-term debt	(118 )	-
Net decrease in advance payments by borrowers for taxes and insurance	(172 )	(158 )
Purchase of treasury stock	(2,861 )	(331 )
Dividends paid on preferred stock	(129 )	(129 )
Dividends paid on common stock	(674 )	(1,162 )
Net Cash Provided By Financing Activities	33,918	14,507
Net Decrease in Cash and Cash Equivalents	(1,430 )	(17,676)
Cash and cash equivalents at beginning of period	20,815	38,791
Cash and Cash Equivalents at End of Period	\$ 19,385	\$ 21,115

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 the savings and loan holding company of First Savings Bank, F.S.B. (the “Bank”), a wholly-owned subsidiary. The Bank is a federally-chartered savings bank which provides a variety of banking services to individuals and business customers through fifteen locations in southern Indiana. The Bank attracts deposits primarily from the general public and uses those funds, along with other borrowings, primarily to originate residential mortgage, commercial 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 an investment 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 an Indiana corporation that is currently inactive.

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, 2014, the results of operations for the three- and nine-month periods ended June 30, 2014 and 2013, and the cash flows for the nine-month periods ended June 30, 2014 and 2013. 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, 2013 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.





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, 2014 and September 30, 2013, trading account securities recorded at fair value totaled \$5.3 million and \$3.2 million, respectively, comprised of investment grade municipal bonds. During the nine-months 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-months 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. During the nine-months ended June 30, 2013, the Company reported net gains on trading account securities of \$201,000, including net realized gains on the sale of securities of \$242,000, partially offset by net unrealized losses on securities still held as of the balance sheet date of \$41,000. During the three-months ended June 30, 2013, the Company reported net losses on trading account securities of \$30,000, including net realized losses on the sale of securities of \$3,000 and net unrealized losses on securities still held as of the balance sheet date of \$27,000.

## 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:

	Gross Amortized Cost (In thousands)	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2014:				
Securities available for sale:				
Agency bonds and notes	\$12,278	\$ 11	\$ 283	\$12,006
Agency mortgage-backed	50,212	648	109	50,751
Agency CMO	31,493	134	236	31,391
Privately-issued CMO	3,325	653	-	3,978
Privately-issued ABS	5,722	1,847	-	7,569
SBA certificates	1,799	1	-	1,800
Municipal obligations	75,360	3,282	373	78,269
Total securities available for sale	\$180,189	\$ 6,576	\$ 1,001	\$185,764
Securities held to maturity:				
Agency mortgage-backed	\$482	\$ 40	\$ -	\$522
Municipal obligations	5,262	320	-	5,582
Total securities held to maturity	\$5,744	\$ 360	\$ -	\$6,104

## FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

*(Unaudited)*

	Gross Amortized Cost (In thousands)	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2013:				
Securities available for sale:				
Agency bonds and notes	\$15,877	\$ 10	\$ 690	\$15,197
Agency mortgage-backed	41,720	285	291	41,714
Agency CMO	24,200	199	325	24,074
Privately-issued CMO	3,881	735	-	4,616
Privately-issued ABS	5,829	1,972	2	7,799
SBA certificates	2,081	12	-	2,093
Municipal obligations	68,072	2,057	1,548	68,581
Subtotal – debt securities	161,660	5,270	2,856	164,074
Equity securities	-	93	-	93
Total securities available for sale	\$161,660	\$ 5,363	\$ 2,856	\$164,167
Securities held to maturity:				
Agency mortgage-backed	\$721	\$ 52	\$ -	\$773
Municipal	5,696	45	-	5,741
Total securities held to maturity	\$6,417	\$ 97	\$ -	\$6,514

The amortized cost and fair value of investment securities as of June 30, 2014 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.

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)			
Due within one year	\$2,015	\$2,018	\$585	\$608

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

Due after one year through five years	5,359	5,412	2,039	2,173
Due after five years through ten years	20,804	21,334	1,581	1,688
Due after ten years	59,460	61,511	1,057	1,113
	87,638	90,275	5,262	5,582
CMO	34,818	35,369	-	-
ABS	5,722	7,569	-	-
SBA certificates	1,799	1,800	-	-
Mortgage-backed securities	50,212	50,751	482	522
	\$180,189	\$185,764	\$5,744	\$6,104

-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, 2014, 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 mortgage-backed	3	\$3,510	\$ 23
Agency CMO	4	7,195	37
Municipal obligations	2	1,759	25
Total less than twelve months	9	12,464	85
Continuous loss position more than twelve months:			
Agency bonds and notes	5	10,383	283
Agency mortgage-backed	3	3,834	86
Agency CMO	4	10,946	199
Municipal obligations	23	13,783	348
Total more than twelve months	35	38,946	916
Total securities available for sale	44	\$51,410	\$ 1,001

At June 30, 2014, 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 concerns 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 investment securities in loss positions at June 30, 2014 had depreciated approximately 1.91% from the Company's amortized cost basis and are fixed and variable rate securities with a weighted-average yield of 2.10% and a weighted-average coupon rate of 2.95% at June 30, 2014.

-12-

FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

*(Unaudited)*

U.S. government agency bonds and notes, mortgage-backed securities, CMOs, SBA certificates and municipal obligations in loss positions at June 30, 2014 had depreciated approximately 1.91% from the Company's amortized cost basis as of June 30, 2014. All of the agency and municipal securities are issued by U.S. government agencies, U.S. government-sponsored enterprises and municipal governments, and are generally secured by first mortgage loans and municipal project revenues.

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, 2014, the Company held nineteen privately-issued CMO and ABS securities acquired in a 2009 bank acquisition with an aggregate carrying value of \$2.5 million and fair value of \$3.8 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, 2014, there were no privately-issued CMO or ABS securities in a loss position. Based on the independent third party analysis of the expected cash flows, management determined that no other-than-temporary impairment was recognized on the privately-issued CMO and ABS portfolios at June 30, 2014. While the Company did not recognize a credit-related impairment loss at June 30, 2014, 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 agency securities 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 nine-month period ended June 30, 2014, the Company realized gross gains on sales of available for sale U.S. government agency notes, equity securities and municipal obligations of \$1,000, \$111,000 and \$11,000, respectively. During the nine-month period ended June 30, 2013, the Company realized gross gains on sales of available for sale U.S. government agency notes of \$1,000. During the three-month period ended June 30, 2014, the Company realized gross gains on sales of available for sale equity securities and municipal obligations of \$111,000 and \$11,000, respectively. The Company did not realize any gains or losses on sales of available for sale securities during the three-month period ended June 30, 2013.

Certain available for sale debt securities were pledged under repurchase agreements at June 30, 2014 and September 30, 2013, and may be pledged to secure federal funds borrowings and Federal Home Loan Bank (“FHLB”) borrowings.

-13-



## 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, 2014 and September 30, 2013 consisted of the following:

	June 30, 2014	September 30, 2013
	(In thousands)	
Real estate mortgage:		
1-4 family residential	\$ 181,106	\$ 184,390
Commercial	140,994	117,782
Multifamily residential	27,221	26,759
Residential construction	12,963	12,537
Commercial construction	5,976	6,730
Land and land development	11,355	11,396
Commercial business loans	30,532	31,627
Consumer:		
Home equity loans	17,275	17,133
Auto loans	5,872	6,519
Other consumer loans	2,529	3,266
Gross loans	435,823	418,139
Undisbursed portion of construction loans	(6,074 )	(4,389 )
Principal loan balance	429,749	413,750
Deferred loan origination fees and costs, net	36	163
Allowance for loan losses	(5,992 )	(5,538 )
Loans, net	\$423,793	\$ 408,375

During the nine-month period ended June 30, 2014, 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, 2013.

