First Savings Financial Group Inc
Form 10-K
December 30, 2013

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

FORM 10-K

(Mark One)

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

For the fiscal year ended September 30, 2013

OR

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

For the transition period from _____________ to _____________

Commission File Number: **1-34155**

FIRST SAVINGS FINANCIAL GROUP, INC.
(Exact name of registrant as specified in its charter)

Indiana	**37-1567871**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
501 East Lewis & Clark Parkway, Clarksville, Indiana	**47129**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: **(812) 283-0724**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value $0.01 per share	**NASDAQ Stock Market, LLC**

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a small reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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 by Rule 12b-2 of the Exchange Act).
Yes ¨ No x

The aggregate market value of the voting and non-voting common equity held by nonaffiliates was $44.8 million, based upon the closing price of $21.71 per share as quoted on the NASDAQ Stock Market as of the last business day of the registrant's most recently completed second fiscal quarter ended March 31, 2013.

The number of shares outstanding of the registrant's common stock as of December 13, 2013 was 2,262,305.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the 2014 Annual Meeting of Stockholders are incorporated by reference in Part III of this Form 10-K.

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This annual report contains forward-looking statements that are based on assumptions and may describe future plans, strategies and expectations of First Savings Financial Group, Inc. These forward-looking statements are generally identified by use of the words "believe," "expect," "intend," "anticipate," "estimate," "project" or similar expressions. First Savings Financial Group's ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Factors which could have a material adverse effect on the operations of First Savings Financial Group and its subsidiary include, but are not limited to, changes in interest rates, national and regional economic conditions, legislative and regulatory changes, monetary and fiscal policies of the U.S. government, including policies of the U.S. Treasury and the Federal Reserve Board, the quality and composition of the loan or investment portfolios, demand for loan products, deposit flows, competition, demand for financial services in First Savings Financial Group's market area, changes in real estate market values in First Savings Financial Group's market area, changes in relevant accounting principles and guidelines and inability of third party service providers to perform. Additional factors that may affect our results are discussed in Item 1A to this Annual Report on Form 10-K titled "Risk Factors" below.

These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. Except as required by applicable law or regulation, First Savings Financial Group does not undertake, and specifically disclaims any obligation, to release publicly the result of any revisions that may be made to any forward-looking statements to reflect events or circumstances after the date of the statements or to reflect the occurrence of anticipated or unanticipated events.

Unless the context indicates otherwise, all references in this annual report to "First Savings Financial Group," "Company," "we," "us" and "our" refer to First Savings Financial Group and its subsidiaries.

PART I

Item 1. BUSINESS

General

First Savings Financial Group, Inc., an Indiana corporation, was incorporated in May 2008 to serve as the holding company for First Savings Bank, F.S.B. (the "Bank" or "First Savings Bank"), a federally-chartered savings bank. On October 6, 2008, in accordance with a Plan of Conversion adopted by its board of directors and approved by its members, the Bank converted from a mutual savings bank to a stock savings bank and became the wholly-owned subsidiary of First Savings Financial Group. In connection with the conversion, the Company issued an aggregate of 2,542,042 shares of common stock at an offering price of $10.00 per share. In addition, in connection with the conversion, First Savings Charitable Foundation was formed, to which the Company contributed 110,000 shares of common stock and $100,000 in cash. The Company's common stock began trading on the NASDAQ Capital Market on October 7, 2008 under the symbol "FSFG".

First Savings Financial Group's principal business activity is the ownership of the outstanding common stock of First Savings Bank. First Savings Financial Group does not own or lease any property but instead uses the premises, equipment and other property of First Savings Bank with the payment of appropriate rental fees, as required by applicable law and regulations, under the terms of an expense allocation agreement. Accordingly, the information set forth in this annual report including the consolidated financial statements and related financial data contained herein, relates primarily to the Bank.

First Savings Bank operates as a community-oriented financial institution offering traditional financial services to consumers and businesses in its primary market area. We attract deposits from the general public and use those funds to originate primarily residential mortgage loans and, to a lesser but growing extent, commercial mortgage loans and commercial business loans. We also originate residential and commercial construction loans, multi-family loans, land

and land development loans, and consumer loans. We conduct our lending and deposit activities primarily with individuals and small businesses in our primary market area.

On September 30, 2009, First Savings Bank acquired Community First Bank ("Community First"), an Indiana-chartered commercial bank. The acquisition expanded First Savings Bank's presence into Harrison, Crawford and Washington Counties in Indiana.

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On July 6, 2012 First Savings Bank acquired the four Indiana branches of First Federal Savings Bank of Elizabethtown, Inc. ("First Federal"), a Kentucky-chartered commercial bank, two of which were consolidated into the existing operations of First Savings Bank immediately subsequent to the acquisition. The acquisition enhanced First Savings Bank's presence in Harrison and Floyd Counties in Indiana.

Our website address is www.fsbbank.net. Information on our website should not be considered a part of this annual report.

Market Area

We are located in South Central Indiana along the axis of Interstate 65 and Interstate 64, directly across the Ohio River from Louisville, Kentucky. We consider Clark, Floyd, Harrison, Crawford and Washington counties, Indiana, in which all of our offices are located, and the surrounding areas to be our primary market area. The current top employment sectors in these counties are the private retail, service and manufacturing industries, which are likely to continue to be supported by the projected growth in population and median household income. These counties are well-served by barge transportation, rail service, and commercial and general aviation services, including the United Parcel Service's major hub, which are located in our primary market area.

Competition

We face significant competition for the attraction of deposits and origination of loans. Our most direct competition for deposits has historically come from the several financial institutions operating in our primary market area and from other financial service companies such as securities and mortgage brokerage firms, credit unions and insurance companies. We also face competition for investors' funds from money market funds, mutual funds and other corporate and government securities. At June 30, 2013, which is the most recent date for which data is available from the Federal Deposit Insurance Corporation, we held approximately 12.95%, 2.82%, 29.40%, 80.12% and 10.00% of the FDIC-insured deposits in Clark, Floyd, Harrison, Crawford and Washington Counties, Indiana, respectively. This data does not reflect deposits held by credit unions with which we also compete. In addition, banks owned by large national and regional holding companies and other community-based banks also operate in our primary market area. Some of these institutions are larger than us and, therefore, may have greater resources.

Our competition for loans comes primarily from financial institutions in our primary market area and from other financial service providers, such as mortgage companies, mortgage brokers and credit unions. Competition for loans also comes from non-depository financial service companies entering the mortgage market, such as insurance companies, securities companies and specialty and captive finance companies.

