

First Savings Financial Group Inc  
Form 10-Q  
August 15, 2016

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, DC 20549**

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended June 30, 2016

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

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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 June 30, 2016 was 2,204,787.



FIRST SAVINGS FINANCIAL GROUP, INC.

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

(In thousands, except share and per share data)	June 30, 2016	September 30, 2015
<b>ASSETS</b>		
Cash and due from banks	\$9,602	\$ 9,884
Interest-bearing deposits with banks	15,474	15,110
Total cash and cash equivalents	25,076	24,994
Interest-bearing time deposits	3,100	3,100
Trading account securities, at fair value	8,802	9,044
Securities available for sale, at fair value	175,849	178,328
Securities held to maturity	3,406	4,620
Loans held for sale (\$5,835 at fair value at September 30, 2015)	5,922	6,803
Loans, net	494,079	457,112
Federal Reserve Bank and Federal Home Loan Bank stock, at cost	6,936	6,720
Real estate development and construction	6,966	7,079
Premises and equipment	13,364	13,838
Other real estate owned, held for sale	604	618
Accrued interest receivable:		
Loans	1,468	1,259
Securities	1,587	1,396
Cash surrender value of life insurance	18,105	17,766
Goodwill	7,936	7,936
Core deposit intangibles	1,123	1,381
Other assets	4,835	7,952
Total Assets	\$779,158	\$ 749,946
<b>LIABILITIES</b>		
Deposits:		
Noninterest-bearing	\$78,468	\$ 71,184
Interest-bearing	495,634	462,113
Total deposits	574,102	533,297
Repurchase agreements	1,344	1,342

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Borrowings from Federal Home Loan Bank	105,265	104,867
Other long-term debt	4,491	4,632
Accrued interest payable	187	186
Advance payments by borrowers for taxes and insurance	741	883
Accrued expenses and other liabilities	8,854	10,382
Total Liabilities	694,984	655,589
<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 at September 30, 2015; aggregate liquidation preference of \$17,120 at September 30, 2015	-	-
Common stock of \$.01 par value per share Authorized 20,000,000 shares; issued 2,542,042 shares; outstanding 2,204,787 shares (2,183,510 shares at September 30, 2015)	25	25
Additional paid-in capital - preferred	-	17,120
Additional paid-in capital – common	27,182	26,796
Retained earnings - substantially restricted	56,980	52,760
Accumulated other comprehensive income	6,057	4,210
Unearned ESOP shares	-	(197 )
Less treasury stock, at cost - 337,255 shares (358,532 shares at September 30, 2015)	(6,070 )	(6,357 )
Total Stockholders' Equity	84,174	94,357
 Total Liabilities and Stockholders' Equity	 \$779,158	 \$ 749,946

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 June 30,		Nine Months Ended June 30,	
	2016	2015	2016	2015
<b>INTEREST INCOME</b>				
Loans, including fees	\$5,794	\$5,284	\$16,805	\$16,004
Securities:				
Taxable	916	996	2,843	3,080
Tax-exempt	613	546	1,732	1,506
Dividend income	77	77	231	223
Interest-bearing deposits with banks	22	12	84	35
Total interest income	7,422	6,915	21,695	20,848
<b>INTEREST EXPENSE</b>				
Deposits	690	594	1,869	1,834
Repurchase agreements	-	1	2	3
Borrowings from Federal Home Loan Bank	384	297	1,119	845
Loans payable	41	41	121	134
Total interest expense	1,115	933	3,111	2,816
Net interest income	6,307	5,982	18,584	18,032
Provision for loan losses	303	208	428	627
Net interest income after provision for loan losses	6,004	5,774	18,156	17,405
<b>NONINTEREST INCOME</b>				
Service charges on deposit accounts	289	317	893	993
Net gain on trading account securities	285	45	713	205
Unrealized loss on derivative contract	-	-	-	(1)
Net gain on sales of loans	499	86	826	220
Increase in cash surrender value of life insurance	111	119	338	364
Gain on life insurance	-	831	-	831
Commission income	69	92	282	260
Real estate lease income	170	164	496	465
Loss on tax credit investment	(4,309)	-	(4,309)	-
Other income	310	283	891	789
Total noninterest income	(2,576)	1,937	130	4,126



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NONINTEREST EXPENSE				
Compensation and benefits	3,215	2,989	9,583	8,627
Occupancy and equipment	670	675	2,043	1,931
Data processing	442	309	1,209	1,038
Advertising	131	159	366	412
Professional fees	279	282	890	797
FDIC insurance premiums	116	117	359	341
Net (gain) loss on other real estate owned	9	(38 )	59	(17 )
Other operating expenses	728	704	2,205	2,318
Total noninterest expense	5,590	5,197	16,714	15,447
Income (loss) before income taxes	(2,162 )	2,514	1,572	6,084
Income tax expense (benefit)	(4,389 )	318	(3,533 )	1,161
Net Income	\$2,227	\$2,196	\$5,105	\$4,923
Preferred stock dividends declared	-	43	62	129
Net Income Available to Common Shareholders	\$2,227	\$2,153	\$5,043	\$4,794
Net income per common share:				
Basic	\$1.01	\$1.00	\$2.30	\$2.25
Diluted	\$0.97	\$0.95	\$2.19	\$2.14
Weighted average common shares outstanding:				
Basic	2,204,787	2,149,931	2,197,101	2,133,557
Diluted	2,306,029	2,259,170	2,300,834	2,240,922
Dividends per common share	\$0.13	\$0.12	\$0.38	\$0.35

See notes to consolidated financial statements.