## 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, 2014:

	Residential Real Estate	Commercial Real Estate	Multifamily	Construction	Land & Land Development	Commercial Business	Consumer	Total
	(In thousands)							
Recorded Investment in Loans:								
Principal loan balance	\$ 181,106	\$ 140,994	\$ 27,221	\$ 12,865	\$ 11,355	\$ 30,532	\$ 25,676	\$ 429,749
Accrued interest receivable	598	350	67	22	43	129	65	1,274
Net deferred loan origination fees and costs	345	(228 )	(34 )	(50 )	2	(9 )	10	36
Recorded investment in loans	\$ 182,049	\$ 141,116	\$ 27,254	\$ 12,837	\$ 11,400	\$ 30,652	\$ 25,751	\$ 431,059
Recorded Investment in Loans as Evaluated for Impairment:								
Individually evaluated for impairment	\$ 4,810	\$ 5,765	\$ 2,266	\$ -	\$ -	\$ 144	\$ 378	\$ 13,363
Collectively evaluated for impairment	176,686	135,351	24,988	12,837	11,400	30,508	25,340	417,110
Acquired with deteriorated credit quality	553	-	-	-	-	-	33	586
Ending balance	\$ 182,049	\$ 141,116	\$ 27,254	\$ 12,837	\$ 11,400	\$ 30,652	\$ 25,751	\$ 431,059



## 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, 2013:

	Residential Real Estate	Commercial Real Estate	Multifamily	Construction	Land & Land Development	Commercial Business	Consumer	Total
	(In thousands)							
Recorded Investment in Loans:								
Principal loan balance	\$ 184,390	\$ 117,782	\$ 26,759	\$ 14,878	\$ 11,396	\$ 31,627	\$ 26,918	\$ 413,750
Accrued interest receivable	600	316	57	31	40	86	78	1,208
Net deferred loan origination fees and costs	415	(169 )	(38 )	(46 )	(7 )	(5 )	13	163
Recorded investment in loans	\$ 185,405	\$ 117,929	\$ 26,778	\$ 14,863	\$ 11,429	\$ 31,708	\$ 27,009	\$ 415,121
Recorded Investment in Loans as Evaluated for Impairment:								
Individually evaluated for impairment	\$ 5,429	\$ 6,091	\$ 2,306	\$ 29	\$ -	\$ 235	\$ 456	\$ 14,546
Collectively evaluated for impairment	179,372	111,838	24,472	14,834	11,429	31,473	26,519	399,937
Acquired with deteriorated credit quality	604	-	-	-	-	-	34	638
Ending balance	\$ 185,405	\$ 117,929	\$ 26,778	\$ 14,863	\$ 11,429	\$ 31,708	\$ 27,009	\$ 415,121



## 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, 2014 is as follows:

	Residential Real Estate	Commercial Real Estate	Multifamily	Construction	Land & Land Development	Commercial Business	Consumer	Total
	(In thousands)							
Ending Allowance Balance Attributable to Loans: Individually evaluated for impairment	\$30	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5	\$35
Collectively evaluated for impairment	611	2,997	165	251	391	1,295	247	5,957
Acquired with deteriorated credit quality	-	-	-	-	-	-	-	-
Ending balance	\$641	\$ 2,997	\$ 165	\$ 251	\$ 391	\$ 1,295	\$ 252	\$5,992

An analysis of the allowance for loan losses as of September 30, 2013 is as follows:

	Residential Real Estate	Commercial Real Estate	Multifamily	Construction	Land & Land Development	Commercial Business	Consumer	Total
	(In thousands)							
Ending Allowance Balance Attributable to Loans: Individually evaluated for impairment	\$30	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6	\$36
Collectively evaluated for impairment	750	2,826	249	229	299	907	242	5,502
	-	-	-	-	-	-	-	-

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

Acquired with deteriorated credit  
quality

Ending balance	\$780	\$ 2,826	\$ 249	\$ 229	\$ 299	\$ 907	\$ 248	\$5,538
----------------	-------	----------	--------	--------	--------	--------	--------	---------

-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, 2014 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	\$ 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:

	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	\$ 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 - CONTINUED

*(Unaudited)*

An analysis of the changes in the allowance for loan losses for the three months ended June 30, 2013 is as follows:

	<b>Residential</b>		<b>Commercial</b>		<b>Land &amp; Land Development</b>	<b>Commercial</b>		<b>Consumer</b>	<b>Total</b>
	<b>Real Estate</b>	<b>Real Estate</b>	<b>Multifamily</b>	<b>Construction</b>		<b>Business</b>	<b>Business</b>		
<i>(In thousands)</i>									
Changes in Allowance for Loan Losses:									
Beginning balance	\$881	\$ 2,171	\$ 328	\$ 63	\$ 43	\$ 1,664	\$ 239	\$5,389	
Provisions	(29)	33	(94 )	36	29	590	(5 )	560	
Charge-offs	(40)	-	-	-	-	(606 )	(26 )	(672 )	
Recoveries	4	-	-	-	-	40	14	58	
Ending balance	\$816	\$ 2,204	\$ 234	\$ 99	\$ 72	\$ 1,688	\$ 222	\$5,335	

An analysis of the changes in the allowance for loan losses for the nine months ended June 30, 2013 is as follows:

	<b>Residential</b>		<b>Commercial</b>		<b>Land &amp; Land Development</b>	<b>Commercial</b>		<b>Consumer</b>	<b>Total</b>
	<b>Real Estate</b>	<b>Real Estate</b>	<b>Multifamily</b>	<b>Construction</b>		<b>Business</b>	<b>Business</b>		
<i>(In thousands)</i>									
Changes in Allowance for Loan Losses:									
Beginning balance	\$908	\$ 2,204	\$ 389	\$ 52	\$ 2	\$ 1,084	\$ 267	\$4,906	
Provisions	50	(14 )	(155 )	47	70	1,576	(12 )	1,562	
Charge-offs	(196)	(11 )	-	-	-	(1,013 )	(79 )	(1,299)	
Recoveries	54	25	-	-	-	41	46	166	
Ending balance	\$816	\$ 2,204	\$ 234	\$ 99	\$ 72	\$ 1,688	\$ 222	\$5,335	



## 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, 2014 and for the three and nine months ended June 30, 2014 and 2013.