We expect competition to increase in the future as a result of legislative, regulatory and technological changes and the continuing trend of consolidation in the financial services industry. Technological advances, for example, have lowered barriers to entry, allowing banks to expand their geographic reach by providing services over the Internet, and made it possible for non-depository institutions to offer products and services that traditionally have been provided by banks. Changes in federal law now permit affiliation among banks, securities firms and insurance companies, which promotes a competitive environment in the financial services industry. Competition for deposits and the origination of loans could limit our growth in the future.

Lending Activities

The Bank is in the process of transforming the composition of its balance sheet from that of a traditional thrift institution to that of a commercial bank. We intend to continue to emphasize residential lending, primarily secured by owner-occupied properties, but also to continue concentrating on ways to expand our consumer/retail banking capabilities and our commercial banking services with a focus on serving small businesses and emphasizing relationship banking in our primary market area. This transformation is enhanced by the Community First acquisition and by an expanded commercial lending staff dedicated to growing commercial real estate and commercial business loans.

The largest segment of our loan portfolio is real estate mortgage loans, primarily one- to four-family residential loans, including non-owner occupied residential loans that were predominately originated before 2005, and, to a lesser but growing extent, multi-family real estate, commercial real estate and commercial business loans. We also originate residential and commercial construction loans, land and land development loans, and consumer loans. We generally originate loans for investment purposes, although, depending on the interest rate environment and our asset/liability management goals, we may sell into the secondary market the 25-year and 30-year fixed-rate residential mortgage loans that we originate. We do not offer, and have not offered, Alt-A, sub-prime or no-documentation loans and acquired no such loans in the acquisition of Community First or the First Federal branches.

One- to Four-Family Residential Loans. Our origination of residential mortgage loans enables borrowers to purchase or refinance existing homes located in Clark, Floyd, Harrison, Crawford and Washington Counties, Indiana, and the surrounding areas. A significant portion of the residential mortgage loans that we had originated before 2005 are secured by non-owner occupied properties. Loans secured by non-owner occupied properties generally carry a greater risk of loss than loans secured by owner-occupied properties, and our non-performing loan balances have increased in recent periods primarily because of delinquencies in our non-owner occupied residential loan portfolio. See *"Item 1A. Risk Factors Risks Related to Our Business Our concentration in non-owner occupied real estate loans may expose us to increased credit risk"* and *"Management's Discussion and Analysis of Financial Condition and Results of Operations Risk Management Analysis of Nonperforming and Classified Assets."* Since 2005, when we hired a new President and Chief Executive Officer, we have de-emphasized non-owner occupied residential mortgage lending and have focused, and intend to continue to focus, our residential mortgage lending primarily on originating residential mortgage loans secured by owner-occupied properties.

Our residential lending policies and procedures conform to the secondary market guidelines. We generally offer a mix of adjustable-rate mortgage loans and fixed-rate mortgage loans with terms of 10 to 30 years. Borrower demand for adjustable-rate loans compared to fixed-rate loans is a function of the level of interest rates, the expectations of changes in the level of interest rates, and the difference between the interest rates and loan fees offered for fixed-rate mortgage loans as compared to an initially discounted interest rate and loan fees for multi-year adjustable-rate mortgages. The relative amount of fixed-rate mortgage loans and adjustable-rate mortgage loans that can be originated at any time is largely determined by the demand for each in a competitive environment. The loan fees, interest rates and other provisions of mortgage loans are determined by us based on our own pricing criteria and competitive market conditions.

Interest rates and payments on our adjustable-rate mortgage loans generally adjust annually after an initial fixed period that typically ranges from one to five years. Interest rates and payments on our adjustable-rate loans generally are adjusted to a rate typically equal to a margin above the one year U.S. Treasury index. The maximum amount by which the interest rate may be increased or decreased is generally one percentage point per adjustment period and the lifetime interest rate cap is generally six percentage points over the initial interest rate of the loan. However, a portion of the adjustable-rate mortgage loan portfolio has a maximum amount by which the interest rate may be increased or decreased of two percentage points per adjustment period and a lifetime interest rate cap generally of six percentage points over the initial interest rate of the loan.

While one- to four-family residential real estate loans are normally originated with up to 30-year terms, such loans typically remain outstanding for substantially shorter periods because borrowers often prepay their loans in full either upon sale of the property pledged as security or upon refinancing the original loan. Therefore, average loan maturity is a function of, among other factors, the level of purchase and sale activity in the real estate market, prevailing interest rates and the interest rates payable on outstanding loans on a regular basis. We do not offer loans with negative amortization and generally do not offer interest-only loans.

We generally do not make conventional loans with loan-to-value ratios exceeding 80%, including that for non-owner occupied residential real estate loans whose loan-to-value ratios generally may not exceed 75%, or 65% where the borrower has more than five non-owner occupied loans outstanding. Non-owner occupied loans originated before 2005, however, were generally originated with loan-to-value ratios up to 80%. Loans with loan-to-value ratios in excess of 80% generally require private mortgage insurance. However, the total balance of residential mortgage loans secured by one-to-four family residential properties with loan-to-value ratios exceeding 90% amounted to $9.1 million, of which some do not have private mortgage insurance or government guaranty. We generally require all properties securing mortgage loans to be appraised by a board-approved independent appraiser. We also generally require title insurance on all first mortgage loans with principal balances of $250,000 or more. Borrowers must obtain hazard insurance, and flood insurance is required for all loans located in flood hazard areas.

At September 30, 2013, our largest one- to four-family residential loan had an outstanding balance of $1.2 million. This loan, which was originated in April 2003 and is secured by a personal residence, was performing in accordance with its original terms at September 30, 2013.

Commercial Real Estate Loans. We offer fixed- and adjustable-rate mortgage loans secured by commercial real estate. Our commercial real estate loans are generally secured by small to moderately-sized office, retail and industrial properties located in our primary market area and are typically made to small business owners and professionals such as attorneys and accountants.

We originate fixed-rate commercial real estate loans, generally with terms up to five years and payments based on an amortization schedule of 15 to 20 years, resulting in “balloon” balances at maturity. We also offer adjustable-rate commercial real estate loans, generally with terms up to five years and with interest rates typically equal to a margin above the prime lending rate or the London Interbank Offered Rate (LIBOR). Loans are secured by first mortgages, generally are originated with a maximum loan-to-value ratio of 80% and often require specified debt service coverage ratios depending on the characteristics of the project. Rates and other terms on such loans generally depend on our assessment of credit risk after considering such factors as the borrower’s financial condition and credit history, loan-to-value ratio, debt service coverage ratio and other factors.