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

(In thousands)	Three Months Ended June 30,		Nine Months Ended June 30,	
	2016	2015	2016	2015
Net Income	\$ 2,227	\$ 2,196	\$ 5,105	\$ 4,923
<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	1,511	(2,767 )	2,803	(599 )
Income tax (expense) benefit	(522 )	976	(956 )	206
Net of tax amount	989	(1,791 )	1,847	(393 )
Other Comprehensive Income (Loss)	989	(1,791 )	1,847	(393 )
Comprehensive Income	\$ 3,216	\$ 405	\$ 6,952	\$ 4,530

See notes to consolidated financial statements.

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

(In thousands, except share and per share data)	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Unearned Stock Compensation and ESOP	Treasury Stock	Total
Nine Months Ended June 30, 2015:								
Balances at October 1, 2014	\$ -	\$ 25	\$ 43,199	\$ 47,175	\$ 3,853	\$ (699 )	\$(6,473 )	\$ 87,080
Net income	-	-	-	4,923	-	-	-	4,923
Other comprehensive loss	-	-	-	-	(393 )	-	-	(393 )
Preferred stock dividends	-	-	-	(129 )	-	-	-	(129 )
Common stock dividends (\$0.35 per share)	-	-	-	(734 )	-	-	-	(734 )
Stock compensation expense	-	-	243	-	-	162	-	405
Shares released by ESOP trust	-	-	477	-	-	298	-	775
Stock options exercises - 20,972 shares	-	-	(89 )	-	-	-	367	278
Purchase of 9,274 treasury shares	-	-	-	-	-	-	(251 )	(251 )
Balances at June 30, 2015	\$ -	\$ 25	\$ 43,830	\$ 51,235	\$ 3,460	\$ (239 )	\$(6,357 )	\$ 91,954
Nine Months Ended June 30, 2016:								
Balances at October 1, 2015	\$ -	\$ 25	\$ 43,916	\$ 52,760	\$ 4,210	\$ (197 )	\$(6,357 )	\$ 94,357
Net income	-	-	-	5,105	-	-	-	5,105

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Other comprehensive income	-	-	-	-	1,847	-	-	1,847
Preferred stock dividends	-	-	-	(62 )	-	-	-	(62 )
Common stock dividends (\$0.38 per share)	-	-	-	(823 )	-	-	-	(823 )
Shares released by ESOP trust	-	-	504	-	-	197	-	701
Stock options exercises - 26,210 shares	-	-	(118 )	-	-	-	466	348
Redemption of preferred stock - 17,120 shares	-	-	(17,120 )	-	-	-	-	(17,120)
Purchase of 4,933 treasury shares	-	-	-	-	-	-	(179 )	(179 )
Balances at June 30, 2016	\$ -	\$ 25	\$ 27,182	\$ 56,980	\$ 6,057	\$ -	\$(6,070 )	\$ 84,174

See notes to consolidated financial statements.

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

(In thousands)	Nine Months Ended June 30,	
	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$5,105	\$4,923
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	428	627
Depreciation and amortization	1,103	1,081
Amortization of premiums and accretion of discounts on securities, net	450	557
(Increase) decrease in trading account securities	242	(3,451 )
Loans originated for sale	(22,054)	(7,178 )
Proceeds on sales of loans	22,711	7,373
Net gain on sales of loans	(826 )	(220 )
Net realized and unrealized gain on other real estate owned	(10 )	(29 )
Unrealized loss on derivative contract	-	1
Gain on life insurance	-	(831 )
Increase in cash surrender value of life insurance	(338 )	(364 )
Loss on tax credit investment	4,309	-
Deferred income taxes	(2,876 )	(284 )
ESOP and stock compensation expense	628	980
Increase in accrued interest receivable	(400 )	(313 )
Increase in accrued interest payable	1	4
Change in other assets and liabilities, net	(967 )	164
Net Cash Provided By Operating Activities	7,506	3,040
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investment in interest-bearing time deposits	-	(735 )
Purchase of securities available for sale	(10,933)	(19,096 )
Proceeds from maturities of securities available for sale	5,395	8,417
Proceeds from maturities of securities held to maturity	1,148	367
Principal collected on securities	10,410	14,243
Net increase in loans	(36,486)	(14,647 )
Purchase of Federal Reserve Bank stock	-	(945 )
Purchase of Federal Home Loan Bank stock	(216 )	(461 )
Proceeds from redemption of Federal Home Loan Bank stock	-	1,276
Investment in historic tax credit entity	-	(417 )

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Proceeds from sale of other real estate owned	430	677
Investment in real estate development and construction	(35 )	(73 )
Purchase of premises and equipment	(223 )	(350 )
Net Cash Used In Investing Activities	(30,510)	(11,744 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net increase (decrease) in deposits	40,805	(4,239 )
Net increase in repurchase agreements	2	3
Decrease in Federal Home Loan Bank line of credit	(9,602 )	(4,922 )
Proceeds from Federal Home Loan Bank advances	35,000	240,000
Repayment of Federal Home Loan Bank advances	(25,000)	(220,000)
Repayment of other long-term debt	(141 )	(134 )
Net decrease in advance payments by borrowers for taxes and insurance	(142 )	(107 )
Redemption of preferred stock	(17,120)	-
Proceeds from exercise of stock options	169	278
Purchase of treasury stock	-	(251 )
Dividends paid on preferred stock	(62 )	(129 )
Dividends paid on common stock	(823 )	(734 )
Net Cash Provided By Financing Activities	23,086	9,765
Net Increase in Cash and Cash Equivalents	82	1,061
Cash and cash equivalents at beginning of period	24,994	20,330
Cash and Cash Equivalents at End of Period	\$25,076	\$21,391

See notes to consolidated financial statements.

FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*(Unaudited)*

**1. Presentation of Interim Information**

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

The Bank, which is a wholly-owned Indiana-chartered commercial bank subsidiary of the Company, provides a variety of banking services to individuals and business customers through fourteen locations in southern Indiana. The Bank attracts deposits primarily from the general public and uses those funds, along with other borrowings, primarily to originate commercial mortgage, residential mortgage, construction, commercial business and consumer loans, and to a lesser extent, to invest in mortgage-backed securities and other securities. The Bank has three wholly-owned subsidiaries: First Savings Investments, Inc., a Nevada corporation that manages a securities portfolio; FFCC, Inc. (“FFCC”), 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 eight 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 accompanying unaudited consolidated financial statements include all adjustments considered necessary to present fairly the financial position as of June 30, 2016, the results of operations for the three- and nine-month periods ended June 30, 2016 and 2015, and the cash flows for the nine-month periods ended June 30, 2016 and 2015. 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 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, 2015 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. The reclassifications had no effect on net income or stockholders' equity.

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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 holds municipal bonds issued by municipal governments within the U.S. The Company also holds a pass-through asset-backed security guaranteed by the U.S. Small Business Administration (“SBA”) representing participating interests in pools of long-term debentures issued by state and local development companies certified by the SBA. Privately-issued CMO and asset-backed securities (“ABS”) are complex securities issued by non-government special-purpose entities that are collateralized by residential mortgage loans and residential home equity loans.

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

*Trading Account Securities*

The Company invests in small and medium lot, investment grade municipal bonds through a managed brokerage account. The brokerage account is managed by an investment advisory firm registered with the U.S. Securities and Exchange Commission. At June 30, 2016 and September 30, 2015, trading account securities recorded at fair value totaled \$8.8 million and \$9.0 million, respectively, and were comprised of investment grade municipal bonds. During the nine-month period ended June 30, 2016, the Company reported net gains on trading account securities of \$713,000, including net realized gains on the sale of securities of \$664,000 and net unrealized gains on securities still held as of the balance sheet date of \$49,000. During the three-month period ended June 30, 2016, the Company reported net gains on trading account securities of \$285,000, including net realized gains on the sale of securities of \$239,000 and net unrealized gains on securities still held as of the balance sheet date of \$46,000. During the nine-month period ended June 30, 2015, the Company reported net gains on trading account securities of \$205,000, including net realized gains on the sale of securities of \$194,000 and net unrealized gains on securities still held as of the balance sheet date of \$11,000. During the three-month period ended June 30, 2015, the Company reported net gains on trading account securities of \$45,000, including net realized gains on the sale of securities of \$34,000 and net unrealized gains on securities still held as of the balance sheet date of \$11,000.



## FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

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

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

	Gross Amortized Cost (In thousands)	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2016:				
Securities available for sale:				
Agency bonds and notes	\$1,034	\$ 10	\$ -	\$1,044
Agency mortgage-backed	48,487	965	9	49,443
Agency CMO	16,614	102	68	16,648
Privately-issued CMO	2,693	329	-	3,022
Privately-issued ABS	4,080	938	4	5,014
SBA certificates	1,266	7	-	1,273
Municipal obligations	92,281	7,124	-	99,405
Total securities available for sale	\$166,455	\$ 9,475	\$ 81	\$175,849
Securities held to maturity:				
Agency mortgage-backed	\$268	\$ 24	\$ -	\$292
Municipal obligations	3,138	500	-	3,638
Total securities held to maturity	\$3,406	\$ 524	\$ -	\$3,930

## FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

*(Unaudited)*

	Gross Amortized Cost (In thousands)	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2015:				
Securities available for sale:				
Agency bonds and notes	\$5,564	\$ 18	\$ -	\$5,582
Agency mortgage-backed	47,418	901	41	48,278
Agency CMO	18,943	118	47	19,014
Privately-issued CMO	3,005	465	-	3,470
Privately-issued ABS	4,820	1,289	-	6,109
SBA certificates	1,472	8	-	1,480
Municipal bonds	90,380	4,185	170	94,395
Total securities available for sale	\$171,602	\$ 6,984	\$ 258	\$178,328
Securities held to maturity:				
Agency mortgage-backed	\$345	\$ 31	\$ -	\$376
Municipal bonds	4,275	540	-	4,815
Total securities held to maturity	\$4,620	\$ 571	\$ -	\$5,191

The amortized cost and fair value of investment securities as of June 30, 2016 by contractual maturity are shown below. Expected maturities of mortgage-backed securities, CMO and ABS may differ from contractual maturities because the mortgages underlying the obligations may be prepaid without penalty.