	At June 30, 2014			Three Months Ended June 30,				Nine Months Ended June 30,			
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
<i>(In thousands)</i>											
Loans with no related allowance recorded:											
Residential real estate	\$4,999	\$5,582	\$ -	\$5,614	\$ 33	\$7,174	\$ 30	\$5,976	\$ 98	\$6,938	\$ 96
Commercial real estate	5,765	5,792	-	5,816	65	2,043	19	5,896	176	2,027	58
Multifamily Construction	2,266	2,208	-	2,214	27	2,283	29	2,227	83	2,227	86
Land and land development	-	-	-	-	-	174	-	-	-	174	-
Commercial business	144	132	-	164	-	456	-	333	1	468	1
Consumer	236	239	-	265	2	338	1	294	5	320	5
	\$13,410	\$13,953	\$ -	\$14,073	\$ 127	\$12,468	\$ 79	\$14,726	\$ 363	\$12,204	\$ 246
Loans with an allowance recorded:											
Residential real estate	\$61	\$55	\$ 30	\$55	\$ -	\$136	\$ -	\$55	\$ -	\$156	\$ -
Commercial real estate	-	-	-	-	-	147	-	-	-	142	-
Multifamily Construction	-	-	-	-	-	-	-	-	-	-	-
Land and land development	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	247	-	-	-	197	-

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

Commercial business											
Consumer	142	142	5	103	-	70	-	101	-	80	-
	\$203	\$197	\$ 35	\$158	\$ -	\$600	\$ -	\$156	\$ -	\$575	\$ -
Total:											
Residential real estate	\$5,060	\$5,637	\$ 30	\$5,669	\$ 33	\$7,310	\$ 30	\$6,031	\$ 98	\$7,094	\$ 96
Commercial real estate	5,765	5,792	-	5,816	65	2,190	19	5,896	176	2,169	58
Multifamily	2,266	2,208	-	2,214	27	2,283	29	2,227	83	2,227	86
Construction	-	-	-	-	-	174	-	-	-	174	-
Land and land development	-	-	-	-	-	-	-	-	-	-	-
Commercial business	144	132	-	164	-	703	-	333	1	665	1
Consumer	378	381	5	368	2	408	1	395	5	400	5
	\$13,613	\$14,150	\$ 35	\$14,231	\$ 127	\$13,068	\$ 79	\$14,882	\$ 363	\$12,779	\$ 246

The Company recognized \$52,000 of interest income on an impaired commercial real estate loan using the cash receipts method during the nine months ended June 30, 2014 and \$11,000 of interest income on an impaired commercial real estate loan using the cash receipts method during the three months ended June 30, 2014. The Company did not recognize any interest income using the cash receipts method during the three and nine months ended June 30, 2013.

## 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, 2013.

	Recorded Investment	Unpaid Principal Balance	Related Allowance
(In thousands)			
Loans with no related allowance recorded:			
Residential real estate	\$5,647	\$ 5,975	\$ -
Commercial real estate	6,091	6,099	-
Multifamily	2,306	2,246	-
Construction	29	13	-
Land and land development	-	-	-
Commercial business	235	235	-
Consumer	361	357	-
	\$14,669	\$ 14,925	\$ -
Loans with an allowance recorded:			
Residential real estate	\$59	\$ 55	\$ 30
Commercial real estate	-	-	-
Multifamily	-	-	-
Construction	-	-	-
Land and land development	-	-	-
Commercial business	-	-	-
Consumer	95	95	6
	\$154	\$ 150	\$ 36
Total:			
Residential real estate	\$5,706	\$ 6,030	\$ 30
Commercial real estate	6,091	6,099	-
Multifamily	2,306	2,246	-
Construction	29	13	-
Land and land development	-	-	-
Commercial business	235	235	-
Consumer	456	452	6
	\$14,823	\$ 15,075	\$ 36



## FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

*(Unaudited)*

Nonperforming loans consists 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, 2014:

	Nonaccrual Loans	Loans 90+ Days Past Due Still Accruing	Total Nonperforming Loans
(In thousands)			
Residential real estate	\$2,492	\$ 846	\$ 3,338
Commercial real estate	1,055	105	1,160
Multifamily	-	-	-
Construction	-	-	-
Land and land development	-	-	-
Commercial business	134	26	160
Consumer	241	39	280
Total	\$3,922	\$ 1,016	\$ 4,938

The following table presents the recorded investment in nonperforming loans at September 30, 2013:

	Nonaccrual Loans	Loans 90+ Days Past Due Still Accruing	Total Nonperforming Loans
(In thousands)			
Residential real estate	\$3,519	\$ 143	\$ 3,662
Commercial real estate	4,817	-	4,817
Multifamily	-	-	-
Construction	29	-	29
Land and land development	-	-	-
Commercial business	218	-	218
Consumer	310	21	331

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

Total	\$8,893	\$ 164	\$ 9,057
-------	---------	--------	----------

-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, 2014:

	30-59 Days Past Due	60-89 Days Past Due	90 + Days Past Due	Total Past Due	Current	Total Loans
	(In thousands)					
Residential real estate	\$3,620	\$ 1,354	\$ 1,595	\$ 6,569	\$175,480	\$182,049
Commercial real estate	503	-	485	988	140,128	141,116
Multifamily	250	-	-	250	27,004	27,254
Construction	-	-	-	-	12,837	12,837
Land and land development	230	-	-	230	11,170	11,400
Commercial business	174	-	160	334	30,318	30,652
Consumer	77	112	49	238	25,513	25,751
Total	\$4,854	\$ 1,466	\$ 2,289	\$ 8,609	\$422,450	\$431,059

The following table presents the aging of the recorded investment in past due loans at September 30, 2013:

	30-59 Days Past Due	60-89 Days Past Due	90 + Days Past Due	Total Past Due	Current	Total Loans
	(In thousands)					
Residential real estate	\$2,981	\$ 1,333	\$ 2,466	\$ 6,780	\$178,625	\$185,405
Commercial real estate	295	211	667	1,173	116,756	117,929
Multifamily	35	-	-	35	26,743	26,778
Construction	-	-	-	-	14,863	14,863
Land and land development	9	-	-	9	11,420	11,429
Commercial business	-	14	234	248	31,460	31,708
Consumer	186	53	223	462	26,547	27,009
Total	\$3,506	\$ 1,611	\$ 3,590	\$ 8,707	\$406,414	\$415,121

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 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 institution'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 institution 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, 2014, and based on the most recent analysis performed, the recorded investment in loans by risk category was as follows:

	Residential Real Estate (In thousands)	Commercial Real Estate	Multifamily	Construction	Land and Land Development	Commercial Business	Consumer	Total
Pass	\$171,666	\$125,304	\$27,254	\$12,837	\$11,288	\$30,263	\$25,268	\$403,880
Special Mention	3,887	9,467	-	-	-	127	134	13,615
Substandard	6,210	6,024	-	-	112	262	345	12,953
Doubtful	286	321	-	-	-	-	4	611
Loss	-	-	-	-	-	-	-	-
Total	\$182,049	\$141,116	\$27,254	\$12,837	\$11,400	\$30,652	\$25,751	\$431,059

As of September 30, 2013, the recorded investment in loans by risk category was as follows:

	Residential Real Estate (In thousands)	Commercial Real Estate	Multifamily	Construction	Land and Land Development	Commercial Business	Consumer	Total
Pass	\$173,350	\$109,311	\$26,778	\$14,863	\$11,283	\$30,920	\$26,272	\$392,777
Special Mention	4,519	2,104	-	-	146	373	114	7,256
Substandard	7,190	6,033	-	-	-	210	568	14,001
Doubtful	346	481	-	-	-	205	55	1,087
Loss	-	-	-	-	-	-	-	-
Total	\$185,405	\$117,929	\$26,778	\$14,863	\$11,429	\$31,708	\$27,009	\$415,121



## FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

*(Unaudited)*

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, 2014 and September 30, 2013. There was no specific reserve included in the allowance for loan losses related to TDRs at March 31, 2014 and September 30, 2013.

