

First Savings Financial Group Inc  
Form 10-Q  
February 17, 2015

**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 December 31, 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)

**Indiana**

**37-1567871**

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

501 East Lewis & Clark Parkway, Clarksville, Indiana 47129

(Address of principal executive offices) (Zip Code)

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

Not applicable  
(Former name, former address and  
former fiscal year, if changed since last  
report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x 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 x 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 x

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

The number of shares outstanding of the registrant's common stock as of December 31, 2014 was 2,187,993.



FIRST SAVINGS FINANCIAL GROUP, INC.

INDEX

	<b>Page</b>
<b>Part I</b>	
<b><u>Financial Information</u></b>	
Item 1. Financial Statements	
<u>Consolidated Balance Sheets as of December 31, 2014 and September 30, 2014 (unaudited)</u>	3
<u>Consolidated Statements of Income for the three months ended December 31, 2014 and 2013 (unaudited)</u>	4
<u>Consolidated Statements of Comprehensive Income for the three months ended December 31, 2014 and 2013 (unaudited)</u>	5
<u>Consolidated Statements of Changes in Stockholders' Equity for the three months ended December 31, 2014 and 2013 (unaudited)</u>	6
<u>Consolidated Statements of Cash Flows for the three months ended December 31, 2014 and 2013 (unaudited)</u>	7
<u>Notes to Consolidated Financial Statements (unaudited)</u>	8-41
<b><u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u></b>	42-49
<b><u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u></b>	50-52
<b><u>Item 4. Controls and Procedures</u></b>	53
<b>Part II</b>	
<b><u>Other Information</u></b>	
<b><u>Item 1. Legal Proceedings</u></b>	54
<b><u>Item 1A. Risk Factors</u></b>	54
<b><u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u></b>	55
<b><u>Item 3. Defaults Upon Senior Securities</u></b>	55
<b><u>Item 4. Mine Safety Disclosures</u></b>	55

<b><u>Item 5. Other Information</u></b>	56
<b><u>Item 6. Exhibits</u></b>	56
<b><u>Signatures</u></b>	57

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

(In thousands, except share and per share data)	December 31, 2014	September 30, 2014
<b>ASSETS</b>		
Cash and due from banks	\$ 7,844	\$ 8,853
Interest-bearing deposits with banks	13,128	11,477
Total cash and cash equivalents	20,972	20,330
Interest-bearing time deposits	2,235	1,500
Trading account securities, at fair value	4,680	5,319
Securities available for sale, at fair value	183,278	184,697
Securities held to maturity	5,350	5,419
Loans held for sale	-	281
Loans, net	441,206	433,876
Federal Reserve Bank and Federal Home Loan Bank stock, at cost	7,462	6,517
Real estate development and construction	7,153	7,202
Premises and equipment	14,063	14,275
Other real estate owned, held for sale	549	953
Accrued interest receivable:		
Loans	1,246	1,276
Securities	1,460	1,235
Cash surrender value of life insurance	18,149	18,021
Goodwill	7,936	7,936
Core deposit intangibles	1,639	1,725
Other assets	5,766	2,567
<b>Total Assets</b>	<b>\$ 723,144</b>	<b>\$ 713,129</b>
<b>LIABILITIES</b>		
Deposits:		
Noninterest-bearing	\$ 54,448	\$ 56,092
Interest-bearing	461,299	477,102
Total deposits	515,747	533,194
Repurchase agreements	1,339	1,338
Borrowings from Federal Home Loan Bank	101,863	79,548
Other long-term debt	4,769	4,812
Accrued interest payable	174	175
Advance payments by borrowers for taxes and insurance	599	748

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

Accrued expenses and other liabilities	9,144	6,234	
Total Liabilities	633,635	626,049	
<b>STOCKHOLDERS' EQUITY</b>			
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 2,187,993 shares (2,171,812 shares at September 30, 2014)	25	25	
Additional paid-in capital - preferred	17,120	17,120	
Additional paid-in capital - common	26,388	26,079	
Retained earnings - substantially restricted	48,123	47,175	
Accumulated other comprehensive income	4,495	3,853	
Unearned ESOP shares	(323	) (537	)
Unearned stock compensation	(94	) (162	)
Less treasury stock, at cost - 354,049 shares (370,230 shares at September 30, 2014)	(6,225	) (6,473	)
Total Stockholders' Equity	89,509	87,080	
Total Liabilities and Stockholders' Equity	\$ 723,144	\$ 713,129	

See notes to consolidated financial statements.

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

*(Unaudited)*

(In thousands, except share and per share data)	Three Months Ended	
	December 31,	
	2014	2013
<b>INTEREST INCOME</b>		
Loans, including fees	\$5,370	\$5,225
Securities:		
Taxable	1,092	1,030
Tax-exempt	471	420
Dividend income	63	50
Interest-bearing deposits with banks	13	9
Total interest income	7,009	6,734
<b>INTEREST EXPENSE</b>		
Deposits	642	612
Repurchase agreements	1	1
Borrowings from Federal Home Loan Bank	240	252
Loans payable	48	57
Total interest expense	931	922
Net interest income	6,078	5,812
Provision for loan losses	207	301
Net interest income after provision for loan losses	5,871	5,511
<b>NONINTEREST INCOME</b>		
Service charges on deposit accounts	371	318
Net gain on sales of available for sale securities	-	1
Net gain on trading account securities	71	157
Unrealized loss on derivative contract	-	(2)
Net gain on sales of loans	85	77
Increase in cash surrender value of life insurance	128	97
Commission income	61	67
Real estate lease income	151	142
Other income	244	247
Total noninterest income	1,111	1,104
<b>NONINTEREST EXPENSE</b>		
Compensation and benefits	3,001	2,979
Occupancy and equipment	604	633
Data processing	381	310
Advertising	106	67



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

Professional fees	314	245
FDIC insurance premiums	109	120
Net loss on other real estate owned	5	70
Other operating expenses	854	740
Total noninterest expense	5,374	5,164
Income before income taxes	1,608	1,451
Income tax expense	408	423
Net Income	\$1,200	\$1,028
Preferred stock dividends declared	43	43
Net Income Available to Common Shareholders	\$1,157	\$985
Net income per common share:		
Basic	\$0.55	\$0.46
Diluted	\$0.52	\$0.44
Weighted average common shares outstanding:		
Basic	2,111,962	2,158,106
Diluted	2,217,472	2,260,658
Dividends per common share	\$0.11	\$0.10

See notes to consolidated financial statements.

-4-

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

(In thousands)	Three Months Ended December 31,	
	2014	2013
Net Income	\$ 1,200	\$ 1,028
<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	996	(531 )
Income tax (expense) benefit	(354 )	195
Net of tax amount	642	(336 )
Less: reclassification adjustment for realized gains included in net income	-	(1 )
Income tax expense	-	-
Net of tax amount	-	(1 )
Other Comprehensive Income (Loss)	642	(337 )
Comprehensive Income	\$ 1,842	\$ 691

See notes to consolidated financial statements.