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)			
Due within one year	\$2,714	\$2,729	\$372	\$405
Due after one year through five years	7,104	7,568	951	1,103
Due after five years through ten years	20,529	22,526	1,193	1,402

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Due after ten years	62,968	67,626	622	728
	93,315	100,449	3,138	3,638
CMO	19,307	19,670	-	-
ABS	4,080	5,014	-	-
SBA certificates	1,266	1,273	-	-
Mortgage-backed securities	48,487	49,443	268	292
	\$166,455	\$175,849	\$3,406	\$3,930

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## FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

*(Unaudited)*

Information pertaining to investment securities with gross unrealized losses at June 30, 2016, aggregated by investment category and the length of time that individual securities have been in a continuous loss position, follows:

	Number of Investment Positions (Dollars in thousands)	Fair Value	Gross Unrealized Losses
Securities available for sale:			
Continuous loss position less than twelve months:			
Agency CMO	1	1,354	5
Privately-issued ABS	2	73	4
Total less than twelve months	3	1,427	9
Continuous loss position more than twelve months:			
Agency mortgage-backed	2	1,721	9
Agency CMO	2	5,132	63
Total more than twelve months	4	6,853	72
Total securities available for sale	7	\$8,280	\$ 81

At June 30, 2016, the Company did not have any securities held to maturity with an unrealized loss.

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

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The total available for sale debt securities in loss positions at June 30, 2016, which consisted of U.S. government agency mortgage-backed securities and CMOs, privately-issued ABS and municipal bonds, had depreciated approximately 0.88% from their amortized cost basis and are fixed and variable rate securities with a weighted-average yield of 1.60% and a weighted-average coupon rate of 3.00% at June 30, 2016. 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.

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FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

*(Unaudited)*

The Company evaluates the existence of a potential credit loss component related to the decline in fair value of the privately-issued CMO and ABS portfolios each quarter using an independent third party analysis. At June 30, 2016, the Company held seventeen privately-issued CMO and ABS securities acquired in a 2009 bank acquisition with an aggregate carrying value of \$2.2 million and fair value of \$3.0 million that have been downgraded to a substandard regulatory classification due to a downgrade of the security's credit quality rating by various nationally recognized statistical rating organizations ("NRSRO").

At June 30, 2016, two privately-issued ABS were in loss positions and had depreciated approximately 5.15% from the Company's carrying value and were collateralized by residential mortgage loans. These securities had a total fair value of \$73,000 and a total unrealized loss of \$4,000 at June 30, 2016, and were rated below investment grade by NRSROs. Based on the independent third party analysis of the expected cash flows, management has determined that the decline in value for these securities are temporary and, as a result, no other-than-temporary impairment was recognized on the privately-issued CMO and ABS portfolios at June 30, 2016. While the Company did not recognize a credit-related impairment loss at June 30, 2016, 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 mortgage-backed securities and CMOs and municipal bonds relate principally to current interest rates for similar types of securities. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government, its agencies, or other governments, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition. As management has the ability to hold debt securities to maturity, or for the foreseeable future if classified as available for sale, no declines are deemed to be other-than-temporary.

During the three- and nine-month periods ended June 30, 2016 and June 30, 2015, the Company did not realize any gross gains or losses on sales of available for sale securities.

Certain available for sale debt securities were pledged under repurchase agreements and to secure FHLB borrowings at June 30, 2016 and September 30, 2015, and may be pledged to secure federal funds borrowings.





## FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

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

Loans at June 30, 2016 and September 30, 2015 consisted of the following:

	June 30, 2016	September 30, 2015	
	(In thousands)		
Real estate mortgage:			
1-4 family residential	\$ 180,076	\$ 181,873	
Commercial	198,577	172,995	
Multifamily residential	18,804	21,647	
Residential construction	23,616	19,723	
Commercial construction	41,814	15,548	
Land and land development	11,545	11,061	
Commercial business loans	37,692	32,574	
Consumer:			
Home equity loans	20,348	19,423	
Auto loans	4,853	5,452	
Other consumer loans	2,173	2,159	
Gross loans	539,498	482,455	
Undisbursed portion of construction loans	(38,248 )	(18,599 )	
Principal loan balance	501,250	463,856	
Deferred loan origination fees and costs, net	(202 )	(120 )	
Allowance for loan losses	(6,969 )	(6,624 )	
Loans, net	\$494,079	\$ 457,112	

During the nine-month period ended June 30, 2016, 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, 2015.

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At June 30, 2016 and September 30, 2015, the recorded investment in consumer mortgage loans collateralized by residential real estate properties in the process of foreclosure was \$934,000 and \$806,000, respectively.