	Accruing	Nonaccrual	Total
	(In thousands)		
June 30, 2014:			
Residential real estate	\$2,568	\$ 491	\$3,059
Commercial real estate	4,710	708	5,418
Multifamily	2,266	-	2,266
Commercial business	10	12	22
Consumer	137	-	137

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

Total	\$9,691	\$ 1,211	\$10,902
-------	---------	----------	----------

September 30, 2013:

Residential real estate	\$2,187	\$ 777	\$2,964
-------------------------	---------	--------	---------

Commercial real estate	1,274	4,029	5,303
------------------------	-------	-------	-------

Multifamily	2,306	-	2,306
-------------	-------	---	-------

Commercial business	17	13	30
---------------------	----	----	----

Consumer	146	-	146
----------	-----	---	-----

Total	\$5,930	\$ 4,819	\$10,749
-------	---------	----------	----------

-26-

## 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, 2014 and 2013:

	Number of Loans	Pre- Modification Principal Balance	Post- Modification Principal Balance
(Dollars in thousands)			
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
June 30, 2013:			
Nine Months Ended June 30, 2013:			
Residential real estate	2	\$ 143	\$ 143
Commercial business	1	18	20
Consumer	1	5	5
Total	4	\$ 166	\$ 168

There were no loans modified in a TDR during the three months ended June 30, 2013.

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, 2014 and September 30, 2013 to customers with outstanding loans classified as TDRs at such dates.

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 (defined as more than 90 days past due or in the process of foreclosure). As of June 30, 2014, one of these loans was on nonaccrual status and the other was classified as over 90 days past due and still accruing interest. During the nine-month period ended June 30, 2013, the Company had three TDRs totaling \$218,000 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, 2014 and 2013.



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 \$7.5 million paid as of June 30, 2014. 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, 2014. The development plans provide for up to thirteen tenants when fully occupied.

Development and construction period interest of \$37,000 and \$79,000 was capitalized as part of the real estate carrying value during the three and nine months ended June 30, 2013, 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. Depreciation expense of \$23,000 was recognized for real estate development and construction for the nine-month period ended June 30, 2013.

## 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-month and nine-month periods ended June 30, 2014 and 2013.

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2014	2013	2014	2013
	(Dollars in thousands, except per share data)			
Basic:				
Earnings:				
Net income	\$1,456	\$1,141	\$4,020	\$3,327
Less: Preferred stock dividends declared	(43 )	(43 )	(129 )	(129 )
Net income available to common shareholders	\$1,413	\$1,098	\$3,891	\$3,198
Shares:				
Weighted average common shares outstanding	2,092,938	2,173,914	2,130,599	2,164,281
Net income per common share, basic	\$0.68	\$0.51	\$1.83	\$1.48
Diluted:				
Earnings:				
Net income	\$1,456	\$1,141	\$4,020	\$3,327
Less: Preferred stock dividends declared	(43 )	(43 )	(129 )	(129 )
Net income available to common shareholders	\$1,413	\$1,098	\$3,891	\$3,198
Shares:				
Weighted average common shares outstanding	2,092,938	2,173,914	2,130,599	2,164,281
Add: Dilutive effect of outstanding options	96,885	88,106	93,256	80,677
Add: Dilutive effect of restricted stock	11,500	15,804	13,338	16,863
Weighted average common shares outstanding as adjusted	2,201,323	2,277,824	2,237,193	2,261,821

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

Net income per common share, diluted	\$0.64	\$0.48	\$1.74	\$1.41
--------------------------------------	--------	--------	--------	--------

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)***6. Supplemental Disclosures of Cash Flow Information**

	Nine Months Ended June 30,	
	2014	2013
	<i>(In thousands)</i>	
Cash payments for:		
Interest	\$ 2,889	\$ 3,489
Taxes	1,351	1,219
Transfers from loans to foreclosed real estate	1,018	691
Proceeds from sales of foreclosed real estate financed through loans	496	655

**7. 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.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Level 3 assets and liabilities include financial instruments whose value is determined using discounted cash flow 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 table below presents the balances of financial assets measured at fair value on a recurring and nonrecurring basis as of June 30, 2014 and September 30, 2013. The Company had no liabilities measured at fair value as of June 30, 2014 or September 30, 2013.

-30-

## FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

*(Unaudited)*

	Carrying Value			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
June 30, 2014:				
Assets Measured - Recurring Basis:				
Trading account securities	\$-	\$5,254	\$-	\$5,254
Securities available for sale:				
Agency bonds and notes	\$-	\$12,006	\$-	\$12,006
Agency mortgage-backed	-	50,751	-	50,751
Agency CMO	-	31,391	-	31,391
Privately-issued CMO	-	3,978	-	3,978
Privately-issued ABS	-	7,569	-	7,569
SBA certificates	-	1,800	-	1,800
Municipal	-	78,269	-	78,269
Total securities available for sale	\$-	\$185,764	\$-	\$185,764
Interest rate cap contract	\$-	\$1	\$-	\$1
Assets Measured - Nonrecurring Basis:				
Impaired loans:				
Residential real estate	\$-	\$-	\$5,030	\$5,030
Commercial real estate	-	-	5,765	5,765
Multifamily	-	-	2,266	2,266
Commercial business	-	-	144	144
Consumer	-	-	373	373
Total impaired loans	\$-	\$-	\$13,578	\$13,578
Loans held for sale	\$-	\$122	\$-	\$122
Other real estate owned, held for sale:				
Residential real estate	\$-	\$-	\$504	\$504
Commercial real estate	-	-	160	160
Land and land development	-	-	50	50
Total other real estate owned	\$-	\$-	\$714	\$714

## FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

*(Unaudited)*

	Carrying Value			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
September 30, 2013:				
Assets Measured - Recurring Basis:				
Trading account securities	\$-	\$3,210	\$-	\$3,210
Securities available for sale:				
Agency bonds and notes	\$-	\$15,197	\$-	\$15,197
Agency mortgage-backed	-	41,714	-	41,714
Agency CMO	-	24,074	-	24,074
Privately-issued CMO	-	4,616	-	4,616
Privately-issued ABS	-	7,799	-	7,799
SBA certificates	-	2,093	-	2,093
Municipal	-	68,581	-	68,581
Equity securities	93	-	-	93
Total securities available for sale	\$93	\$164,074	\$-	\$164,167
Interest rate cap contract	\$-	\$11	\$-	\$11
Assets Measured - Nonrecurring Basis:				
Impaired loans:				
Residential real estate	\$-	\$-	\$5,676	\$5,676
Commercial real estate	-	-	6,091	6,091
Multifamily	-	-	2,306	2,306
Construction	-	-	29	29
Commercial business	-	-	235	235
Consumer	-	-	450	450
Total impaired loans	\$-	\$-	\$14,787	\$14,787
Loans held for sale	\$-	\$399	\$-	\$399
Other real estate owned, held for sale:				
Residential real estate	\$-	\$-	\$397	\$397
Commercial real estate	-	-	375	375
Multifamily	-	-	27	27
Total other real estate owned	\$-	\$-	\$799	\$799

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.