During 2013, we began a commercial real estate lending program that is focused on loans to high net worth individuals that are secured by low loan-to-value, single-tenant commercial properties that are leased to investment grade national-brand retailers. This program is designed to diversify the Company’s geographic and credit risk profile given the geographic dispersion of the loans and collateral, and the investment grade credit of the national-brand lessees. The terms of the loans are generally consistent with the aforementioned terms of in-market commercial real estate loans; however, these cannot exceed 70% loan-to-value and loan maturities cannot exceed the expiration of the underlying leases. In addition, the Company has established guidelines with respect to concentrations by state, by lessee, as a percent of the overall loan portfolio and as a percent of capital. The average size of these loans originated during 2013 was $1.0 million and the portfolio balance was $17.4 million at September 30, 2013. Our largest such loan, which was originated in May 2013 and secured by a single-tenant commercial retail building, had an outstanding balance of $2.3 million at September 30, 2013 and was performing in accordance with its original terms at September 30, 2013.

At September 30, 2013, our largest commercial real estate loan had an outstanding balance of $4.2 million. This loan, which was originated in December 2012 and is secured by an office building, was performing in accordance with its original terms at September 30, 2013.

Construction Loans. We originate construction loans for one-to four-family homes and, to a lesser extent, commercial properties such as small industrial buildings, warehouses, retail shops and office units. Construction loans are typically for a term of 12 months with monthly interest only payments. Except for speculative loans, discussed below, repayment of construction loans typically comes from the proceeds of a permanent mortgage loan for which a commitment is typically in place when the construction loan is originated. We originate construction loans to a limited group of well-established builders in our primary market area and we limit the number of projects with each builder. Interest rates on these loans are generally tied to the prime lending rate. Construction loans, other than land development loans, generally will not exceed the lesser of 80% of the appraised value or 90% of the direct costs, excluding items such as developer fees, operating deficits or other items that do not relate to the direct development of the project. Generally, commercial construction loans require the personal guarantee of the owners of the business. We also offer construction loans for the financing of pre-sold homes, which convert into permanent loans at the end of the construction period. Such loans generally have a six-month construction period with interest only payments due monthly, followed by an automatic conversion to a 15-year to 30-year permanent loan with monthly payments of principal and interest. Occasionally, a construction loan to a builder of a speculative home will be converted to a permanent loan if the builder has not secured a buyer within a limited period of time after the completion of the home. We generally disburse funds on a percentage-of-completion basis following an inspection by a third party inspector.

We also originate speculative construction loans to builders who have not identified a buyer for the completed property at the time of origination. At September 30, 2013, we had approved commitments for speculative construction loans of $11.2 million, of which $9.3 million was outstanding. We require a maximum loan-to-value ratio of 80% for speculative construction loans. At September 30, 2013, our largest construction loan relationship was for a commitment of $2.7 million, of which $1.8 million was outstanding. This relationship was performing according to its original terms at September 30, 2013.

Land and Land Development Loans. On a limited basis, we originate loans to developers for the purpose of developing vacant land in our primary market area, typically for residential subdivisions. Land development loans are generally interest-only loans for a term of 18 to 24 months. We generally require a maximum loan-to-value ratio of 75% of the appraisal market value upon completion of the project. We generally do not require any cash equity from the borrower if there is sufficient indicated equity in the collateral property. Development plats and cost verification documents are required from borrowers before approving and closing the loan. Our loan officers are required to personally visit the proposed development site and the sites of competing developments. We also originate loans to individuals secured by undeveloped land held for investment purposes. At September 30, 2013, our largest land development loan had an outstanding balance of $1.1 million. This loan was performing in accordance with its original terms at September 30, 2013.

Multi-Family Real Estate Loans. We offer multi-family mortgage loans that are generally secured by properties in our primary market area. Multi-family loans are secured by first mortgages and generally are originated with a maximum loan-to-value ratio of 80% and generally require specified debt service coverage ratios depending on the characteristics of the project. Rates and other terms on such loans generally depend on our assessment of the credit risk after considering such factors as the borrower's financial condition and credit history, loan-to-value ratio, debt service coverage ratio and other factors. At September 30, 2013, our largest multi-family mortgage loan had an outstanding balance of $3.2 million. This loan, which was originated in December 2010, was performing in accordance with its original terms at September 30, 2013.

Consumer Loans. Although we offer a variety of consumer loans, our consumer loan portfolio consists primarily of home equity loans, both fixed-rate amortizing term loans with terms up to 15 years and adjustable rate lines of credit with interest rates equal to a margin above the prime lending rate. Consumer loans typically have shorter maturities and higher interest rates than traditional one-to four-family lending. We typically do not make home equity loans with loan-to-value ratios exceeding 90%, including any first mortgage loan balance. We also offer auto and truck loans, personal loans and small boat loans. The procedures for underwriting consumer loans include an assessment of the applicant's payment history on other debts and ability to meet existing obligations and payments on the proposed loan. Although the applicant's creditworthiness is a primary consideration, the underwriting process also includes a comparison of the value of the collateral, if any, to the proposed loan amount. At September 30, 2013, our largest consumer loan was a home equity line of credit with a commitment of $500,000, of which $193,000 was outstanding. This loan, which was originated in November 2004 and is secured by a first mortgage on a personal residence, was performing in accordance with its original terms at September 30, 2013.

Commercial Business Loans. We typically offer commercial business loans to small businesses located in our primary market area. Commercial business loans are generally secured by equipment and general business assets. Key loan terms and covenants vary depending on the collateral, the borrower's financial condition, credit history and other relevant factors, and personal guarantees are typically required as part of the loan commitment. At September 30, 2013, our largest commercial business loan was for a commitment of $4.5 million, of which $4.0 million was outstanding. This loan, which was originated in July 2008 and most recently renewed in February 2013 and is secured by contract assignments and accounts receivable, was performing in accordance with its original terms at September 30, 2013.

Loan Underwriting Risks

Adjustable-Rate Loans. While we anticipate that adjustable-rate loans will better offset the adverse effects of an increase in interest rates as compared to fixed-rate mortgages, an increased monthly mortgage payment required of adjustable-rate loan borrowers in a rising interest rate environment could cause an increase in delinquencies and defaults. The marketability of the underlying property also may be adversely affected in a high interest rate environment. In addition, although adjustable-rate mortgage loans make our asset base more responsive to changes in interest rates, the extent of this interest sensitivity is limited by the annual and lifetime interest rate adjustment limits.