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## FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

*(Unaudited)*

The following table provides the components of the recorded investment in loans as of June 30, 2016:

	<b>Residential</b>		<b>Commercial</b>		<b>Land &amp; Land Development</b>		<b>Commercial Business</b>		<b>Consumer</b>	<b>Total</b>
	<b>Real Estate</b>	<b>Real Estate</b>	<b>Multifamily</b>	<b>Construction</b>	<b>Development</b>	<b>Business</b>	<b>Business</b>	<b>Consumer</b>	<b>Total</b>	
	<b>(In thousands)</b>									
<b>Recorded Investment in Loans:</b>										
Principal loan balance	\$ 180,076	\$ 198,577	\$ 18,804	\$ 27,182	\$ 11,545	\$ 37,692	\$ 27,374	\$ 501,250		
Accrued interest receivable	536	559	40	73	33	168	59	1,468		
Net deferred loan origination fees and costs	197	(270 )	(17 )	(124 )	6	17	(11 )	(202 )		
Recorded investment in loans	\$ 180,809	\$ 198,866	\$ 18,827	\$ 27,131	\$ 11,584	\$ 37,877	\$ 27,422	\$ 502,516		
<b>Recorded Investment in Loans as Evaluated for Impairment:</b>										
Individually evaluated for impairment	\$ 4,067	\$ 6,417	\$ -	\$ -	\$ -	\$ 232	\$ 286	\$ 11,002		
Collectively evaluated for impairment	176,374	192,449	18,827	27,131	11,584	37,645	27,108	491,118		
Acquired with deteriorated credit quality	368	-	-	-	-	-	28	396		
Ending balance	\$ 180,809	\$ 198,866	\$ 18,827	\$ 27,131	\$ 11,584	\$ 37,877	\$ 27,422	\$ 502,516		



## 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, 2015:

	<b>Residential</b>		<b>Commercial</b>		<b>Land &amp; Land Development</b>		<b>Commercial Business</b>		<b>Consumer</b>	<b>Total</b>
	<b>Real Estate</b>	<b>Real Estate</b>	<b>Multifamily</b>	<b>Construction</b>	<b>Development</b>	<b>Business</b>	<b>Business</b>	<b>Consumer</b>	<b>Total</b>	
	<b>(In thousands)</b>									
<b>Recorded Investment in Loans:</b>										
Principal loan balance	\$ 181,873	\$ 172,995	\$ 21,647	\$ 16,672	\$ 11,061	\$ 32,574	\$ 27,034	\$ 463,856		
Accrued interest receivable	552	454	47	23	30	95	58	1,259		
Net deferred loan origination fees and costs	283	(294 )	(21 )	(63 )	8	(28 )	(5 )	(120 )		
Recorded investment in loans	\$ 182,708	\$ 173,155	\$ 21,673	\$ 16,632	\$ 11,099	\$ 32,641	\$ 27,087	\$ 464,995		
<b>Recorded Investment in Loans as Evaluated for Impairment:</b>										
Individually evaluated for impairment	\$ 4,391	\$ 7,041	\$ -	\$ -	\$ -	\$ 222	\$ 290	\$ 11,944		
Collectively evaluated for impairment	177,873	166,114	21,673	16,632	11,099	32,419	26,767	452,577		
Acquired with deteriorated credit quality	444	-	-	-	-	-	30	474		
Ending balance	\$ 182,708	\$ 173,155	\$ 21,673	\$ 16,632	\$ 11,099	\$ 32,641	\$ 27,087	\$ 464,995		



FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

An analysis of the allowance for loan losses as of June 30, 2016 is as follows:

	<b>Residential</b>		<b>Commercial</b>		<b>Land &amp; Land Development</b>	<b>Commercial Business</b>	<b>Consumer</b>	<b>Total</b>
	<b>Real Estate</b>	<b>Real Estate</b>	<b>Multifamily</b>	<b>Construction</b>	<b>Development</b>	<b>Business</b>	<b>Consumer</b>	<b>Total</b>
	(In thousands)							
Ending Allowance Balance Attributable to Loans:								
Individually evaluated for impairment	\$3	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4	\$7
Collectively evaluated for impairment	315	5,121	111	743	313	258	101	6,962
Acquired with deteriorated credit quality	-	-	-	-	-	-	-	-
Ending balance	\$318	\$ 5,121	\$ 111	\$ 743	\$ 313	\$ 258	\$ 105	\$6,969

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

	<b>Residential</b>		<b>Commercial</b>		<b>Land &amp; Land Development</b>	<b>Commercial Business</b>	<b>Consumer</b>	<b>Total</b>
	<b>Real Estate</b>	<b>Real Estate</b>	<b>Multifamily</b>	<b>Construction</b>	<b>Development</b>	<b>Business</b>	<b>Consumer</b>	<b>Total</b>
	(In thousands)							
Ending Allowance Balance Attributable to Loans:								
Individually evaluated for impairment	\$9	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5	\$14
Collectively evaluated for impairment	435	4,327	156	551	369	678	94	6,610
	-	-	-	-	-	-	-	-



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Acquired with deteriorated  
credit quality

Ending balance	\$444	\$ 4,327	\$ 156	\$ 551	\$ 369	\$ 678	\$ 99	\$6,624
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## FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

*(Unaudited)*

An analysis of the changes in the allowance for loan losses for the three months ended June 30, 2016 is as follows:

	<b>Residential</b>		<b>Commercial</b>		<b>Land &amp; Land Development</b>	<b>Commercial Business</b>	<b>Consumer</b>	<b>Total</b>
	<b>Real Estate</b>	<b>Real Estate</b>	<b>Multifamily</b>	<b>Construction</b>				
<b>(In thousands)</b>								
Changes in Allowance for Loan Losses:								
Beginning balance	\$286	\$ 4,595	\$ 157	\$ 651	\$ 345	\$ 625	\$ 92	\$6,751
Provisions	113	526	(46 )	92	(32 )	(358 )	8	303
Charge-offs	(114)	-	-	-	-	(10 )	(20 )	(144 )
Recoveries	33	-	-	-	-	1	25	59
Ending balance	\$318	\$ 5,121	\$ 111	\$ 743	\$ 313	\$ 258	\$ 105	\$6,969