**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, 2014.

***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 then discounted 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, 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 period ended June 30, 2014, the Company recognized

provisions for loan losses of \$2,000 for impaired loans. No provisions for loan losses were recognized for the three months ended June 30, 2014 for impaired loans. During the nine-month period ended June 30, 2013, the Company recognized provisions for loan losses of \$416,000 for impaired loans. No provisions for loan losses were recognized for the three months ended June 30, 2013 for impaired loans.

**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. These measurements are carried at Level 2.

**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. 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 discounted to reflect management's estimate of the fair value of the property given current market conditions and the condition of the collateral. At June 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 0.0% to 15.0% and estimated costs to sell the property ranging from 0.0% to 6.0%. The Company recognized charges of \$80,000 and \$181,000 to write down foreclosed real estate to fair value for the three and nine months ended June 30, 2014, respectively. The Company recognized charges of \$41,000 and \$112,000 to write down foreclosed real estate to fair value for the three and nine months ended June 30, 2013, respectively.

**Transfers Between Categories.** There were no transfers into or out of Level 3 financial assets for the nine-month periods ended June 30, 2014 and 2013. 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, 2014 and 2013.

## 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:

June 30, 2014:	Carrying Amount	Fair Value Measurements Using:		
		Level 1	Level 2	Level 3
	(In thousands)			
<b>Financial assets:</b>				
Cash and due from banks	\$9,477	\$9,477	\$-	\$-
Interest-bearing deposits with banks	9,908	9,908	-	-
Interest-bearing time deposits	1,500	-	1,496	-
Trading account securities	5,254	-	5,254	-
Securities available for sale	185,764	-	185,764	-
Securities held to maturity	5,744	-	6,104	-
 Loans, net	 423,793	 -	 -	 424,499
 Loans held for sale	 122	 -	 122	 -
Federal Home Loan Bank stock	5,675	-	5,675	-
Accrued interest receivable	2,744	-	2,744	-
Interest rate cap (included in other assets)	1	-	1	-
 <b>Financial liabilities:</b>				
Deposits	525,195	-	-	527,767
Short-term repurchase agreements	1,337	-	1,337	-
Borrowings from Federal Home Loan Bank	79,749	-	80,843	-
Other long-term debt	4,855	-	4,855	-
Accrued interest payable	163	-	163	-
Advance payments by borrowers for taxes and insurance	535	-	535	-

## FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

*(Unaudited)*

September 30, 2013:	Carrying Amount	Fair Value Measurements Using:		
	Level 1	Level 2	Level 3	
	(In thousands)			
Financial assets:				
Cash and due from banks	\$9,607	\$9,607	\$-	\$-
Interest-bearing deposits with banks	11,208	11,208	-	-
Interest-bearing time deposits	1,500	-	1,475	-
Trading account securities	3,210	-	3,210	-
Securities available for sale	164,167	93	164,074	-
Securities held to maturity	6,417	-	6,514	-
Loans, net	408,375	-	-	413,629
Loans held for sale	399	-	399	-
Federal Home Loan Bank stock	5,500	-	5,500	-
Accrued interest receivable	2,391	-	2,391	-
Interest rate cap (included in other assets)	11	-	11	-
Financial liabilities:				
Deposits	477,726	-	-	477,094
Short-term repurchase agreements	1,335	-	1,335	-
Borrowings from Federal Home Loan Bank	89,348	-	87,932	-
Other long-term debt	4,973	-	4,973	-
Accrued interest payable	184	-	184	-
Advance payments by borrowers for taxes and insurance	707	-	707	-

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.

**Debt and Equity Securities and Interest-Bearing Time Deposits**

For marketable equity securities, the fair values are based on quoted market prices. 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 FHLB stock, a restricted equity security, the carrying amount is a reasonable estimate of fair value because it is 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.

### **Derivative Financial Instruments**

For derivative financial instruments, the fair values generally represent an estimate of the amount the Company would receive or pay upon termination of the agreement at the reporting date, taking into account the current interest rates, and exclusive of any accrued interest.

## FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

*(Unaudited)***8. 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 as 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, 2014 amounted to \$96,000 and \$617,000, respectively. Compensation expense recognized for the three- and nine-month periods ended June 30, 2013 amounted to \$85,000 and \$562,000, respectively. Company common stock held by the ESOP trust at June 30, 2014 and September 30, 2013 was as follows:

	June 30, 2014	September 30, 2013
Allocated shares	128,310	103,116
Unearned shares	57,735	86,495
Total ESOP shares	186,045	189,611
Fair value of unearned shares	\$ 1,396,000	\$ 1,946,000

**9. 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 each of the three- and nine-month periods ended June 30, 2014 and 2013 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, 2014 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, 2013	39,230	\$ 13.25
Granted	-	-
Vested	(19,620)	\$ 13.25
Forfeited	-	-
Nonvested at June 30, 2014	19,610	\$ 13.25

There were 19,620 restricted shares vested during the nine-month periods ended June 30, 2014 and 2013. At June 30, 2014, there was \$227,000 of total unrecognized compensation expense related to nonvested restricted shares. The compensation expense is expected to be recognized over the remaining vesting period of 0.88 years.

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.



## 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, 2014, and changes during the nine-month period then ended is presented below.

	Number of Shares (Dollars in thousands, except per share data)	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Outstanding at October 1, 2013	245,232	\$ 13.25	6.6	\$ 2,268
Granted	-	-		
Exercised	-	-		
Forfeited or expired	-	-		
Outstanding at June 30, 2014	245,232	\$ 13.25	5.9	\$ 2,680
Exercisable at June 30, 2014	196,185	\$ 13.25	5.9	\$ 2,144

There were no stock options granted or exercised during the nine-month periods ended June 30, 2014 and 2013. The Company recognized compensation expense related to stock options of \$38,000 and \$114,000 for each of the three- and nine-month periods ended June 30, 2014 and 2013, respectively. At June 30, 2014, there was \$133,000 of unrecognized compensation expense related to nonvested stock options, which will be recognized over the remaining vesting period of 0.88 years.

FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

*(Unaudited)*

**10. 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 twelfth dividend period ended June 30, 2014 was 1.0% and the weighted average dividend rate for the nine-month period ended June 30, 2014 was 1.0%. The dividend rate for the thirteenth 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.

FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

**11. 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 is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period, and must be applied either retrospectively or using the modified retrospective approach. 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.





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, 2013 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, 2014, 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, 2013.

**Comparison of Financial Condition at June 30, 2014 and September 30, 2013**

***Cash and Cash Equivalents.*** Cash and cash equivalents decreased \$1.4 million, from \$20.8 million at September 30, 2013 to \$19.4 million at June 30, 2014.

***Loans.*** Net loans receivable increased \$15.4 million, from \$408.4 million at September 30, 2013 to \$423.8 million at June 30, 2014, primarily due to increases in commercial real estate loans of \$23.2 million, which more than offset decreases in residential mortgage loans and consumer loans of \$3.3 million and \$1.2 million, respectively. The decreases in residential mortgage and consumer loans are primarily due to loan payoffs that have not been replaced by new originations, as the Company's primary lending focus continues to be the origination of commercial loans.

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 by \$2.1 million from \$3.2 million at September 30, 2013 to \$5.3 million at June 30, 2014 due primarily to purchases. 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 increased \$21.6 million from \$164.2 million at September 30, 2013 to \$185.8 million at June 30, 2014 due primarily to purchases of \$35.8 million, partially offset by maturities and calls of \$6.2 million, principal repayments of \$9.9 million and sales of \$808,000. The increase in securities available for sale, primarily in U.S. government agency and sponsored enterprises securities, including mortgage-backed securities and CMOs, and municipal bonds was primarily funded by deposit growth.