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Non-Owner Occupied Residential Real Estate Loans. Loans secured by rental properties represent a unique credit risk to us and, as a result, we adhere to special underwriting guidelines. Of primary concern in non-owner occupied real estate lending is the consistency of rental income of the property. Payments on loans secured by rental properties often depend on the maintenance of the property and the payment of rent by its tenants. Payments on loans secured by rental properties often depend on successful operation and management of the properties. As a result, repayment of such loans may be subject to adverse conditions in the real estate market or the economy. To monitor cash flows on rental properties, we require borrowers and loan guarantors, if any, to provide annual financial statements and we consider and review a rental income cash flow analysis of the borrower and consider the net operating income of the property, the borrower's expertise, credit history and profitability, and the value of the underlying property. We generally require collateral on these loans to be a first mortgage along with an assignment of rents and leases. Until recently, if the borrower had multiple loans for rental properties with us, the loans were not cross-collateralized. If the borrower holds loans on more than four rental properties, a loan officer or collection officer is generally required to inspect these properties annually to determine if they are being properly maintained and rented. Recently, we generally have limited these loan relationships to an aggregate total of $500,000.

Multi-Family and Commercial Real Estate Loans. Loans secured by multi-family and commercial real estate generally have larger balances and involve a greater degree of risk than one- to four-family residential mortgage loans. Of primary concern in multi-family and commercial real estate lending is the borrower's creditworthiness and the feasibility and cash flow potential of the project. Payments on loans secured by income properties often depend on successful operation and management of the properties. As a result, repayment of such loans may be subject to adverse conditions in the real estate market or the economy. To monitor cash flows on income properties, we require borrowers and loan guarantors, if any, to provide annual financial statements on multi-family and commercial real estate loans. In addition, some loans may contain covenants regarding ongoing cash flow coverage requirements. In reaching a decision on whether to make a multi-family or commercial real estate loan, we consider and review a global cash flow analysis of the borrower and consider the net operating income of the property, the borrower's expertise, credit history and profitability, and the value of the underlying property. An environmental survey or environmental risk insurance is obtained when the possibility exists that hazardous materials may have existed on the site, or the site may have been impacted by adjoining properties that handled hazardous materials.

Construction and Land and Land Development Loans. Construction financing is generally considered to involve a higher degree of risk of loss than long-term financing on improved, occupied real estate. Risk of loss on a construction loan depends largely upon the accuracy of the initial estimate of the property's value at completion of construction and the estimated cost of construction. During the construction phase, a number of factors could result in delays and cost overruns. If the estimate of construction costs proves to be inaccurate, we may be required to advance funds beyond the amount originally committed to permit completion of the building. If the estimate of value proves to be inaccurate, we may be confronted, at or before the maturity of the loan, with a building having a value which is insufficient to assure full repayment if liquidation is required. If we are forced to foreclose on a building before or at completion due to a default, we may be unable to recover all of the unpaid balance of, and accrued interest on, the loan as well as related foreclosure and holding costs. In addition, speculative construction loans, which are loans made to home builders who, at the time of loan origination, have not yet secured an end buyer for the home under construction, typically carry higher risks than those associated with traditional construction loans. These increased risks arise because of the risk that there will be inadequate demand to ensure the sale of the property within an acceptable time. As a result, in addition to the risks associated with traditional construction loans, speculative construction loans carry the added risk that the builder will have to pay the property taxes and other carrying costs of the property until an end buyer is found. Land and land development loans have substantially similar risks to speculative construction loans.

Consumer Loans. Consumer loans may entail greater risk than do residential mortgage loans, particularly in the case of consumer loans that are secured by assets that depreciate rapidly, such as motor vehicles and boats. In such cases, repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment for the outstanding loan and a small remaining deficiency often does not warrant further substantial collection efforts against the borrower. In the case of home equity loans, real estate values may be reduced to a level that is insufficient to cover the outstanding loan balance after accounting for the first mortgage loan balance. Consumer loan collections depend on the borrower's continuing financial stability, and therefore are likely to be adversely affected by various factors, including job loss, divorce, illness or personal bankruptcy. Furthermore, the application of various federal and state laws, including federal and state bankruptcy and insolvency laws, may limit the amount that can be recovered on such loans.

Commercial Business Loans. Unlike residential mortgage loans, which generally are made on the basis of the borrower's ability to make repayment from his or her employment income or other income, and which are secured by real property whose value tends to be more easily ascertainable, commercial business loans are of higher risk and typically are made on the basis of the borrower's ability to make repayment from the cash flow of the borrower's business. As a result, the availability of funds for the repayment of commercial business loans may depend substantially on the success of the business itself. Further, any collateral securing such loans may depreciate over time, may be difficult to appraise and may fluctuate in value.

Loan Originations, Sales and Purchases. Loan originations come from a number of sources. The primary sources of loan originations are existing customers, walk-in traffic, advertising and referrals from customers. We generally sell in the secondary market long-term fixed-rate residential mortgage loans that we originate. We have increasingly sold participation interests in loans that we originated during the year ended September 30, 2012. In addition, we acquired several loans from Community First that included sold participation interests. At September 30, 2013, $21.3 million of loans included sold participation interests of $9.5 million, for a net position of $11.8 million outstanding in our portfolio.

We have not historically purchased whole loans or participation interests to supplement our lending portfolio; however, we acquired four brokered whole loans during the year ended September 30, 2012. The loans were purchased at 0.90% of their principal balance and are secured by multi-family and retail shopping centers located in Indiana. At September 30, 2013, the outstanding principal balance of these loans was $4.4 million and the Bank's carrying amount was $4.4 million. These loans were purchased in April 2012 and were performing in accordance with their original terms at September 30, 2013.

In addition, we acquired participation interests of loans in the acquisition of Community First and also participated in a lending transaction to a local hospital along with three additional financial institutions during 2011. At September 30, 2013, we had participation interests of loans totaling $5.5 million and our largest participation interest with a single borrower was $2.3 million. This loan, which was originated in June 2011 and is secured by a local county hospital facility, was performing in accordance with its original terms at September 30, 2013.

We may sell participation interests in loans originated by us or purchase participation interests in loans originated by other financial institutions from time to time depending on various factors. Our decision to sell or purchase loans is based on prevailing market interest rate conditions, interest rate management, regulatory lending restrictions and liquidity needs.