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

<i>(In thousands, except share and per share data)</i>	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Unearned Stock Compensation and ESOP	Treasury Stock	Total
<b>Three Months Ended December 31, 2013:</b>								
Balances at October 1, 2013	\$ -	\$ 25	\$ 42,584	\$ 42,870	\$ 1,468	\$ (1,287 )	\$ (3,407 )	\$ 82,253
Net income	-	-	-	1,028	-	-	-	1,028
Other comprehensive loss	-	-	-	-	(337 )	-	-	(337 )
Preferred stock dividends	-	-	-	(43 )	-	-	-	(43 )
Common stock dividends (\$0.10 per share)	-	-	-	(187 )	-	-	-	(187 )
Stock compensation expense	-	-	38	-	-	65	-	103
Shares released by ESOP trust	-	-	257	-	-	207	-	464
Purchase of 37,349 treasury shares	-	-	-	-	-	-	(834 )	(834 )
Balances at December 31, 2013	\$ -	\$ 25	\$ 42,879	\$ 43,668	\$ 1,131	\$ (1,015 )	\$ (4,241 )	\$ 82,447
<b>Three Months Ended December 31, 2014:</b>								
Balances at October 1, 2014	\$ -	\$ 25	\$ 43,199	\$ 47,175	\$ 3,853	\$ (699 )	\$ (6,473 )	\$ 87,080
Net income	-	-	-	1,200	-	-	-	1,200
Other comprehensive income	-	-	-	-	642	-	-	642
Preferred stock dividends	-	-	-	(43 )	-	-	-	(43 )
Common stock dividends (\$0.11 per share)	-	-	-	(209 )	-	-	-	(209 )

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

Stock compensation expense	-	-	72	-	-	68	-	140
Shares released by ESOP trust	-	-	326	-	-	214	-	540
Stock options exercise - 20,972 shares	-	-	(89 )	-	-	-	367	278
Purchase of 4,791 treasury shares	-	-	-	-	-	-	(119 )	(119 )
Balances at December 31, 2014	\$ -	\$ 25	\$ 43,508	\$ 48,123	\$ 4,495	\$ (417 )	\$ (6,225 )	\$ 89,509

See notes to consolidated financial statements.

-6-

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

(In thousands)	Three Months Ended December 31,	
	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$1,200	\$1,028
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	207	301
Depreciation and amortization	357	346
Amortization of premiums and accretion of discounts on securities, net	181	206
(Increase) decrease in trading account securities	639	(944 )
Loans originated for sale	(2,046 )	(2,168 )
Proceeds on sales of loans	2,411	2,545
Net gain on sales of loans	(85 )	(77 )
Net realized and unrealized (gain) loss on other real estate owned	9	(32 )
Net gain on sales of available for sale securities	-	(1 )
Unrealized loss on derivative contract	-	2
Increase in cash surrender value of life insurance	(128 )	(97 )
Deferred income taxes	(169 )	(130 )
ESOP and stock compensation expense	596	531
Increase in accrued interest receivable	(195 )	(331 )
Decrease in accrued interest payable	(1 )	(7 )
Change in other assets and liabilities, net	8	-
Net Cash Provided By Operating Activities	2,984	1,172
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investment in interest-bearing time deposits	(735 )	-
Purchase of securities available for sale	(5,732 )	(16,434 )
Proceeds from sales of securities available for sale	-	303
Proceeds from maturities of securities available for sale	4,632	1,243
Proceeds from maturities of securities held to maturity	25	94
Principal collected on securities	3,378	3,738
Net increase in loans	(7,226 )	(11,160 )
Purchase of Federal Reserve Bank stock	(945 )	-
Purchase of Federal Home Loan Bank stock	(461 )	(175 )
Proceeds from redemption of Federal Home Loan Bank stock	461	-
Investment in cash surrender value of life insurance	-	(5,000 )
Investment in historic tax credit entity	(417 )	-
Proceeds from sale of other real estate owned	104	-
Investment in real estate development and construction	-	(64 )
Purchase of premises and equipment	(10 )	(289 )

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

Net Cash Used In Investing Activities	(6,926 )	(27,744 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net increase (decrease) in deposits	(17,447 )	13,796
Net increase in repurchase agreements	1	1
Increase (decrease) in Federal Home Loan Bank line of credit	(4,685 )	8,217
Proceeds from Federal Home Loan Bank advances	115,000	73,500
Repayment of Federal Home Loan Bank advances	(88,000 )	(68,500 )
Repayment of other long-term debt	(43 )	(34 )
Net decrease in advance payments by borrowers for taxes and insurance	(149 )	(185 )
Exercise of stock options	278	-
Purchase of treasury stock	(119 )	(851 )
Dividends paid on preferred stock	(43 )	(43 )
Dividends paid on common stock	(209 )	(187 )
Net Cash Provided By Financing Activities	4,584	25,714
Net Increase (Decrease) in Cash and Cash Equivalents	642	(858 )
Cash and cash equivalents at beginning of year	20,330	20,815
Cash and Cash Equivalents at End of Year	\$20,972	\$19,957

See notes to consolidated financial statements.

-7-

FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*(Unaudited)*

**1. Presentation of Interim Information**

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

The Bank, which is a wholly-owned Indiana-chartered commercial bank subsidiary of the Company, provides a variety of banking services to individuals and business customers through 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 a securities portfolio, FFCC, Inc., which is an Indiana corporation that participates in commercial real estate development and leasing, and Southern Indiana Financial Corporation, which is currently inactive.

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

In the opinion of management, the unaudited consolidated financial statements include all adjustments considered necessary to present fairly the financial position as of December 31, 2014, the results of operations for the three-month periods ended December 31, 2014 and 2013, and the cash flows for the three-month periods ended December 31, 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, 2014 included in the Company’s Annual Report on

Form 10-K.

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

-8-



FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

*(Unaudited)*

**2. Investment Securities**

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

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

*Trading Account Securities*

The Company invests in small and medium lot, investment grade municipal bonds through a managed brokerage account. The brokerage account is managed by an investment advisory firm registered with the U.S. Securities and Exchange Commission. At December 31, 2014 and September 30, 2014, trading account securities recorded at fair value totaled \$4.7 million and \$5.3 million, respectively, comprised of investment grade municipal bonds. During the three-months ended December 31, 2014, the Company reported net gains on trading account securities of \$71,000, including net realized gains on the sale of securities of \$77,000 and net unrealized losses on securities still held as of the balance sheet date of \$6,000. During the three-months ended December 31, 2013, the Company reported net gains on trading account securities of \$157,000, including net realized gains on the sale of securities of \$166,000 and net unrealized losses on securities still held as of the balance sheet date of \$9,000.