**Securities Held to Maturity.** Investment securities held-to-maturity decreased \$673,000 from \$6.4 million at September 30, 2013 to \$5.7 million at June 30, 2014 due primarily to principal repayments on mortgage-backed securities.

**Cash Surrender Value of Life Insurance.** Cash surrender value of life insurance increased \$5.4 million, from \$12.9 million at September 30, 2013 to \$18.3 million at June 30, 2014 primarily as the result of an investment in bank-owned life insurance of \$5.0 million in December 2013.

**Deposits.** Total deposits increased \$47.5 million from \$477.7 million at September 30, 2013 to \$525.2 million at June 30, 2014 primarily due to an increase in certificates of deposit, noninterest-bearing demand deposit accounts, money market accounts and savings accounts of \$28.9 million, \$7.5 million, \$7.2 million and \$4.0 million, respectively, which more than offset a decrease in interest-bearing demand deposit accounts of \$62,000 during the period. The increase in certificates of deposit is due to an increase of \$46.2 million in brokered certificates of deposits, which more than offset decreases in various maturity classes of retail certificates of deposit. The decrease in retail certificates of deposits is primarily attributed to maturities that customers are investing in more liquid accounts given the low

interest rate environment. Management has increased the level of 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 the loan portfolio growth, purchases of available for sale securities and the investment in additional bank-owned life insurance.

***Borrowings.*** Borrowings from the FHLB decreased \$9.6 million from \$89.3 million at September 30, 2013 to \$79.7 million at June 30, 2014. Repayment of borrowings from the FHLB have been funded primarily by deposit growth, including the increase in brokered certificates of deposits, as discussed above.

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 \$3.4 million from \$82.3 million at September 30, 2013 to \$85.7 million at March 31, 2014. Retained earnings increased \$3.2 million due to net income available to common shareholders of \$3.9 million, partially offset by common stock cash dividends of \$674,000. Other comprehensive income increased \$2.0 million as a result of an increase in net unrealized gains on securities available for sale, which is due to changes in the yield curve and long-term rate forecasts. The Company also repurchased 122,242 shares of common stock on the open market for a total cost of \$2.8 million during the nine-month period ended June 30, 2014. Book value (common shareholders' equity) per common share was \$31.48 at June 30, 2014 as compared to \$28.32 at September 30, 2013. Tangible book value (common shareholders' equity) per common share was \$27.00 at June 30, 2014 as compared to \$23.97 at September 30, 2013.

**Results of Operations for the Nine Months Ended June 30, 2014 and 2013**

**Overview.** The Company reported 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 compared to net income of \$3.3 million and net income available to common shareholders of \$3.2 million, or \$1.41 per diluted share, for the nine-month period ended June 30, 2013. 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 \$527,000, or 3.0%, for the nine-month period ended June 30, 2014 compared to the same period in 2013. Average interest-earning assets increased \$43.5 million and average interest-bearing liabilities increased \$41.2 million when comparing the two periods. The tax-equivalent interest rate spread was 3.87% for 2014 as compared to 4.01% for 2013.

Total interest income increased \$196,000, or 1.0%, when comparing the two periods due primarily to an increase in the average balance of interest-earning assets of \$43.5 million from \$587.2 million for 2013 to \$630.7 million for 2014, which more than offset the change in interest income due to a decrease in the average tax-equivalent yield on

interest-earning assets from 4.80% for 2013 to 4.52% for 2014. The average balance of loans, investment securities and interest-bearing deposits with banks increased \$28.6 million, \$12.6 million and \$2.0 million, respectively, when comparing the two periods.

Total interest expense decreased \$331,000, or 11.0%, due primarily to a decrease in the average cost of interest-bearing liabilities from 0.79% for 2013 to 0.65% for 2014, which more than offset the change in interest expense due to an increase in the average balance of interest-bearing liabilities of \$41.2 million from \$510.0 million for 2013 to \$551.2 million for 2014. The average cost of interest-bearing liabilities decreased for 2014 primarily as a result of lower market interest rates as compared to 2013 and the repricing of certificates of deposit and borrowings at lower market interest rates as they matured. The average balance of borrowings increased \$26.1 million and the average balance of total deposits increased \$15.1 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, 2014 and 2013. 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%.

	Nine Months Ended June 30, 2014			2013		
	Average Balance	Interest and Dividends	Yield/ Cost	Average Balance	Interest and Dividends	Yield/ Cost
	(Dollars in thousands)					
Assets:						
Interest-bearing deposits with banks	\$ 12,257	\$ 27	0.29 %	\$ 10,292	\$ 21	0.27 %
Loans	427,752	15,808	4.93	399,145	16,021	5.35
Investment securities	136,410	4,589	4.49	128,562	4,298	4.46
Agency mortgage-backed securities	48,599	764	2.10	43,812	634	1.93
Federal Home Loan Bank stock	5,644	186	4.39	5,400	151	3.73
Total interest-earning assets	630,662	21,374	4.52	587,211	21,125	4.80
Non-interest-earning assets	59,564			62,015		
Total assets	\$ 690,226			\$ 649,226		
Liabilities and equity:						
NOW accounts	\$ 116,108	\$ 181	0.21 %	\$ 107,709	\$ 254	0.31 %
Money market deposit accounts	72,810	181	0.33	68,077	214	0.42
Savings accounts	69,636	33	0.06	65,366	49	0.10
Time deposits	197,383	1,404	0.95	199,684	1,655	1.11
Total interest-bearing deposits	455,937	1,799	0.53	440,836	2,172	0.66

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

Borrowings (1)	95,276	884	1.24	69,162	842	1.62
Total interest-bearing liabilities	551,213	2,683	0.65	509,998	3,014	0.79
Non-interest-bearing deposits	50,649			49,799		
Other non-interest-bearing liabilities	4,562			5,482		
Total liabilities	606,424			565,279		
Total equity	83,802			83,947		
Total liabilities and equity	\$690,226			\$649,226		
Net interest income		\$ 18,691			\$ 18,111	
Interest rate spread			3.87 %			4.01 %
Net interest margin			3.95 %			4.11 %
Average interest-earning assets to average interest-bearing liabilities			114.41 %			115.14 %

(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, 2014 and 2013. 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, 2014 Compared to Nine Months Ended June 30, 2013 Increase (Decrease) Due to		
	Rate	Volume (In thousands)	Net
<b>Interest income:</b>			
Interest-bearing deposits with banks	\$ 2	\$ 4	\$ 6
Loans	(2,445 )	2,232	(213 )
Investment securities	29	262	291
Agency mortgage-backed securities	58	72	130
Other interest-earning assets	28	7	35
Total interest-earning assets	(2,328 )	2,577	249
<b>Interest expense:</b>			
Deposits	(452 )	79	(373 )
Borrowings (1)	(634 )	667	42
Total interest-bearing liabilities	(1,086 )	746	(331 )
Net increase (decrease) in net interest income	\$ (1,242 )	\$ 1,831	\$ 580

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

***Provision for Loan Losses.*** The provision for loan losses was \$904,000 for the nine-month period ended June 30, 2014 compared to \$1.6 million for the same period in 2013. The decrease in the provision for loans losses for 2014 as compared to the prior period was due primarily to decreases in net charge-offs and nonperforming loans when comparing the two periods.