Loan Approval Procedures and Authority. Our lending activities follow written, non-discriminatory underwriting standards and loan origination procedures established by our Board of Directors and management. Certain of our employees have been granted individual lending limits, which vary depending on the individual, the type of loan and whether the loan is secured or unsecured. Generally, all loan requests for lending relationships that exceed the individual officer lending limits, which is generally $250,000 secured or $50,000 unsecured, require committee or Board of Directors approval. Loans resulting in aggregated lending relationships in excess of $250,000 secured and $50,000 unsecured but less than $1.0 million require approval by the Officer Loan Committee and loans resulting in aggregated lending relationships in excess of $1.0 million but less than $2.5 million require approval of the Executive Loan Committee. The Executive Loan Committee consists of the President, Area President, Chief Operations Officer, Chief of Credit Administration, Senior Lending Officer and VP of Commercial Lending and the Officer Loan Committee consists of the same but also includes certain other officers designated by the Board of Directors. Loans resulting in aggregated lending relationships in excess of $2.5 million require approval by both the Executive Loan Committee and the Board of Directors.

Loans to One Borrower. The maximum amount that we may lend to one borrower and the borrower's related entities is limited, by regulation, to generally 15% of our stated capital and reserves. At September 30, 2013, our regulatory limit on loans to one borrower was $10.8 million. At that date, our largest lending relationship was for a commitment of $5.3 million, of which $5.3 million was outstanding, and was performing according to its original terms at that date. This loan relationship is secured by various commercial real estate properties and land intended for future development.

Loan Commitments. We issue commitments for residential and commercial mortgage loans conditioned upon the occurrence of certain events. Commitments to originate mortgage loans are legally binding agreements to lend to our customers. Generally, our loan commitments expire after 30 days. See Note 19 of the Notes to Consolidated Financial Statements beginning on page F-1 of this annual report.

Investment Activities

We have legal authority to invest in various types of liquid assets, including U.S. Treasury obligations, securities of various U.S. government agencies and sponsored enterprises and of state and municipal governments, mortgage-backed securities, collateralized mortgage obligations and certificates of deposit of federally insured institutions. Within certain regulatory limits, we also may invest a portion of our assets in other permissible securities. As a member of the Federal Home Loan Bank of Indianapolis, we also are required to maintain an investment in Federal Home Loan Bank of Indianapolis stock.

At September 30, 2013, our investment portfolio consisted primarily of U.S. government agency and sponsored enterprises securities, mortgage backed securities and collateralized mortgage obligations issued by U.S. government agencies and sponsored enterprises, municipal securities, SBA certificates and privately-issued collateralized mortgage obligations and asset-backed securities acquired in the acquisition of Community First. We have invested $5.0 million in a managed brokerage account that invests in small and medium lot, investment grade municipal bonds and these securities are classified as trading account securities. The brokerage account is managed by an investment advisory firm registered with the U.S. Securities and Exchange Commission. At September 30, 2012, trading account securities recorded at fair value totaled $3.2 million, comprised of investment grade municipal bonds.

Our investment objectives are to provide and maintain liquidity, to establish an acceptable level of interest rate and credit risk, and to provide an alternate source of low-risk investments at a favorable return when loan demand is weak. Our Board of Directors has the overall responsibility for the investment portfolio, including approval of the investment policy. Messrs. Myers, our President and Chief Executive Officer, and Schoen, our Chief Financial Officer, are responsible for implementation of the investment policy and monitoring our investment performance. Our board of directors reviews the status of our investment portfolio on a quarterly basis, or more frequently if warranted.

Deposit Activities and Other Sources of Funds

General. Deposits, borrowings and loan and investment security repayments are the major sources of our funds for lending and other investment purposes. Scheduled loan repayments are a relatively stable source of funds, while deposit inflows and outflows, loan prepayments and investment security calls are significantly influenced by general interest rates and money market conditions.

Deposit Accounts. Deposits are attracted from within our primary market area through the offering of a broad selection of deposit instruments, including non-interest-bearing demand deposits (such as checking accounts), interest-bearing demand accounts (such as NOW and money market accounts), regular savings accounts and certificates of deposit. Deposit account terms vary according to the minimum balance required, the time periods the funds must remain on deposit and the interest rate, among other factors. In determining the terms of our deposit accounts, we consider the rates offered by our competition, our liquidity needs, profitability to us, matching deposit and loan products and customer preferences and concerns. We generally review our deposit mix and pricing weekly. Our deposit pricing strategy has typically been to offer competitive rates on all types of deposit products, and to periodically offer special rates in order to attract deposits of a specific type or term.

Borrowings. We use advances from the Federal Home Loan Bank of Indianapolis to supplement our investable funds. The Federal Home Loan Bank functions as a central reserve bank providing credit for member financial institutions. As a member, we are required to own capital stock in the Federal Home Loan Bank of Indianapolis and are authorized to apply for advances on the security of such stock and certain of our mortgage loans and other assets (principally securities which are obligations of, or guaranteed by, the United States), provided certain standards related to creditworthiness have been met. Advances are made under several different programs, each having its own interest rate and range of maturities. Depending on the program, limitations on the amount of advances are based either on a fixed percentage of an institution's net worth or on the Federal Home Loan Bank's assessment of the institution's creditworthiness. We have a federal funds purchased line of credit facility with another financial institution that is subject to continued borrower eligibility and is intended to support short-term liquidity needs. We also utilize retail and broker repurchase agreements as sources of borrowings and may use brokered certificates of deposits from time to time depending on our liquidity needs and pricing of these facilities versus other funding alternatives.

.Personnel

As of September 30, 2013, we had 160 full-time employees and 27 part-time employees, none of whom is represented by a collective bargaining unit. We believe our relationship with our employees is good.

Subsidiaries

The Company's sole subsidiary is the Bank. The Bank has three subsidiaries, Southern Indiana Financial Corporation and FFCC, Inc., both of which are organized as Indiana corporations, and First Savings Investments, Inc., a Nevada corporation. Southern Indiana Financial Corporation is an independent insurance agency, offering various types of annuities and life insurance policies, but is currently inactive. FFCC, Inc. participates in the development and leasing of commercial real estate. First Savings Investments, Inc. was organized on October 3, 2008 for the purpose of holding and managing an investment securities portfolio.