## 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	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<i>(In thousands)</i>				
December 31, 2014:				
Securities available for sale:				
Agency bonds and notes	\$9,092	\$ 7	\$ 72	\$9,027
Agency mortgage-backed	50,198	690	46	50,842
Agency CMO	28,111	78	207	27,982
Privately-issued CMO	3,256	573	-	3,829
Privately-issued ABS	5,393	1,673	-	7,066
SBA certificates	1,699	10	-	1,709
Municipal obligations	78,353	4,507	37	82,823
Total securities available for sale \$	176,102	\$ 7,538	\$ 362	\$183,278
Securities held to maturity:				
Agency mortgage-backed	\$413	\$ 34	\$ -	\$447
Municipal obligations	4,937	528	-	5,465
Total securities held to maturity	\$5,350	\$ 562	\$ -	\$5,912

## FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

*(Unaudited)*

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

The amortized cost and fair value of investment securities as of December 31, 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
<i>(In thousands)</i>				
Due within one year	\$830	\$831	\$592	\$630
Due after one year through five years	6,143	6,393	1,912	2,131

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

Due after five years through ten years	21,725	22,628	1,502	1,676
Due after ten years	58,747	61,998	931	1,028
	87,445	91,850	4,937	5,465
CMO	31,367	31,811	-	-
ABS	5,393	7,066	-	-
SBA certificates	1,699	1,709	-	-
Mortgage-backed securities	50,198	50,842	413	447
	\$176,102	\$183,278	\$5,350	\$5,912

-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 December 31, 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	Gross Fair Value (Dollars in thousands)	Unrealized Losses
Securities available for sale:			
Continuous loss position less than twelve months:			
Agency CMO	5	7,949	24
Municipal obligations	3	1,832	4
Total less than twelve months	8	9,781	28
Continuous loss position more than twelve months:			
Agency bonds and notes	3	6,428	72
Agency mortgage-backed	3	3,524	46
Agency CMO	3	8,804	182
Municipal obligations	4	2,257	34
Total more than twelve months	13	21,013	334
Total securities available for sale	21	\$ 30,794	\$ 362

At December 31, 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 available for sale debt securities in loss positions at December 31, 2014, which consisted of U.S. government agency notes, mortgage-backed securities and CMOs, and municipal bonds, had depreciated approximately 1.17% from their amortized cost basis and are fixed and variable rate securities with a weighted-average yield of 1.62% and a weighted-average coupon rate of 2.89% at December 31, 2014. All of the agency and municipal securities are issued by U.S. government-sponsored enterprises and municipal governments, and are generally secured by first mortgage loans and municipal project revenues.

FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

*(Unaudited)*

The Company evaluates the existence of a potential credit loss component related to the decline in fair value of the privately-issued CMO and ABS portfolios each quarter using an independent third party analysis. At December 31, 2014, the Company held twenty privately-issued CMO and ABS securities acquired in a 2009 bank acquisition with an aggregate carrying value of \$2.8 million and fair value of \$4.2 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 December 31, 2014, there were no privately-issued CMOs or ABS in loss positions. Based on the independent third party analysis of the expected cash flows, management has determined that no other-than-temporary impairment is required to be recognized on the privately-issued CMO and ABS portfolios. While the Company did not recognize a credit-related impairment loss at December 31, 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 U.S. government agency notes, mortgage-backed securities and CMOs, and municipal bonds relate principally to current interest rates for similar types of securities. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government, its agencies, or other governments, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition. As management has the ability to hold debt securities to maturity, or for the foreseeable future if classified as available for sale, no declines are deemed to be other-than-temporary.

During the three-month period ended December 31, 2013, the Company realized gross gains on sales of available for sale U.S. government agency notes of \$1,000. The Company did not realize any gains or losses on sales of available for sale securities during the three-month period ended December 31, 2014.

Certain available for sale debt securities were pledged under repurchase agreements and to secure FHLB borrowings at December 31, 2014 and September 30, 2014, and may be pledged to secure federal funds borrowings.

## FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

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

Loans at December 31, 2014 and September 30, 2014 consisted of the following:

	December 31, 2014	September 30, 2014
	(In thousands)	
Real estate mortgage:		
1-4 family residential	\$ 183,222	\$ 182,743
Commercial	161,324	153,896
Multifamily residential	23,782	21,286
Residential construction	12,360	14,528
Commercial construction	7,172	8,354
Land and land development	11,232	11,290
Commercial business loans	29,413	28,448
Consumer:		
Home equity loans	18,238	17,903
Auto loans	5,296	5,619
Other consumer loans	2,200	2,320
Gross loans	454,239	446,387
Undisbursed portion of construction loans	(6,557 )	(6,271 )
Principal loan balance	447,682	440,116
Deferred loan origination fees and costs, net	(26 )	10
Allowance for loan losses	(6,450 )	(6,250 )
Loans, net	\$441,206	\$ 433,876

During the three-month period ended December 31, 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, 2014.



## FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

*(Unaudited)*

The following table provides the components of the recorded investment in loans as of December 31, 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	\$ 183,222	\$ 161,324	\$ 23,782	\$ 12,975	\$ 11,232	\$ 29,413	\$ 25,734	\$ 447,682
Accrued interest receivable	537	425	56	24	31	111	62	1,246
Net deferred loan origination fees and costs	317	(277 )	(29 )	(43 )	5	(6 )	7	(26 )
Recorded investment in loans	\$ 184,076	\$ 161,472	\$ 23,809	\$ 12,956	\$ 11,268	\$ 29,518	\$ 25,803	\$ 448,902
Recorded Investment in Loans as Evaluated for Impairment:								
Individually evaluated for impairment	\$ 5,270	\$ 5,653	\$ -	\$ -	\$ -	\$ 194	\$ 341	\$ 11,458
Collectively evaluated for impairment	178,318	155,819	23,809	12,956	11,268	29,324	25,431	436,925
Acquired with deteriorated credit quality	488	-	-	-	-	-	31	519
Ending balance	\$ 184,076	\$ 161,472	\$ 23,809	\$ 12,956	\$ 11,268	\$ 29,518	\$ 25,803	\$ 448,902



## FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

*(Unaudited)*

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

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



## FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

*(Unaudited)*

An analysis of the allowance for loan losses as of December 31, 2014 is as follows:

	Residential Real Estate (In thousands)	Commercial Real Estate	Multifamily	Construction	Land & Hand Development	Commercial Business	Consumer	Total
Ending Allowance Balance Attributable to Loans: Individually evaluated for impairment	\$ 13	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 17	\$ 30
Collectively evaluated for impairment	429	4,217	163	344	299	826	142	6,420
Acquired with deteriorated credit quality	-	-	-	-	-	-	-	-
Ending balance	\$ 442	\$ 4,217	\$ 163	\$ 344	\$ 299	\$ 826	\$ 159	\$ 6,450

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

	Residential Real Estate (In thousands)	Commercial Real Estate	Multifamily	Construction	Land & Hand Development	Commercial Business	Consumer	Total
Ending Allowance Balance Attributable to Loans: Individually evaluated for impairment	\$ 13	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8	\$ 21
Collectively evaluated for impairment	564	3,808	146	443	302	795	171	6,229

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

Acquired with deteriorated credit quality	-	-	-	-	-	-	-	-
Ending balance	\$577	\$ 3,808	\$ 146	\$ 443	\$ 302	\$ 795	\$ 179	\$6,250

-17-

## FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

*(Unaudited)*

An analysis of the changes in the allowance for loan losses for the three months ended December 31, 2014 is as follows:

	Residential Real Estate	Commercial Real Estate	Multifamily	Construction	Land & Development	Commercial Business	Consumer	Total
	(In thousands)							
Changes in Allowance for Loan Losses:								
Beginning balance	\$577	\$ 3,808	\$ 146	\$ 443	\$ 302	\$ 795	\$ 179	\$6,250
Provisions	(147)	409	17	(99)	(3)	31	(1)	207
Charge-offs	(12)	-	-	-	-	-	(32)	(44)
Recoveries	24	-	-	-	-	-	13	37
Ending balance	\$442	\$ 4,217	\$ 163	\$ 344	\$ 299	\$ 826	\$ 159	\$6,450

An analysis of the changes in the allowance for loan losses for the three months ended December 31, 2013 is as follows:

	Residential Real Estate	Commercial Real Estate	Multifamily	Construction	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	(46)	35	4	26	68	163	51	301
Charge-offs	(76)	-	-	-	-	-	(30)	(106)
Recoveries	2	219	-	-	-	-	17	238
Ending balance	\$660	\$ 3,080	\$ 253	\$ 255	\$ 367	\$ 1,070	\$ 286	\$5,971

## 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 December 31, 2014 and for the three months ended December 31, 2014 and 2013.

	At December 31, 2014			Three Months Ended December 31,			
	Recorded Investment	Unpaid Principal Balance	Related Allowance	2014 Average Recorded Investment	2014 Interest Income Recognized	2013 Average Recorded Investment	2013 Interest Income Recognized
<i>(In thousands)</i>							
Loans with no related allowance recorded:							
Residential real estate	\$5,365	\$5,840	\$ -	\$5,800	\$ 35	\$ 6,259	\$ 31
Commercial real estate	5,653	5,686	-	5,712	58	6,019	58
Multifamily	-	-	-	-	-	2,240	28
Construction	-	-	-	-	-	-	-
Land and land development	-	-	-	-	-	-	-
Commercial business	194	179	-	168	-	447	-
Consumer	240	242	-	256	2	323	2
	\$11,452	\$11,947	\$ -	\$11,936	\$ 95	\$ 15,288	\$ 119
Loans with an allowance recorded:							
Residential real estate	\$166	\$166	\$ 13	\$166	\$ -	\$ 55	\$ -
Commercial real estate	-	-	-	-	-	-	-
Multifamily	-	-	-	-	-	-	-
Construction	-	-	-	-	-	-	-
Land and land development	-	-	-	-	-	-	-
Commercial business	-	-	-	-	-	-	-
Consumer	101	101	17	99	-	110	-
	\$267	\$267	\$ 30	\$265	\$ -	\$ 165	\$ -
Total:							
Residential real estate	\$5,531	\$6,006	\$ 13	\$5,966	\$ 35	\$ 6,314	\$ 31
Commercial real estate	5,653	5,686	-	5,712	58	6,019	58



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

Multifamily	-	-	-	-	-	2,240	28
Construction	-	-	-	-	-	-	-
Land and land development	-	-	-	-	-	-	-
Commercial business	194	179	-	168	-	447	-
Consumer	341	343	17	355	2	433	2
	\$11,719	\$12,214	\$ 30	\$12,201	\$ 95	\$ 15,453	\$ 119

During the three-month periods ending December 31, 2014 and 2013, the Company recognized \$5,000 and \$41,000, respectively, of interest income on impaired commercial real estate loans using the cash receipts method.

## FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

*(Unaudited)*

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

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

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

## FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

*(Unaudited)*

Nonperforming loans 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 December 31, 2014:

	Nonaccrual Loans	Loans 90+ Days Past Due Still Accruing	Total Nonperforming Loans
(In thousands)			
Residential real estate	\$2,607	\$ 409	\$ 3,016
Commercial real estate	327	-	327
Multifamily	-	294	294
Construction	-	-	-
Land and land development	-	-	-
Commercial business	173	-	173
Consumer	210	18	228
Total	\$3,317	\$ 721	\$ 4,038

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

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

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

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

-21-

## 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 December 31, 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	\$3,258	\$ 1,829	\$ 1,976	\$ 7,063	\$177,013	\$184,076
Commercial real estate	426	24	118	568	160,904	161,472
Multifamily	-	-	294	294	23,515	23,809
Construction	-	-	-	-	12,956	12,956
Land and land development	-	-	-	-	11,268	11,268
Commercial business	166	179	173	518	29,000	29,518
Consumer	177	15	75	267	25,536	25,803
Total	\$4,027	\$ 2,047	\$ 2,636	\$ 8,710	\$440,192	\$448,902

The following table presents the aging of the recorded investment in past due loans at September 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	\$4,493	\$ 1,639	\$ 1,823	\$ 7,955	\$175,715	\$183,670
Commercial real estate	115	54	59	228	153,800	154,028
Multifamily	297	-	-	297	21,014	21,311
Construction	-	-	-	-	16,601	16,601
Land and land development	6	205	-	211	11,114	11,325
Commercial business	259	-	123	382	28,168	28,550
Consumer	39	79	72	190	25,727	25,917
Total	\$5,209	\$ 1,977	\$ 2,077	\$ 9,263	\$432,139	\$441,402



FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

*(Unaudited)*

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

*Special Mention:* Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the 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 December 31, 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	\$173,171	\$145,973	\$23,809	\$12,956	\$11,151	\$28,926	\$25,397	\$421,383
Special Mention	4,155	10,568	-	-	5	232	63	15,023
Substandard	6,545	4,931	-	-	112	360	326	12,274
Doubtful	205	-	-	-	-	-	17	222
Loss	-	-	-	-	-	-	-	-
Total	\$184,076	\$161,472	\$23,809	\$12,956	\$11,268	\$29,518	\$25,803	\$448,902

As of September 30, 2014, 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	\$172,822	\$138,854	\$21,311	\$16,601	\$11,206	\$28,127	\$25,471	\$414,392
Special Mention	4,233	10,226	-	-	6	278	89	14,832
Substandard	6,398	4,948	-	-	113	145	350	11,954
Doubtful	217	-	-	-	-	-	7	224
Loss	-	-	-	-	-	-	-	-
Total	\$183,670	\$154,028	\$21,311	\$16,601	\$11,325	\$28,550	\$25,917	\$441,402



## FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

*(Unaudited)**Troubled Debt Restructurings*

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

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

The following table summarizes the Company’s recorded investment in TDRs at December 31, 2014 and September 30, 2014. There was no specific reserve included in the allowance for loan losses related to TDRs at December 31, 2014 and September 30, 2014.