The Company recognized net charge-offs of \$450,000 for the nine-month period ended June 30, 2014 compared to net charge-offs of \$1.1 million for the same period in 2013.

FIRST SAVINGS FINANCIAL GROUP, INC.

**PART I - ITEM 2**

**MANAGEMENT'S DISCUSSION AND**

**ANALYSIS OF FINANCIAL CONDITION AND**

**RESULTS OF OPERATIONS**

The recorded investment in nonperforming loans was \$4.9 million at June 30, 2014 compared to \$9.1 million at September 30, 2013 and \$6.4 million at June 30, 2013. Nonperforming loans at June 30, 2014 include nonaccrual loans of \$3.9 million and loans totaling \$1.0 million 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 decrease in nonperforming loans from September 30, 2013 to June 30, 2014 is due primarily to a single commercial real estate loan with an outstanding balance of \$4.0 million that was reclassified from nonaccrual to accruing status as of December 31, 2013. This loan was current at June 30, 2014 and continues to perform according to the restructured terms.

Gross loans receivable increased \$19.6 million from \$416.2 million at June 30, 2013 to \$435.8 million at June 30, 2014, primarily due to an increase in commercial real estate loans of \$25.4 million, which more than offset a decrease in residential real estate and commercial business loans of \$3.6 million and \$1.3 million, respectively. The increase in commercial real estate loans when comparing the two periods is due primarily to a commercial real estate lending program started in January 2013 that is focused on loans to high net worth individuals that are secured by low loan-to-value, single-tenant commercial properties that are leased to investment grade national-brand retailers. This program is designed to diversify the Company's geographic and credit risk profile given the geographic dispersion of the loans outside of the state of Indiana and the investment grade credit of the national-brand lessees. The balance of this portfolio was \$29.9 million at June 30, 2014.

The allowance for loan losses was \$6.0 million at June 30, 2014 compared to \$5.5 million at September 30, 2013 and \$5.3 million at June 30, 2013. 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 \$817,000 for the nine-month period ended June 30, 2014 as compared to the same period in 2013. The increase was due primarily to increases in net gain on trading account securities, other income and real estate lease income of \$371,000, \$270,000 and \$228,000, respectively, which more

than offset a decrease in the net gain on sales of loans of \$223,000. The increase in other income is due primarily to a litigation settlement of \$277,000 received as a partial recovery of losses on commercial bond investments recognized by Community First Bank in 2008. There were nine active tenants in the real estate development at June 30, 2014, described above in Note 4 of the Notes to Consolidated Financial Statements, compared to five active tenants at June 30, 2013.

**FIRST SAVINGS FINANCIAL GROUP, INC.**

**PART I - ITEM 2**

**MANAGEMENT'S DISCUSSION AND**

**ANALYSIS OF FINANCIAL CONDITION AND**

**RESULTS OF OPERATIONS**

**Noninterest Expense.** Noninterest expenses increased \$966,000 for the nine-month period ended June 30, 2014 as compared to the same period in 2013. The increase was due primarily to increases in compensation and benefits expense, professional fees, and occupancy and equipment expense of \$626,000, \$292,000 and \$253,000, respectively, which more than offset decreases in other operating expenses of \$182,000. The increase in compensation and benefits expense is due primarily to normal salary, wages and benefits increases, and increased ESOP compensation expense. The increase in professional fees expense is due primarily to \$257,000 for consulting services related to a revenue enhancement and operating expense efficiencies project undertaken by the Company in 2014. The increase in occupancy and equipment expense is due primarily to the Bank's new branch location in New Albany, Indiana, which opened in August 2013. The decrease in other operating expenses is due primarily to \$227,000 in expenses during the 2013 period associated with the Company's debit card reward points program.

**Income Tax Expense.** The Company recognized income tax expense of \$1.6 million for the nine-months ended June 30, 2014, for an effective tax rate of 28.2%, compared to income tax expense of \$1.2 million for an effective tax rate of 27.1%, for the same period in 2013.

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, 2014 and 2013**

**Overview.** The Company reported 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 compared to net income and net income available to common shareholders of \$1.1 million, or \$0.48 per diluted share, for the three-month period ended June 30, 2013. 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 increased \$269,000, or 4.7%, for the three-month period ended June 30, 2014 compared to the same period in 2013. Average interest-earnings assets increased \$48.0 million and average interest-bearing liabilities increased \$50.5 million when comparing the two periods. The tax-equivalent interest rate spread was 3.84% for 2014 as compared to 3.93% for 2013.

Total interest income increased \$233,000, or 3.5%, when comparing the two periods due primarily to an increase in the average balance of interest-earning assets of \$48.0 million from \$595.4 million for 2013 to \$643.4 million for 2014, which more than offset the change in interest income due to a decrease in the average tax-equivalent yield on interest-earning assets from 4.64% for 2013 to 4.46% for 2014. The average balance of loans, investment securities and interest-bearing deposits with banks increased \$28.4 million, \$19.0 million and \$403,000, respectively, when comparing the two periods.

Total interest expense decreased \$36,000, or 4.0%, due primarily to a decrease in the average cost of interest-bearing liabilities from 0.71% for 2013 to 0.62% for 2014, which more than offset the change in interest expense due to an increase in the average balance of interest-bearing liabilities of \$50.5 million from \$511.3 million for 2013 to \$561.8 million for 2014. The average cost of interest-bearing liabilities decreased for 2014 primarily as a result of lower market interest rates as compared to 2013 and the repricing of certificates of deposit and borrowings at lower market interest rates as they matured. The average balance of borrowings increased \$17.9 million and the average balance of

total deposits increased \$32.6 million when comparing the two periods.

-50-

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, 2014 and 2013. 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, 2014			2013		
	Average Balance	Interest and Dividends	Yield/ Cost	Average Balance	Interest and Dividends	Yield/ Cost
	(Dollars in thousands)					
Assets:						
Interest-bearing deposits with banks	\$12,788	\$ 10	0.31 %	\$12,385	\$ 10	0.32 %
Loans	433,291	5,284	4.88	404,913	5,207	5.14
Investment securities	141,111	1,551	4.40	129,741	1,427	4.40
Agency mortgage-backed securities	50,532	270	2.14	42,919	210	1.96
Federal Home Loan Bank stock	5,675	58	4.09	5,400	48	3.56
Total interest-earning assets	643,397	7,173	4.46	595,358	6,902	4.64
Non-interest-earning assets	62,004			58,629		
Total assets	\$705,401			\$653,987		
Liabilities and equity:						
NOW accounts	\$115,828	\$ 59	0.20 %	\$112,904	\$ 59	0.21 %
Money market deposit accounts	74,794	61	0.33	71,719	60	0.33
Savings accounts	71,354	12	0.07	67,536	10	0.06
Time deposits	209,998	457	0.87	187,176	513	1.10



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

Total interest-bearing deposits	471,974	589	0.50	439,335	642	0.58
Borrowings (1)	89,873	284	1.26	72,016	267	1.48
Total interest-bearing liabilities	561,847	873	0.62	511,351	909	0.71
Non-interest-bearing deposits	53,794			52,233		
Other non-interest-bearing liabilities	5,049			5,772		
Total liabilities	620,690			569,356		
Total equity	84,711			84,631		
Total liabilities and equity	\$705,401			\$653,987		
Net interest income		\$ 6,300			\$ 5,993	
Interest rate spread			3.84 %			3.93 %
Net interest margin			3.92 %			4.03 %
Average interest-earning assets to average interest-bearing liabilities			114.51 %			116.43 %

(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, 2014 and 2013. 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.