REGULATION AND SUPERVISION

General

First Savings Bank, as a federal savings association, is currently subject to extensive regulation, examination and supervision by the Office of the Comptroller of the Currency, as its primary federal regulator, and by the Federal Deposit Insurance Corporation as the insurer of its deposits. First Savings Bank is a member of the Federal Home Loan Bank System and its deposit accounts are insured up to applicable limits by the Deposit Insurance Fund of the Federal Deposit Insurance Corporation. First Savings Bank must file reports with the Office of the Comptroller of the Currency concerning its activities and financial condition in addition to obtaining regulatory approvals before entering into certain transactions such as mergers with, or acquisitions of, other financial institutions. There are periodic examinations by the Office of the Comptroller of the Currency to evaluate First Savings Bank's safety and soundness and compliance with various regulatory requirements. This regulatory structure is intended primarily for the protection of the insurance fund and depositors. The regulatory structure also gives the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to the classification of assets and the establishment of an adequate allowance for loan losses for regulatory purposes. Any change in such policies, whether by the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation or Congress, could have a material adverse impact on First Savings Financial Group and First Savings Bank and their operations.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act") made extensive changes to the regulation of First Savings Bank. Under the Dodd-Frank Act, the Office of Thrift Supervision was eliminated and responsibility for the supervision and regulation of federal savings associations such as First Savings Bank was transferred to the Office of the Comptroller of the Currency on July 21, 2011. The Office of the Comptroller of the Currency is the agency that is primarily responsible for the regulation and supervision of national banks. Additionally, the Dodd-Frank Act created a new Consumer Financial Protection Bureau as an independent bureau of the Federal Reserve Board. The Consumer Financial Protection Bureau assumed responsibility for the implementation of the federal financial consumer protection and fair lending laws and regulations and has authority to impose new requirements. However, institutions of less than $10 billion in assets, such as First Savings Bank, will continue to be examined for compliance with consumer protection and fair lending laws and regulations by, and be subject to the enforcement authority of, their prudential regulators.

Certain of the regulatory requirements that are or will be applicable to First Savings Bank and First Savings Financial Group are described below. This description of statutes and regulations is not intended to be a complete explanation of such statutes and regulations and their effects on First Savings Bank and First Savings Financial Group.

Federal Banking Regulation

Business Activities. The activities of federal savings banks, such as First Savings Bank, are governed by federal laws and regulations. Those laws and regulations delineate the nature and extent of the business activities in which federal savings banks may engage. In particular, certain lending authority for federal savings banks, *e.g.*, commercial, non-residential real property loans and consumer loans, is limited to a specified percentage of the institution's capital or assets.

Capital Requirements. The applicable capital regulations require savings associations to meet three minimum capital standards: a 1.5% tangible capital to total assets ratio, a 4% Tier 1 capital to total assets leverage ratio (3% for institutions receiving the highest rating on the CAMELS examination rating system) and an 8% risk-based capital ratio. In addition, the prompt corrective action standards discussed below also establish, in effect, a minimum 2% tangible capital standard, a 4% leverage ratio (3% for institutions receiving the highest rating on the CAMELS system) and, together with the risk-based capital standard itself, a 4% Tier 1 risk-based capital standard. The regulations also require that, in meeting the tangible, leverage and risk- based capital standards, institutions must generally deduct investments in and loans to subsidiaries engaged in activities as principal that are not permissible for a national bank.

The risk-based capital standard for savings associations requires the maintenance of Tier 1 (core) and total capital (which is defined as core capital and supplementary capital less certain specified deductions from total capital such as reciprocal holdings of depository institution capital instruments and equity investments) to risk-weighted assets of at least 4% and 8%, respectively. In determining the amount of risk-weighted assets, all assets, including certain off-balance sheet activities, recourse obligations, residual interests and direct credit substitutes, are multiplied by a risk-weight factor of 0% to 100%, assigned by the capital regulation based on the risks believed inherent in the type of asset. Tier 1 (core) capital is generally defined as common stockholders' equity (including retained earnings), certain noncumulative perpetual preferred stock and related surplus and minority interests in equity accounts of consolidated subsidiaries, less intangibles other than certain mortgage servicing rights and credit card relationships. The components of supplementary capital (Tier 2 capital) include cumulative preferred stock, long-term perpetual preferred stock, mandatory convertible debt securities, subordinated debt and intermediate preferred stock, the allowance for loan and lease losses limited to a maximum of 1.25% of risk-weighted assets and up to 45% of unrealized gains on available-for-sale equity securities with readily determinable fair market values. Overall, the amount of supplementary capital included as part of total capital cannot exceed 100% of core capital.

The Office of the Comptroller of the Currency also has authority to establish individual minimum capital requirements in appropriate cases upon a determination that an institution's capital level is or may become inadequate in light of the particular risks or circumstances. At September 30, 2013, First Savings Bank met each of its capital requirements.

Basel III

On July 9, 2013, the federal bank regulatory agencies issued a final rule that will revise their risk-based capital requirements and the method for calculating risk-weighted assets to make them consistent with agreements that were reached by the Basel Committee on Banking Supervision ("Basel III") and certain provisions of the Dodd-Frank Act. The final rule applies to all depository institutions, top-tier bank holding companies with total consolidated assets of $500 million or more and top-tier savings and loan holding companies.

The rule establishes a new common equity Tier 1 minimum capital requirement (4.5% of risk-weighted assets), increases the minimum Tier 1 capital to risk-based assets requirement (from 4.0% to 6.0% of risk-weighted assets) and assigns a higher risk weight (150%) to exposures that are more than 90 days past due or are on nonaccrual status and to certain commercial real estate facilities that finance the acquisition, development or construction of real property.

The rule also includes changes in what constitutes regulatory capital, some of which are subject to a two-year transition period. These changes include the phasing-out of certain instruments as qualifying capital. In addition, Tier 2 capital is no longer limited to the amount of Tier 1 capital included in total capital. Mortgage servicing rights, certain deferred tax assets and investments in unconsolidated subsidiaries over designated percentages of common stock will be required to be deducted from capital, subject to a two-year transition period. Finally, Tier 1 capital will include accumulated other comprehensive income (which includes all unrealized gains and losses on available for sale debt and equity securities), subject to a two-year transition period.

The new capital requirements also include changes in the risk-weights of assets to better reflect credit risk and other risk exposures. These include a 150% risk weight (up from 100%) for certain high volatility commercial real estate acquisition, development and construction loans and non-residential mortgage loans that are 90 days past due or otherwise on nonaccrual status; a 20% (up from 0%) credit conversion factor for the unused portion of a commitment with an original maturity of one year or less that is not unconditionally cancellable; a 250% risk weight (up from 100%) for mortgage servicing rights and deferred tax assets that are not deducted from capital; and increased risk-weights (from 0% to up to 600%) for equity exposures.