	Accruing	Nonaccrual	Total
	(In thousands)		
December 31, 2014:			
Residential real estate	\$2,924	\$ 150	\$3,074
Commercial real estate	5,326	-	5,326
Commercial business	21	-	21
Consumer	131	-	131

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

Total	\$8,402	\$ 150	\$8,552
September 30, 2014:			
Residential real estate	\$2,710	\$ 214	\$2,924
Commercial real estate	4,671	696	5,367
Commercial business	22	-	22
Consumer	134	-	134
Total	\$7,537	\$ 910	\$8,447

-25-

## 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-month periods ended December 31, 2014 and 2013:

	Number of Loans	Pre- Modification Principal Balance	Post- Modification Principal Balance
(Dollars in thousands)			
<b>December 31, 2014:</b>			
Residential real estate	2	\$ 165	\$ 172
Total	2	\$ 165	\$ 172
December 31, 2013:			
Residential real estate	2	\$ 97	\$ 117
Commercial business	1	716	724
Total	3	\$ 813	\$ 841

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 December 31, 2014 and September 30, 2014 to customers with outstanding loans classified as TDRs at such dates.

There were no principal charge-offs recorded as a result of TDRs during the three-month periods ended December 31, 2014 and 2013. There was no specific allowance for loan losses related to TDRs modified during the three-month periods ended December 31, 2014 and 2013. In the event that a TDR subsequently defaults, the Company evaluates the restructuring for possible impairment. As a result, the related allowance for loan losses may be increased or charge-offs may be taken to reduce the carrying amount of the loan.

During the three-month period ended December 31, 2014, the Company did not have any TDRs that were modified within the previous twelve months and for which there was a payment default (defined as more than 90 days past due or in the process of foreclosure). During the three-month period ended December 31, 2013, the Company had one TDR with a balance of \$276,000 that was 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 three-month periods ended December 31, 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 December 31, 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 December 31, 2014. The development plans provide for up to twelve tenants when fully occupied.

Depreciation expense of \$49,000 and \$47,000 was recognized for real estate development and construction for the three-month periods ended December 31, 2014 and 2013, respectively.

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

On October 15, 2014, the Company entered into an agreement to participate in the rehabilitation of a certified historic structure located in Louisville, Kentucky with a regional commercial developer. As part of the agreement, the Bank committed to invest \$4.2 million into a limited liability company organized in the state of Kentucky by the commercial developer, for which it received a 99% equity interest in the entity and will receive an allocation of 99% of the operating profit and losses and any historic tax credits generated by the entity. The tax credits expected to be allocated to the Bank include federal rehabilitation investment credits totaling \$4.6 million available under Internal Revenue Code Section 47. The Bank invested \$417,000 on October 15, 2014 and has committed to invest an additional \$417,000 when the project is 50% completed and the remaining \$3.3 million when the project is fully completed and the certificate of occupancy is received. The project is expected to be completed in December 2015.

The Bank's investment in the historic tax credit entity is accounted for under the equity method of accounting. At December 31, 2014, the Bank's investment of \$4.2 million was included in other assets and its unfunded capital contribution commitment of \$3.8 million was included in other liabilities in the accompanying consolidated balance sheet.

## FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

*(Unaudited)*

6. **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 periods ended December 31, 2014 and 2013.

(Dollars in thousands, except per share data)	Three Months Ended December 31,	
	2014	2013
Basic:		
Earnings:		
Net income	\$1,200	\$1,028
Less: Preferred stock dividends declared	(43 )	(43 )
Net income available to common shareholders	\$1,157	\$985
Shares:		
Weighted average common shares outstanding	\$2,111,962	\$2,158,106
Net income per common share, basic	\$0.55	\$0.46
Diluted:		
Earnings:		
Net income	\$1,200	\$1,028
Less: Preferred stock dividends declared	(43 )	(43 )
Net income available to common shareholders	\$1,157	\$985
Shares:		
Weighted average common shares outstanding	2,111,962	2,158,106
Add: Dilutive effect of outstanding options	97,024	89,362
Add: Dilutive effect of nonvested restricted stock	8,486	13,190
Weighted average shares outstanding, as adjusted	2,217,472	2,260,658



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

Net income per common share, diluted	\$0.52	\$0.44
--------------------------------------	--------	--------

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

-28-

## FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

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

	Three Months Ended December 31,	
	2014	2013
	<i>(In thousands)</i>	
Cash payments for:		
Interest	\$ 972	\$ 999
Taxes	-	-
Transfers from loans to foreclosed real estate	-	558
Proceeds from sales of foreclosed real estate financed through loans	290	410

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

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

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

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

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

A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below. These valuation methodologies were applied to all of the Company's financial assets carried at fair value or the lower of cost or fair value. The tables below present the balances of financial assets measured at fair value on a recurring and nonrecurring basis as of December 31, 2014 and September 30, 2014. The Company had no liabilities measured at fair value as of December 31, 2014 or September 30, 2014.

## 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)			
December 31, 2014:				
Assets Measured - Recurring Basis:				
Trading account securities	\$-	\$4,680	\$-	\$4,680
Securities available for sale:				
Agency bonds and notes	\$-	\$9,027	\$-	\$9,027
Agency mortgage-backed	-	50,842	-	50,842
Agency CMO	-	27,982	-	27,982
Privately-issued CMO	-	3,829	-	3,829
Privately-issued ABS	-	7,066	-	7,066
SBA certificates	-	1,709	-	1,709
Municipal	-	82,823	-	82,823
Total securities available for sale	\$-	\$183,278	\$-	\$183,278
Assets Measured - Nonrecurring Basis:				
Impaired loans:				
Residential real estate	\$-	\$-	\$5,518	\$5,518
Commercial real estate	-	-	5,653	5,653
Multifamily	-	-	-	-
Commercial business	-	-	194	194
Consumer	-	-	324	324
Total impaired loans	\$-	\$-	\$11,689	\$11,689
Other real estate owned, held for sale:				
Residential real estate	\$-	\$-	\$144	\$144
Commercial real estate	-	-	347	347
Land and land development	-	-	58	58
Total other real estate owned	\$-	\$-	\$549	\$549

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

Fair value is based upon quoted market prices where available. If quoted market prices are not available, fair value is based on internally developed models or obtained from third parties that primarily use, as inputs, observable market-based parameters or a matrix pricing model that employs the Bond Market Association's standard calculations for cash flow and price/yield analysis and observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value, or the lower of cost or fair value. These adjustments may include unobservable parameters. Any such valuation adjustments have been applied consistently over time.

**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 three-month period ended December 31, 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 December 31, 2014 and September 30, 2014, the significant unobservable inputs used in the fair value measurement of impaired loans included a discount from appraised value ranging from 0.0% to 15.0% and estimated costs to sell the collateral ranging from 0.0% to 6.0%. During the three-month period ended December

31, 2014, the Company recognized no provisions for loan losses for impaired loans. During the three-month period ended December 31, 2013, the Company recognized provisions for loan losses of \$2,000 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. The fair value of loans held for sale is classified as Level 2 in the fair value hierarchy.

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

Other real estate owned is reported at fair value less estimated costs to dispose of the property. The fair values are determined by real estate appraisals which are then discounted to reflect management's estimate of the fair value of the property given current market conditions and the condition of the property. At December 31, 2014, the significant unobservable inputs used in the fair value measurement of other real estate owned included a discount from appraised value ranging from 15.0% to 56.5% with a weighted average of 19.3%. At September 30, 2014, the significant unobservable inputs used in the fair value measurement of other real estate owned included a discount from appraised value ranging from 13.3% to 50.0% with a weighted average of 18.7%. The Company recognized charges of \$30,000 and \$37,000 to write down other real estate owned to fair value for the three months ended December 31, 2014 and 2013, respectively.