An analysis of the changes in the allowance for loan losses for the nine months ended June 30, 2016 is as follows:

	<b>Residential</b>		<b>Commercial</b>		<b>Land &amp; Land Development</b>	<b>Commercial Business</b>	<b>Consumer</b>	<b>Total</b>
	<b>Real Estate</b>	<b>Real Estate</b>	<b>Multifamily</b>	<b>Construction</b>				
<b>(In thousands)</b>								
Changes in Allowance for Loan Losses:								
Beginning balance	\$444	\$ 4,327	\$ 156	\$ 551	\$ 369	\$ 678	\$ 99	\$6,624
Provisions	(69 )	794	(45 )	192	(56 )	(411 )	23	428
Charge-offs	(170)	-	-	-	-	(10 )	(77 )	(257 )
Recoveries	113	-	-	-	-	1	60	174
Ending balance	\$318	\$ 5,121	\$ 111	\$ 743	\$ 313	\$ 258	\$ 105	\$6,969

## FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

*(Unaudited)*

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

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

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

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

FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

The following table presents impaired loans individually evaluated for impairment as of June 30, 2016 and for the three and nine months ended June 30, 2016 and 2015.

	At June 30, 2016			Three Months Ended June 30,				Nine Months Ended June 30,			
	Unpaid Recorded Principal Investment Balance	Related Allowance		<u>2016</u> Average Recorded Investment	<u>2016</u> Interest Income	<u>2015</u> Average Recorded Investment	<u>2015</u> Interest Income	<u>2016</u> Average Recorded Investment	<u>2016</u> Interest Income	<u>2015</u> Average Recorded Investment	<u>2015</u> Interest Income
	(In thousands)										
Loans with no related allowance recorded:											
Residential real estate	\$4,221	\$4,625	\$ -	\$4,929	\$ 36	\$5,643	\$ 36	\$5,252	\$ 109	\$5,663	\$ 109
Commercial real estate	6,417	6,486	-	6,508	48	6,047	55	6,646	148	5,842	168
Multifamily	-	-	-	-	-	-	-	-	-	-	-
Construction	-	-	-	-	-	-	-	-	-	-	-
Land and land development	-	-	-	-	-	-	-	-	-	-	-
Commercial business	232	223	-	248	2	305	-	299	4	242	1
Consumer	188	192	-	197	1	233	1	202	4	243	4
	\$11,058	\$11,526	\$ -	\$11,882	\$ 87	\$12,048	\$ 92	\$12,399	\$ 265	\$11,990	\$ 282
Loans with an allowance recorded:											
Residential real estate	\$80	\$78	\$ 3	\$72	\$ -	\$73	\$ -	\$30	\$ -	\$129	\$ -
Commercial real estate	-	-	-	-	-	22	-	-	-	9	-
Multifamily	-	-	-	-	-	-	-	-	-	-	-
Construction	-	-	-	-	-	-	-	-	-	-	-
Land and land development	-	-	-	-	-	-	-	-	-	-	-
Commercial business	-	-	-	-	-	12	-	-	-	5	-

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Consumer	98	98	4	83	-	93	-	78	-	91	-
	\$178	\$176	\$7	\$155	\$-	\$200	\$-	\$108	\$-	\$234	\$-
Total:											
Residential real estate	\$4,301	\$4,703	\$3	\$5,001	\$36	\$5,536	\$36	\$5,282	\$109	\$5,792	\$109
Commercial real estate	6,417	6,486	-	6,508	48	6,069	55	6,646	148	5,851	168
Multifamily	-	-	-	-	-	-	-	-	-	-	-
Construction	-	-	-	-	-	-	-	-	-	-	-
Land and land development	-	-	-	-	-	-	-	-	-	-	-
Commercial business	232	223	-	248	2	317	-	299	4	247	1
Consumer	286	290	4	280	1	326	1	280	4	334	4
	\$11,236	\$11,702	\$7	\$12,037	\$87	\$12,248	\$92	\$12,507	\$265	\$12,224	\$282

The Company recognized \$5,000 of interest income on an impaired commercial real estate loan using the cash receipts method during the nine-month period ended June 30, 2015. The Company did not recognize any interest income using the cash receipts method during the three-month period ended June 30, 2015 or the three- and nine-month periods ended June 30, 2016.