Finally, the rule limits capital distributions and certain discretionary bonus payments if the banking organization does not hold a “capital conservation buffer” consisting of 2.5% of common equity Tier 1 capital to risk-weighted assets in addition to the amount necessary to meet its minimum risk-based capital requirements.

The final rule becomes effective on January 1, 2015. The capital conservation buffer requirement will be phased in beginning January 1, 2016, at 0.625% of risk-weighted assets, increasing each year until fully implemented at 2.5% on January 1, 2019.

The federal banking agencies have not proposed rules implementing the final liquidity framework of Basel III, and have not determined to what extent they will apply to U.S. banks that are not large, internationally active banks.

It is management's belief that, as of September 30, 2013, First Savings Financial Group and First Savings Bank would have met all capital adequacy requirements under Basel III on a fully phased-in basis if such requirements were currently effective.

Prompt Corrective Regulatory Action. The Office of the Comptroller of the Currency is required to take certain supervisory actions against undercapitalized institutions, the severity of which depends upon the institution's degree of undercapitalization. Generally, a savings association that has a ratio of total capital to risk weighted assets of less than 8%, a ratio of Tier 1 (core) capital to risk-weighted assets of less than 4% or a ratio of core capital to total assets of less than 4% (3% or less for institutions with the highest examination rating) is considered to be "undercapitalized." A savings association that has a total risk-based capital ratio of less than 6%, a Tier 1 capital ratio of less than 3% or a leverage ratio that is less than 3% is considered to be "significantly undercapitalized" and a savings association that has a tangible capital to assets ratio equal to or less than 2% is deemed to be "critically undercapitalized." Subject to a narrow exception, the Office of the Comptroller of the Currency is required to appoint a receiver or conservator within specified time frames for an institution that is "critically undercapitalized." The regulation also provides that a capital restoration plan must be filed with the Office of the Comptroller of the Currency within 45 days of the date a savings association is deemed to have received notice that it is "undercapitalized," "significantly undercapitalized" or "critically undercapitalized." Compliance with the plan must be guaranteed by any parent holding company up to the lesser of 5% of the savings association's total assets when it was deemed to be undercapitalized or the amount necessary to achieve compliance with applicable capital requirements. In addition, numerous mandatory supervisory actions become immediately applicable to an undercapitalized institution, including, but not limited to, increased monitoring by regulators and restrictions on growth, capital distributions and expansion. The Office of the Comptroller of the Currency could also take any one of a number of discretionary supervisory actions, including the issuance of a capital directive and the replacement of senior executive officers and directors. Significantly and critically undercapitalized institutions are subject to additional mandatory and discretionary measures.

Insurance of Deposit Accounts. First Savings Bank's deposits are insured up to applicable limits by the Deposit Insurance Fund of the Federal Deposit Insurance Corporation. Under the Federal Deposit Insurance Corporation's existing risk-based assessment system, insured institutions are assigned to one of four risk categories based on supervisory evaluations, regulatory capital levels and certain other factors, with less risky institutions paying lower assessments. An institution's assessment rate depends upon the category to which it is assigned. Effective April 1, 2009, assessment rates ranged from seven to 77.5 basis points. On February 7, 2011, the Federal Deposit Insurance Corporation issued final rules, effective April 1, 2011, implementing changes to the assessment rules resulting from the Dodd-Frank Act. Initially, the base assessment rates will range from two and one half to 45 basis points. The rate schedules will automatically adjust in the future when the Deposit Insurance Fund reaches certain milestones. No institution may pay a dividend if in default of the federal deposit insurance assessment.

The FDIC imposed on all insured institutions a special emergency assessment of five basis points of total assets minus Tier 1 capital, as of September 30, 2009 (capped at ten basis points of an institution's deposit assessment base), in order to cover losses to the Deposit Insurance Fund. That special assessment was collected on September 30, 2009. The FDIC provided for similar assessments during the final two quarters of 2009, if deemed necessary. In lieu of further special assessments, however, the FDIC required insured institutions to prepay estimated quarterly risk-based assessments for the fourth quarter of 2009 through the fourth quarter of 2012. That pre-payment, which included an assumed assessment base increase of 5%, was due December 30, 2009. The pre-payment was recorded as a prepaid expense asset as of December 30, 2009. As of December 31, 2009 and each quarter thereafter, a charge to earnings is recorded for each regular assessment with an offsetting credit to the prepaid asset.

Due to difficult economic conditions, deposit insurance per account owner was raised to $250,000. That change was made permanent by the Dodd-Frank Act. In addition, the Federal Deposit Insurance Corporation adopted an optional Temporary Liquidity Guarantee Program by which, for a fee, non-interest bearing transaction accounts would receive unlimited insurance coverage until December 31, 2010 and certain senior unsecured debt issued by institutions and their holding companies between October 13, 2008 and September 30, 2010 would be guaranteed by the Federal Deposit Insurance Corporation through September 30, 2012, or in some cases, December 31, 2012. First Savings Bank did not opt to participate in the unlimited coverage for noninterest bearing transaction accounts or the debt guarantee program.

The Dodd-Frank Act increased the minimum target Deposit Insurance Fund ratio from 1.15% of estimated insured deposits to 1.35% of estimated insured deposits. The Federal Deposit Insurance Corporation must seek to achieve the 1.35% ratio by September 30, 2020. Insured institutions with assets of $10 billion or more are supposed to fund the increase. The Dodd-Frank Act eliminated the 1.5% maximum fund ratio, instead leaving it to the discretion of the Federal Deposit Insurance Corporation.

The Federal Deposit Insurance Corporation has authority to increase insurance assessments. A significant increase in insurance premiums would likely have an adverse effect on the operating expenses and results of operations of First Savings Bank. Management cannot predict what insurance assessment rates will be in the future. Insurance of deposits may be terminated by the Federal Deposit Insurance Corporation upon a finding that the institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the Federal Deposit Insurance Corporation or the Office of the Comptroller of the Currency. The management of First Savings Bank does not know of any practice, condition or violation that might lead to termination of deposit insurance.

Loans to One Borrower. Federal law provides that savings associations are generally subject to the limits on loans to one borrower applicable to national banks. Generally, subject to certain exceptions, a savings association may not make a loan or extend credit to a single or related group of borrowers in excess of 15% of its unimpaired capital and surplus. An additional amount may be lent, equal to 10% of unimpaired capital and surplus, if secured by specified readily-marketable collateral.