**Transfers Between Categories.** There were no transfers into or out of Level 3 financial assets for the three-month periods ended December 31, 2014 and 2013. In addition, there were no transfers into or out of Levels 1 and 2 of the fair value hierarchy during the three-month periods ended December 31, 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:

December 31, 2014:	Carrying Amount	Fair Value Measurements Using:		
		Level 1	Level 2	Level 3
	(In thousands)			
Financial assets:				
Cash and due from banks	\$7,844	\$7,844	\$-	\$-
Interest-bearing deposits with banks	13,128	13,128	-	-
Interest-bearing time deposits	2,235	-	2,224	-
Trading account securities	4,680	-	4,680	-
Securities available for sale	183,278	-	183,278	-
Securities held to maturity	5,350	-	5,912	-
Loans, net	441,206	-	-	441,355
Loans held for sale	-	-	-	-
FRB and FHLB stock	7,462	-	7,462	-
Accrued interest receivable	2,706	-	2,706	-
Interest rate cap (included in other assets)	-	-	-	-
Investment in historic tax credit entity (included in other assets)	4,169	-	4,169	-
Financial liabilities:				
Deposits	515,747	-	-	517,846
Short-term repurchase agreements	1,339	-	1,339	-
Borrowings from FHLB	101,863	-	101,783	-
Other long-term debt	4,769	-	4,769	-
Accrued interest payable	174	-	174	-
Advance payments by borrowers for taxes and insurance	599	-	599	-



## FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

*(Unaudited)*

September 30, 2014:	Carrying Amount	Fair Value Measurements Using:		
	Level 1	Level 2	Level 3	
	(In thousands)			
Financial assets:				
Cash and due from banks	\$8,853	\$8,853	\$-	\$-
Interest-bearing deposits with banks	11,477	11,477	-	-
Interest-bearing time deposits	1,500	-	1,496	-
Trading account securities	5,319	-	5,319	-
Securities available for sale	184,697	-	184,697	-
Securities held to maturity	5,419	-	5,849	-
Loans, net	433,876	-	-	434,023
Loans held for sale	281	-	281	-
FHLB stock	6,517	-	6,517	-
Accrued interest receivable	2,511	-	2,511	-
Interest rate cap (included in other assets)	1	-	1	-
Financial liabilities:				
Deposits	533,194	-	-	535,364
Short-term repurchase agreements	1,338	-	1,338	-
Borrowings from FHLB	79,548	-	79,455	-
Other long-term debt	4,812	-	4,812	-
Accrued interest payable	175	-	175	-
Advance payments by borrowers for taxes and insurance	748	-	748	-

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

FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

*(Unaudited)*

**Cash and Cash Equivalents**

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

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

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

**Loans**

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

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

**Deposits**

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

### **Borrowed Funds**

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

### **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)***9. Employee Stock Ownership Plan**

On October 6, 2008, the Company established a leveraged employee stock ownership plan (“ESOP”) covering substantially all employees. The ESOP trust acquired 203,363 shares of Company common stock at a cost of \$10.00 per share financed by a term loan with the Company. The employer loan and the related interest income are not recognized in the consolidated financial statements 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-month periods ended December 31, 2014 and 2013 amounted to \$487,000 and \$428,000, respectively. Company common stock held by the ESOP trust at December 31, 2014 and September 30, 2014 was as follows:

	December 31, 2014	September 30, 2014
Allocated shares	153,781	132,339
Unearned shares	32,264	53,706
Total ESOP shares	186,045	186,045
Fair value of unearned shares	\$ 847,000	\$ 1,341,000

**10. Stock Based Compensation Plans**

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

exercisable and fully vested upon a change in control.

-37-



## FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

*(Unaudited)*

In April 2010, the Company funded a trust, administered by an independent trustee, which acquired 101,681 common shares in the open market at a price per share of \$13.60 for a total cost of \$1.4 million. These acquired common shares were later granted to directors, officers and key employees in the form of restricted stock in May 2010 at a price per share of \$13.25 for a total of \$1.3 million. The difference between the purchase price and grant price of the common shares issued as restricted stock, totaling \$41,000, was recognized by the Company as a reduction of additional paid in capital. The restricted stock vests ratably over a five-year period from the grant date. Compensation expense is measured based on the fair market value of the restricted stock at the grant date and is recognized ratably over the period during which the shares are earned (the vesting period). Compensation expense related to restricted stock recognized for the three-month periods ended December 31, 2014 and 2013 amounted to \$69,000 and \$65,000, respectively. A summary of the Company's nonvested restricted shares activity under the Plan as of December 31, 2014 and changes during the three-month period then ended is presented below.

	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested at October 1, 2014	19,610	\$ 13.25
Granted	-	-
Vested	(717 )	\$ 13.25
Forfeited	-	-
Nonvested at December 31, 2014	18,893	\$ 13.25

There were 717 restricted shares vested during the three-month period ended December 31, 2014, upon the retirement of a director. The total fair value of restricted shares that vested during the three-month period ended December 31, 2014 was \$18,000. There were no restricted shares granted or vested during the three-month period ended December 31, 2013. At December 31, 2014, there was \$94,000 of total unrecognized compensation expense related to nonvested restricted shares. The compensation expense is expected to be recognized over the remaining vesting period of 0.38 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.

-38-

## 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 December 31, 2014, and changes during the three-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, 2014	234,232	\$ 13.25	5.6	\$ 2,743
Granted	-	-		
Exercised	(20,972 )	\$ 13.25	\$ 250	
Forfeited or expired	-	-		
Outstanding at December 31, 2014	213,260	\$ 13.25	5.4	\$ 2,772
Exercisable at December 31, 2014	166,009	\$ 13.25	5.4	\$ 2,158

There were no stock options granted or exercised during the three-month period ended December 31, 2013. The Company recognized compensation expense related to stock options of \$40,000 and \$38,000 for the three-month periods ended December 31, 2014 and 2013, respectively. At December 31, 2014, there was \$55,000 of unrecognized compensation expense related to nonvested stock options, which will be recognized over the remaining vesting period of 0.38 years.

FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

*(Unaudited)*

**11. Preferred Stock**

On August 11, 2011, the Company entered into a Securities Purchase Agreement (“Purchase Agreement”) with the United States Department of the Treasury, pursuant to which the Company issued 17,120 shares of the 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 fourteenth dividend period ended December 31, 2014 was 1.0% and the weighted average dividend rate for the three-month period ended December 31, 2014 was 1.0%. The dividend rate for the fifteenth 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.

-40-

FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

**12. Recent Accounting Pronouncements**

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

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

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The update provides a five-step revenue recognition model for all revenue arising from contracts with customer and affects all entities that enter into contracts to provide goods or services to their customers (unless the contracts are included in the scope of other standards). The guidance requires an entity to recognize the revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. For public entities, the guidance 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, 2014 under "Part II, Item 1A. Risk Factors." These factors should be considered in evaluating the forward-looking statements and undue reliance should not be placed on such statements. Except as required by applicable law or regulation, the Company assumes no obligation and disclaims any obligation to update any forward-looking statements.