## 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, 2015.

	<b>Recorded</b>	<b>Unpaid Principal Investment Balance</b>	<b>Related Allowance</b>
	(In thousands)		
Loans with no related allowance recorded:			
Residential real estate	\$4,681	\$ 5,245	\$ -
Commercial real estate	7,041	7,079	-
Multifamily	-	-	-
Construction	-	-	-
Land and land development	-	-	-
Commercial business	222	282	-
Consumer	210	214	-
	\$12,154	\$ 12,820	\$ -
Loans with an allowance recorded:			
Residential real estate	\$9	\$ 9	\$ 9
Commercial real estate	-	-	-
Multifamily	-	-	-
Construction	-	-	-
Land and land development	-	-	-
Commercial business	-	-	-
Consumer	80	80	5
	\$89	\$ 89	\$ 14
Total:			
Residential real estate	\$4,690	\$ 5,254	\$ 9
Commercial real estate	7,041	7,079	-
Multifamily	-	-	-
Construction	-	-	-
Land and land development	-	-	-

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Commercial business	222	282	-
Consumer	290	294	5
	\$12,243	\$12,909	\$ 14

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## FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

*(Unaudited)*

Nonperforming loans consist of nonaccrual loans and loans over 90 days past due and still accruing interest. The following table presents the recorded investment in nonperforming loans at June 30, 2016:

	<b>Loans 90+</b>		<b>Total</b>
	<b>Nonaccrual</b>	<b>Loans 90+ Days Past Due</b>	<b>Nonperforming Loans</b>
	<b>Still Accruing</b>		
	<b>(In thousands)</b>		
Residential real estate	\$1,686	\$ -	\$ 1,686
Commercial real estate	1,671	-	1,671
Multifamily	-	-	-
Construction	-	-	-
Land and land development	-	-	-
Commercial business	135	-	135
Consumer	173	-	173
<b>Total</b>	<b>\$3,665</b>	<b>\$ -</b>	<b>\$ 3,665</b>

The following table presents the recorded investment in nonperforming loans at September 30, 2015:

	<b>Loans 90+</b>		<b>Total</b>
	<b>Nonaccrual</b>	<b>Loans 90+ Days Past Due</b>	<b>Nonperforming Loans</b>
	<b>Still Accruing</b>		
	<b>(In thousands)</b>		
Residential real estate	\$1,923	\$ 155	\$ 2,078



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Commercial real estate	1,855	-	1,855
Multifamily	-	-	-
Construction	-	-	-
Land and land development	-	-	-
Commercial business	210	94	304
Consumer	165	3	168
Total	\$4,153	\$ 252	\$ 4,405

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## FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

*(Unaudited)*

The following table presents the aging of the recorded investment in past due loans at June 30, 2016:

	<b>30-59</b>	<b>60-89</b>	<b>90 +</b>	<b>Total</b>		<b>Total</b>
	<b>Days</b>	<b>Days</b>	<b>Days</b>	<b>Past Due</b>	<b>Current</b>	<b>Loans</b>
	<b>Past Due</b>	<b>Past Due</b>	<b>Past Due</b>			
	<b>(In thousands)</b>					
Residential real estate	\$2,145	\$ 736	\$ 1,131	\$ 4,012	\$176,797	\$180,809
Commercial real estate	-	49	94	143	198,723	198,866
Multifamily	-	-	-	-	18,827	18,827
Construction	-	-	-	-	27,131	27,131
Land and land development	371	-	-	371	11,213	11,584
Commercial business	6	-	37	43	37,834	37,877
Consumer	88	7	26	121	27,301	27,422
<b>Total</b>	<b>\$2,610</b>	<b>\$ 792</b>	<b>\$ 1,288</b>	<b>\$ 4,690</b>	<b>\$497,826</b>	<b>\$502,516</b>

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

	<b>30-59</b>	<b>60-89</b>	<b>90 +</b>	<b>Total</b>		<b>Total</b>
	<b>Days</b>	<b>Days</b>	<b>Days</b>	<b>Past Due</b>	<b>Current</b>	<b>Loans</b>
	<b>Past Due</b>	<b>Past Due</b>	<b>Past Due</b>			
	<b>(In thousands)</b>					
Residential real estate	\$3,635	\$ 1,419	\$ 1,530	\$ 6,584	\$176,124	\$182,708
Commercial real estate	1,098	113	139	1,350	171,805	173,155
Multifamily	504	-	-	504	21,169	21,673
Construction	-	-	-	-	16,632	16,632

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Land and land development	253	-	-	253	10,846	11,099
Commercial business	15	-	303	318	32,323	32,641
Consumer	81	14	32	127	26,960	27,087
Total	\$5,586	\$ 1,546	\$ 2,004	\$ 9,136	\$455,859	\$464,995

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FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

*(Unaudited)*

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

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

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

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

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

## FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

*(Unaudited)*

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass-rated loans. As of June 30, 2016, and based on the most recent analysis performed, the recorded investment in loans by risk category was as follows:

	<b>Residential</b>		<b>Commercial</b>		<b>Land and Land Development</b>	<b>Commercial Business</b>	<b>Consumer</b>	<b>Total</b>
	<b>Real Estate</b>	<b>Real Estate</b>	Multifamily	Construction				
Pass	\$ 175,181	\$ 192,184	\$ 18,827	\$ 27,027	\$ 11,343	\$ 37,742	\$ 27,194	\$ 489,498
Special Mention	446	-	-	104	-	-	3	553
Substandard	5,052	6,682	-	-	241	135	221	12,331
Doubtful	130	-	-	-	-	-	4	134
Loss	-	-	-	-	-	-	-	-
<b>Total</b>	<b>\$ 180,809</b>	<b>\$ 198,866</b>	<b>\$ 18,827</b>	<b>\$ 27,131</b>	<b>\$ 11,584</b>	<b>\$ 37,877</b>	<b>\$ 27,422</b>	<b>\$ 502,516</b>