	Three Months Ended June 30, 2014 Compared to Three Months Ended June 30, 2013 Increase (Decrease) Due to		
	Rate	Volume (In thousands)	Net
<b>Interest income:</b>			
Interest-bearing deposits with banks	\$ -	\$ -	\$ -
Loans	(200 )	277	77
Investment securities	-	124	124
Agency mortgage-backed securities	20	40	60
Other interest-earning assets	7	3	10
Total interest-earning assets	(173 )	444	271
<b>Interest expense:</b>			
Deposits	(115 )	62	(53 )
Borrowings (1)	(25 )	42	17
Total interest-bearing liabilities	(140 )	104	(36 )
Net increase (decrease) in net interest income	\$ (33 )	\$ 340	\$ 307

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

***Provision for Loan Losses.*** The provision for loan losses was \$300,000 for the three-month period ended June 30, 2014 compared to \$560,000 for the same period in 2013. The decrease in the provision for loans losses for 2014 as compared to the prior period was due primarily to decreases in net charge-offs and nonperforming loans when comparing the two periods.

The Company recognized net charge-offs of \$368,000 for the three-month period ended June 30, 2014 compared to net charge-offs of \$614,000 for the same period in 2013.

-52-

**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 \$256,000 for the three-month period ended June 30, 2014 as compared to the same period in 2013. The increase was due primarily to increases in net gain on trading account securities, net gain on sale of available for sale securities, and real estate lease income of \$240,000, \$122,000 and \$71,000, respectively, which more than offset a decrease in net gain on sales of loans of \$163,000. The increase in available for sale securities is primarily due to the sale of Metlife stock. The increase in real estate lease income is primarily for the same reason previously discussed for the results of operations for the nine months ended June 30, 2014.

**Noninterest Expense.** Noninterest expenses increased \$377,000 for the three-month period ended June 30, 2014 as compared to the same period in 2013. The increase was due primarily to increases in compensation and benefits expense and professional fees of \$227,000 and \$147,000, respectively, which more than offset a decrease in other operating expenses of \$46,000. The increases for the 2014 period are due primarily to the same reasons previously discussed for the results of operations for the nine months ended June 30, 2014, with professional fees totaling \$56,000 for consulting services related to the revenue enhancement and operating expense efficiencies project for the three months ended June 30, 2014.

**Income Tax Expense.** The Company recognized income tax expense of \$534,000 for the three months ended June 30, 2014, for an effective tax rate of 26.8%, compared to income tax expense of \$441,000, for an effective tax rate of 27.9%, for the same period in 2013.

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 advances. 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, 2014, the Bank had cash and cash equivalents of \$19.4 million, trading account securities with a fair value of \$5.3 million and securities available-for-sale with a fair value of \$185.8 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 one-to-four family mortgage and commercial real estate 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 us, 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. The Bank must also file prior notice with the Federal Reserve Board before the Bank may declare and pay dividends to the Company. During the nine months ended June 30, 2014 the Bank declared and paid dividends to the Company totaling \$10.0 million. At June 30, 2014, the Company had liquid assets of \$8.3 million.

**Capital Management.** The Bank is required to maintain specific amounts of capital pursuant to regulatory requirements. As of June 30, 2014, the Bank was in compliance with all regulatory capital requirements that were effective as of such date, with Tier 1 capital (to adjusted total assets), Tier 1 capital (to risk-weighted assets) and total capital (to risk-weighted assets) ratios of 9.02%, 13.66% and 14.92%, respectively. The regulatory requirements at that date were 5.0%, 6.0% and 10.0%, respectively, in order to be categorized as "well capitalized" under applicable regulatory guidelines. At June 30, 2014, 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, 2013.

For the nine-months ended June 30, 2014, 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.

-56-

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, 2014 One Year Horizon		At September, 2013 One Year Horizon	
	Dollar Change	Percent Change	Dollar Change	Percent Change
	(Dollars in thousands)			
300bp	\$(1,761)	(7.22 )%	\$ (99 )	(0.45 )%
200bp	(1,132)	(4.64 )	(111 )	(0.50 )
100bp	(528 )	(2.16 )	(69 )	(0.31 )
Static	-	-	-	-
(100)bp	(316 )	(1.30 )	260	1.17

At March 31, 2014, our simulated exposure to an increase in interest rates shows that an immediate and sustained increase in rates of 1.00% will decrease our net interest income by \$528,000 or 2.16% 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 decrease by 4.64% and 7.22%, 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.

Immediate Change in the Level of Interest Rates	At June 30, 2014			Economic Value of Equity as a Percent of Present Value of Assets		
	Economic Dollar Amount	Value of Equity Dollar Change	Percent Change	EVE Ratio	Change	
	(Dollars in thousands)					
300bp	\$104,186	\$(12,959)	(11.06)%	16.68	%	(16)bp
200bp	111,426	(5,719)	(4.88)	17.17		33bp
100bp	119,089	1,944	1.66	17.62		78bp
Static	117,145	-	-	16.84		bp
(100)bp	107,165	(9,980)	(8.52)	15.17		(167)bp

Immediate Change in the Level of Interest Rates	At September 30, 2013			Economic Value of Equity as a Percent of Present Value of Assets		
	Economic Dollar Amount	Value of Equity Dollar Change	Percent Change	EVE Ratio	Change	
	(Dollars in thousands)					
300bp	\$77,012	\$(25,354)	(24.77)%	13.07	%	(246)bp
200bp	85,452	(16,914)	(16.52)	13.97		(156)bp
100bp	95,583	(6,783)	(6.63)	15.02		(51)bp
Static	102,366	-	-	15.53		bp
(100)bp	95,248	(7,118)	(6.95)	14.26		(127)bp

The previous table indicates that at June 30, 2014, the Company would expect a decrease in its EVE in the event of a sudden and sustained 200 to 300 basis point increase and/or 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, 2014 comprised approximately 51.4% 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, 2014, 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.

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 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, 2013 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 operating results.

-60-

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, 2014:

Period	(a) Total number of shares (or units) purchased	(b) Average price paid per share (or unit)	(c) Total number of shares (or units) purchased as part of publicly announced plans or programs (1)	(d) Maximum number (or appropriate dollar value) of shares (or units) that may yet be purchased under the plans or programs
April 1, 2014 through April 30, 2014	8,621	\$ 22.99	8,621	112,011
May 1, 2014 through May 31, 2014	7,547	\$ 24.28	7,547	104,464
June 1, 2014 through June 30, 2014	-	\$ -	-	104,464
Total	16,168	\$ 23.59	16,168	104,464

(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.

-61-

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, 2014, 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

-62-

**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, 2014 **BY:** /s/ Larry W. Myers  
Larry W. Myers  
President and Chief Executive Officer

**Dated** August 14, 2014 **BY:** /s/ Anthony A. Schoen  
Anthony A. Schoen  
Chief Financial Officer