**Critical Accounting Policies**

During the three-month period ended December 31, 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, 2014.



**Comparison of Financial Condition at December 31, 2014 and September 30, 2014**

**Cash and Cash Equivalents.** Cash and cash equivalents increased \$642,000, from \$20.3 million at September 30, 2014 to \$21.0 million at December 31, 2014.

**Loans.** Net loans receivable increased \$7.3 million, from \$433.9 million at September 30, 2014 to \$441.2 million at December 31, 2014, primarily due to increases in commercial real estate loans and multi-family loans of \$7.4 million and \$2.5 million, respectively, which more than offset decreases in residential and commercial construction loans of \$2.2 million and \$1.2 million, respectively. The decreases in residential and commercial construction 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 decreased by \$639,000, from \$5.3 million at September 30, 2014 to \$4.7 million at December 31, 2014, due primarily to sales. Trading account securities are comprised of investment grade municipal bonds and the portfolio is managed by an investment advisory firm registered with the U.S. Securities and Exchange Commission.

**Securities Available for Sale.** Securities available for sale decreased \$1.4 million, from \$184.7 million at September 30, 2014 to \$183.3 million at December 31, 2014, due primarily to maturities of \$4.6 million and principal repayments of \$3.3 million, partially offset by purchases of \$5.7 million. The decrease 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 due to large principal repayments.

**Securities Held to Maturity.** Investment securities held-to-maturity totaled \$5.4 million at September 30, 2014 and December 31, 2014. There were no purchases of securities held to maturity, and partial calls and principal repayments on mortgage-backed securities totaled \$69,000 during the three-months period ended December 31, 2014.

**Deposits.** Total deposits decreased \$17.5 million, from \$533.2 million at September 30, 2014 to \$515.7 million at December 31, 2014, primarily due to decreases in certificates of deposit, interest-bearing demand deposit accounts, non-interest bearing demand deposits and savings accounts of \$8.6 million, \$7.6 million, \$1.6 million and \$1.0 million, respectively, which more than offset an increase in money market accounts of \$1.4 million during the period. The decrease in certificates of deposit is due to a decrease of \$2.0 million in brokered certificates of deposits and 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 continues to utilize brokered certificates of deposit in order to take advantage of historically low interest rates, provide short-term liquidity, replace attrition of retail certificates of deposit, and provide funding for loan originations and purchases of available for sale securities. Brokered certificates of deposit totaled \$55.8 million at December 31, 2014 and \$57.8 million at September 30, 2014.

***Borrowings.*** Borrowings from the FHLB increased \$22.3 million, from \$79.6 million at September 30, 2014 to \$101.9 million at December 31, 2014. Borrowings from the FHLB have increased in order to provide funding for loan originations and to replace the decrease in deposits 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 \$2.4 million, from \$87.1 million at September 30, 2014 to \$89.5 million at December 31, 2014. Retained earnings increased \$948,000 due to net income available to common shareholders of \$1.2 million, partially offset by common stock cash dividends of \$209,000. Other comprehensive income increased \$642,000 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. Book value (common shareholders' equity) per common share was \$33.08 at December 31, 2014 as compared to \$32.21 at September 30, 2014. Tangible book value (common shareholders' equity) per common share was \$28.71 at December 31, 2014 as compared to \$27.76 at September 30, 2014.

**Results of Operations for the Three Months Ended December 31, 2014 and 2013**

**Overview.** The Company reported net income and net income available to common shareholders of \$1.2 million, or \$0.52 per diluted share, for the three-month period ended December 31, 2014 compared to net income of \$1.0 million and net income available to common shareholders of \$985,000, or \$0.44 per diluted share, for the three-month period ended December 31, 2013. The annualized return on average assets, average equity and average common stockholders' equity were 0.67%, 5.41% and 6.71%, respectively, for the three-month period ended December 31, 2014.

**Net Interest Income.** Net interest income increased \$266,000, or 4.6%, for the three-month period ended December 31, 2014 compared to the same period in 2013. Average interest-earnings assets increased \$40.9 million and average interest-bearing liabilities increased \$32.1 million when comparing the two periods. The tax-equivalent interest rate spread was 3.79% for 2014 as compared to 3.86% for 2013.

Total interest income increased \$275,000, or 4.1%, when comparing the two periods due primarily to an increase in the average balance of interest-earning assets of \$40.9 million, from \$613.0 million for 2013 to \$653.9 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 4.55% for 2013 to 4.45% for 2014. The average balance of loans, total investment

securities and interest-bearing deposits with banks increased \$25.1 million, \$11.5 million and \$3.3 million, respectively, when comparing the two periods.

Total interest expense increased \$9,000, or 1.0%, due primarily to an increase in the average balance of interest-bearing liabilities of \$32.1 million from \$533.8 million for 2013 to \$565.9 million for 2014, which more than offset a decrease in the average cost of interest-bearing liabilities from 0.69% for 2013 to 0.66% 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 decreased \$448,000 and the average balance of total interest-bearing deposits increased \$32.6 million when comparing the two periods.

FIRST SAVINGS FINANCIAL GROUP, INC.

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

**Average Balance Sheets.** The following table presents information regarding average balances of assets and liabilities, the total dollar amounts of interest income and dividends from average interest-earning assets, the total dollar amounts of interest expense on average interest-bearing liabilities, and the resulting annualized average yields and costs for the three-month periods ended December 31, 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 December 31,					
	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	\$14,881	\$ 13	0.35 %	\$11,547	\$ 9	0.31 %
Loans	444,284	5,392	4.85	419,217	5,247	5.01
Investment securities	136,554	1,536	4.50	131,310	1,446	4.40
Agency mortgage-backed securities	51,562	270	2.09	45,347	220	1.94
FRB and FHLB stock	6,595	63	3.82	5,584	50	3.58
Total interest-earning assets	653,876	7,274	4.45	613,005	6,972	4.55
Non-interest-earning assets	64,884			57,739		
Total assets	\$718,760			\$670,744		
Liabilities and equity:						
NOW accounts	\$115,511	\$ 61	0.21 %	\$116,686	\$ 64	0.22 %
Money market deposit accounts	80,520	63	0.31	71,884	60	0.33
Savings accounts	70,191	11	0.06	68,089	11	0.06
Time deposits	200,914	507	1.01	177,913	477	1.07
Total interest-bearing deposits	467,136	642	0.55	434,572	612	0.56

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

Borrowings (1)	98,791	289	1.17	99,239	310	1.25
Total interest-bearing liabilities	565,927	931	0.66	533,811	922	0.69
Non-interest-bearing deposits	56,798			48,723		
Other non-interest-bearing liabilities	7,354			5,133		
Total liabilities	630,079			587,667		
Total equity	88,681			83,077		
Total liabilities and equity	\$718,760			\$670,744		
Net interest income		\$ 6,343			\$ 6,050	
Interest rate spread			3.79 %			3.86 %
Net interest margin			3.88 %			3.95 %
Average interest-earning assets to average interest-bearing liabilities			115.54%			114.84%