As of September 30, 2015, the recorded investment in loans by risk category was as follows:

	<b>Residential</b>		<b>Commercial</b>		<b>Land and Land Development</b>	<b>Commercial Business</b>	<b>Consumer</b>	<b>Total</b>
	<b>Real Estate</b>	<b>Real Estate</b>	Multifamily	Construction				
Pass	\$ 175,662	\$ 160,224	\$ 21,673	\$ 16,632	\$ 11,079	\$ 32,335	\$ 26,793	\$ 444,398
Special Mention	799	5,342	-	-	-	96	13	6,250
Substandard	5,871	7,589	-	-	20	173	274	13,927
Doubtful	376	-	-	-	-	37	7	420
Loss	-	-	-	-	-	-	-	-

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Total	\$182,708	\$173,155	\$21,673	\$16,632	\$11,099	\$32,641	\$27,087	\$464,995
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## FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

*(Unaudited)**Troubled Debt Restructurings*

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

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

The following table summarizes the Company’s recorded investment in TDRs at June 30, 2016 and September 30, 2015. There was no specific reserve included in the allowance for loan losses related to TDRs at June 30, 2016 and September 30, 2015.

	Accruing	Nonaccrual	Total
	(In thousands)		
June 30, 2016:			
Residential real estate	\$2,615	\$ -	\$2,615
Commercial real estate	4,746	1,576	6,322
Commercial business	97	124	221

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Consumer	113	-	113
Total	\$7,571	\$ 1,700	\$9,271
September 30, 2015:			
Residential real estate	\$2,767	\$ 110	\$2,877
Commercial real estate	5,186	1,523	6,709
Commercial business	12	-	12
Consumer	125	-	125
Total	\$8,090	\$ 1,633	\$9,723

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## FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

*(Unaudited)*

The following table summarizes information in regard to TDRs that were restructured during the three- and nine-month periods ended June 30, 2016 and 2015:

	<b>Pre- Number of Loans</b>	<b>Pre- Modification Principal Balance</b>	<b>Post- Modification Principal Balance</b>
	(Dollars in thousands)		
June 30, 2016:			
Three Months Ended June 30, 2016:			
Commercial real estate	1	\$ 94	\$ 131
Commercial business	1	97	97
<b>Total</b>	<b>2</b>	<b>\$ 191</b>	<b>\$ 228</b>
Nine Months Ended June 30, 2016:			
Residential real estate	5	\$ 181	\$ 247
Commercial real estate	1	94	131
Commercial business	3	186	216
<b>Total</b>	<b>9</b>	<b>\$ 461</b>	<b>\$ 594</b>
June 30, 2015:			
Three Months Ended June 30, 2015:			
Consumer	1	\$ 3	\$ 3
<b>Total</b>	<b>1</b>	<b>\$ 3</b>	<b>\$ 3</b>
June 30, 2015:			
Nine Months Ended June 30, 2015:			
Residential real estate	2	\$ 165	\$ 172
Consumer	1	3	3

Total	3	\$ 168	\$ 175
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For the TDRs listed above, the terms of modification included deferral of contractual principal and interest payments, reduction of the stated interest rate and extension of the maturity date where the debtor was unable to access funds elsewhere at a market interest rate for debt with similar risk characteristics.

The Company had not committed to lend any additional amounts as of June 30, 2016 to customers with outstanding loans classified as TDRs. At September 30, 2015, the Company had a commitment to lend \$2,000 in additional funds to a customer with an outstanding loan classified as a TDR.

Principal in the amount of \$51,000 was charged-off during the nine-month period ended June 30, 2016 as a result of a TDR that was restructured in 2013. There were no principal charge-offs recorded as a result of TDRs during the nine-month period ended June 30, 2015. There was no specific allowance for loan losses related to TDRs modified during the nine-month periods ended June 30, 2016 and 2015. In the event that a TDR subsequently defaults, the Company evaluates the restructuring for possible impairment. As a result, the related allowance for loan losses may be increased or charge-offs may be taken to reduce the carrying amount of the loan.

During the nine-month periods ended June 30, 2016 and 2015, the Company did not have any TDRs that were modified within the previous twelve months and for which there was a payment default.

FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

*(Unaudited)*

*Loan Servicing Rights*

The Company originates loans to commercial customers under the SBA 7(a) program. During the fiscal year ending September 30, 2016, the Company began selling the guaranteed portion of the commercial SBA 7(a) loans with servicing retained. Loan servicing rights on originated commercial SBA 7(a) loans that have been sold are initially recorded at fair value. Capitalized servicing rights are then amortized in proportion to and over the period of estimated net servicing income. Impairment of servicing rights is assessed using the present value of estimated future cash flows.

The aggregate fair value of loan servicing rights at June 30, 2016 approximated its carrying value. A valuation model employed by an independent third party calculates the present value of future cash flows and is used to estimate fair value at the date of sale and on a quarterly basis for impairment analysis purposes. Management periodically compares the valuation model inputs and results to published industry data in order to validate the model results and assumptions. Key assumptions used to estimate the fair value of the loan servicing rights include the discount rate and prepayment speed assumptions. For purposes of impairment, risk characteristics such as interest rate, loan type, term and investor type are used to stratify the loan servicing rights. Impairment is recognized through a valuation allowance to the extent that fair value is less than the carrying amount. Changes in the valu