(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 December 31, 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 December 31, 2014 Compared to Three Months Ended December 31, 2013 Increase (Decrease) Due to		
	Rate	Volume	Net
	<i>(In thousands)</i>		
Interest income:			
Interest-bearing deposits with banks	\$ 1	\$ 3	\$ 4
Loans	(166 )	311	145
Investment securities	33	57	90
Agency mortgage-backed securities	18	32	50
Other interest-earning assets	3	10	13
Total interest-earning assets	(111 )	413	302
Interest expense:			
Deposits	(9 )	39	30
Borrowings (1)	(20 )	(2 )	(21 )
Total interest-bearing liabilities	(29 )	37	9
Net increase (decrease) in net interest income	\$ (82 )	\$ 376	\$ 293

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



**Provision for Loan Losses.** The provision for loan losses was \$207,000 for the three-month period ended December 31, 2014 compared to \$301,000 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 loan growth and nonperforming loans when comparing the two periods.

The Company recognized net charge-offs of \$7,000 for the three-month period ended December 31, 2014 compared to net recoveries of \$132,000 for the same period in 2013.

The recorded investment in nonperforming loans was \$4.0 million at December 31, 2014 compared to \$4.3 million at September 30, 2014 and \$5.3 million at December 31, 2013. Nonperforming loans at December 31, 2014 include nonaccrual loans of \$3.3 million and loans totaling \$721,000 that are over 90 days past due, but still accruing interest. These loans are still accruing interest because the estimated value of the collateral and collection efforts are deemed sufficient to ensure their full recovery. The decrease in nonperforming loans from September 30, 2014 to December 31, 2014 is due primarily to a single commercial real estate loan with an outstanding balance of \$696,000 that was reclassified from nonaccrual to accruing status as of December 31, 2014. At December 31, 2014, this loan was current and performing according to the restructured terms.

**FIRST SAVINGS FINANCIAL GROUP, INC.**

**PART I - ITEM 2**

**MANAGEMENT'S DISCUSSION AND**

**ANALYSIS OF FINANCIAL CONDITION AND**

**RESULTS OF OPERATIONS**

Gross loans receivable increased \$25.4 million from \$428.8 million at December 31, 2013 to \$454.2 million at December 31, 2014, primarily due to an increase in commercial real estate loans of \$33.0 million, which more than offset a decrease in commercial business loans and multi-family loans of \$4.6 million and \$4.1 million, respectively. The increase in commercial real estate loans when comparing the two periods is due primarily to an increase in loans originated to high net worth individuals that are secured by low loan-to-value, single-tenant commercial properties located outside of the Company's primary market area and that are leased to investment grade national-brand retailers. At December 31, 2014, \$42.3 million, or 26.2% of our commercial real estate loan portfolio and 9.3% of our total loan portfolio, consisted of these loans.

The allowance for loan losses was \$6.5 million at December 31, 2014 compared to \$6.3 million at September 30, 2014 and \$6.0 million at December 31, 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 \$7,000 for the three-month period ended December 31, 2014 as compared to the same period in 2013. The increase was due primarily to increases in service charges on deposit accounts and increase in cash surrender value of life insurance of \$53,000 and \$31,000, respectively, offset by a decrease in net gain on trading account securities of \$86,000.

**Noninterest Expense.** Noninterest expenses increased \$210,000 for the three-month period ended December 31, 2014 as compared to the same period in 2013. The increase was due primarily to increases in other operating expenses and data processing of \$114,000 and \$71,000, respectively, which more than offset a decrease in net loss on other real estate owned of \$65,000. The increase in other operating expenses is due primarily to provisions for insurance claims of \$85,000 recorded during the quarter ended December 31, 2014 for the Captive, and \$30,000 of fees related to the Bank's conversion to an Indiana-chartered commercial bank effective December 19, 2014. The increase in data processing expense is due primarily to contract termination costs of \$68,000 incurred during the quarter ended December 31, 2014.

***Income Tax Expense.*** The Company recognized income tax expense of \$408,000 for the three months ended December 31, 2014, for an effective tax rate of 25.4%, compared to income tax expense of \$423,000, for an effective tax rate of 29.2%, for the same period in 2013. The decrease in the effective tax rate is due primarily to an increase in tax-exempt income and the formation of the Captive.

-47-

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 December 31, 2014, the Bank had cash and cash equivalents of \$21.0 million, trading account securities with a fair value of \$4.7 million and securities available-for-sale with a fair value of \$183.3 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 three months ended December 31, 2014 the Bank declared and paid dividends to the Company totaling \$7.5 million. At December 31, 2014, the Company had liquid assets of \$14.6 million.

**Capital Management.** The Bank is required to maintain specific amounts of capital pursuant to regulatory requirements. As of December 31, 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 8.26%, 12.09% and 13.33%, 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 December 31, 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, 2014.

For the three-months ended December 31, 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.

-50-



FIRST SAVINGS FINANCIAL GROUP, INC.

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

Results of our simulation modeling at September 30, 2014, 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. Given the timing of the release of this information, the information as of December 31, 2014 is unavailable for inclusion in this report. Management believes that there have been no material changes in the market risk of the Company's asset and liability positions since September 30, 2014.

Immediate Change in the Level of Interest Rates	At September, 2014 One Year Horizon	
	Dollar Change (Dollars in thousands)	Percent Change
300bp	\$ (1,754 )	(7.04 )%
200bp	(1,132 )	(4.54 )
100bp	(552 )	(2.22 )
Static	-	-
(100)bp	(239 )	(0.96 )

At September 30, 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 \$552,000 or 2.22% 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 4.54% and 7.04%, 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.

-51-

FIRST SAVINGS FINANCIAL GROUP, INC.

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

Results of our simulation modeling at September 30, 2014, 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. Given the timing of the release of this information, the information as of December 31, 2014 is unavailable for inclusion in this report. Management believes that there have been no material changes in the market risk of the Company's asset and liability positions since September 30, 2014.

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

The previous table indicates that at September 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 September 30, 2014 comprised approximately 48.5% of the loan portfolio. The percentage of fixed-rate loans in the Company's loan portfolio was 47.2% at December 31, 2014.

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 December 31, 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, 2014 which could materially affect our business, financial condition or future results. There have been no material changes to the risk factors described in our Annual Report on Form 10-K, however, these are not the only risks that we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

## 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 December 31, 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
October 1, 2014 through October 31, 2014	-	\$ -	-	87,864
November 1, 2014 through November 30, 2014	-	\$ -	-	87,864
December 1, 2014 through December 31, 2014	4,791	\$ 24.81	4,791	83,073
Total	4,791	\$ 24.81	4,791	83,073

(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.

-55-



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 December 31, 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

**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** February 17, 2015 **BY:** /s/ Larry W. Myers  
Larry W. Myers  
President and Chief Executive Officer

**Dated** February 17, 2015 **BY:** /s/ Anthony A. Schoen  
Anthony A. Schoen  
Chief Financial Officer