Qualified Thrift Lender Test. Federal law requires savings associations to meet a qualified thrift lender test. Under the test, a savings association is required to either qualify as a “domestic building and loan association” under the Internal Revenue Code or maintain at least 65% of its “portfolio assets” (total assets less: (i) specified liquid assets up to 20% of total assets; (ii) intangibles, including goodwill; and (iii) the value of property used to conduct business) in certain “qualified thrift investments” (primarily residential mortgages and related investments, including certain mortgage-backed securities but also including education, credit card and small business loans) in at least nine months out of each 12-month period.

A savings association that fails the qualified thrift lender test is subject to certain operating restrictions and the Dodd-Frank Act also specifies that failing the qualified thrift lender test is a violation of law that could result in an enforcement action and dividend limitations. As of September 30, 2013, First Savings Bank maintained 84.48% of its portfolio assets in qualified thrift investments and, therefore, met the qualified thrift lender test.

Limitation on Capital Distributions. Federal regulations impose limitations upon all capital distributions by a savings association, including cash dividends, payments to repurchase its shares and payments to shareholders of another institution in a cash-out merger. Under the regulations, an application to and the prior approval of the Office of the Comptroller of the Currency is required before any capital distribution if the institution does not meet the criteria for “expedited treatment” of applications under Office of the Comptroller of the Currency regulations (*i.e.*, generally, examination and Community Reinvestment Act ratings in the two top categories), the total capital distributions for the calendar year exceed net income for that year plus the amount of retained net income for the preceding two years, the institution would be undercapitalized following the distribution or the distribution would otherwise be contrary to a statute, regulation or agreement with the Office of the Comptroller of the Currency. If an application is not required, the institution must still provide 30 days prior written notice to the Board of Governors of the Federal Reserve System of the capital distribution if, like First Savings Bank, it is a subsidiary of a holding company, as well as an informational notice filing to the Office of the Comptroller of the Currency. If First Savings Bank’s capital ever fell below its regulatory requirements or the Office of the Comptroller of the Currency notified it that it was in need of increased supervision, its ability to make capital distributions could be restricted. In addition, the Office of the Comptroller of the Currency could prohibit a proposed capital distribution by any institution, which would otherwise be permitted by the regulation, if the Office of the Comptroller of the Currency determines that such distribution would constitute an unsafe or unsound practice.

Standards for Safety and Soundness. The federal banking agencies have adopted Interagency Guidelines prescribing Standards for Safety and Soundness in various areas such as internal controls and information systems, internal audit, loan documentation and credit underwriting, interest rate exposure, asset growth and quality, earnings and compensation, fees and benefits. The guidelines set forth the safety and soundness standards that the federal banking agencies use to identify and address problems at insured depository institutions before capital becomes impaired. If the Office of the Comptroller of the Currency determines that a savings association fails to meet any standard prescribed by the guidelines, the Office of the Comptroller of the Currency may require the institution to submit an acceptable plan to achieve compliance with the standard.

Community Reinvestment Act. All federal savings associations have a responsibility under the Community Reinvestment Act and related regulations to help meet the credit needs of their communities, including low- and moderate-income neighborhoods. An institution's failure to satisfactorily comply with the provisions of the Community Reinvestment Act could result in denials of regulatory applications. Responsibility for administering the Community Reinvestment Act, unlike other fair lending laws, is not being transferred to the Consumer Financial Protection Bureau. First Savings Bank received a "satisfactory" Community Reinvestment Act rating in its most recently completed examination.

Transactions with Related Parties. Federal law limits First Savings Bank's authority to engage in transactions with "affiliates" (*e.g.*, any entity that controls or is under common control with First Savings Bank, including First Savings Financial Group and their other subsidiaries). The aggregate amount of covered transactions with any individual affiliate is limited to 10% of the capital and surplus of the savings association. The aggregate amount of covered transactions with all affiliates is limited to 20% of the savings association's capital and surplus. Certain transactions with affiliates are required to be secured by collateral in an amount and of a type specified by federal law. The purchase of low quality assets from affiliates is generally prohibited. Transactions with affiliates must generally be on terms and under circumstances that are at least as favorable to the institution as those prevailing at the time for comparable transactions with non-affiliated companies. In addition, savings associations are prohibited from lending to any affiliate that is engaged in activities that are not permissible for bank holding companies and no savings association may purchase the securities of any affiliate other than a subsidiary.

The Sarbanes-Oxley Act of 2002 generally prohibits loans by First Savings Financial Group to its executive officers and directors. However, the law contains a specific exception for loans by a depository institution to its executive officers and directors in compliance with federal banking laws. Under such laws, First Savings Bank's authority to extend credit to executive officers, directors and 10% shareholders ("insiders"), as well as entities such persons control, is limited. The laws limit both the individual and aggregate amount of loans that First Savings Bank may make to insiders based, in part, on First Savings Bank's capital level and requires that certain board approval procedures be followed. Such loans are required to be made on terms substantially the same as those offered to unaffiliated individuals and not involve more than the normal risk of repayment. There is an exception for loans made pursuant to a benefit or compensation program that is widely available to all employees of the institution and does not give preference to insiders over other employees. Loans to executive officers are subject to additional limitations based on the type of loan involved.

Enforcement. The Office of the Comptroller of the Currency currently has primary enforcement responsibility over savings associations and has authority to bring actions against the institution and all institution-affiliated parties, including shareholders, and any attorneys, appraisers and accountants who knowingly or recklessly participate in wrongful actions likely to have an adverse effect on an insured institution. Formal enforcement action may range from the issuance of a capital directive or cease and desist order to removal of officers and/or directors to institution of receivership, conservatorship or termination of deposit insurance. Civil penalties cover a wide range of violations and can amount to $25,000 per day, or even $1 million per day in especially egregious cases. The Federal Deposit Insurance Corporation has the authority to recommend to the Office of the Comptroller of the Currency that enforcement action be taken with respect to a particular savings association. If action is not taken by the Office of the

Comptroller of the Currency, the Federal Deposit Insurance Corporation has authority to take such action under certain circumstances. Federal law also establishes criminal penalties for certain violations.

Assessments. Savings associations are required to pay assessments to the Office of the Comptroller of the Currency to fund the agency's operations. The Comptroller of the Currency assessments paid by First Savings Bank for the fiscal year ended September 30, 2013 totaled $166,545.

Federal Home Loan Bank System. First Savings Bank is a member of the Federal Home Loan Bank System, which consists of 12 regional Federal Home Loan Banks. The Federal Home Loan Bank provides a central credit facility primarily for member institutions. First Savings Bank, as a member of the Federal Home Loan Bank of Indianapolis, is required to acquire and hold shares of capital stock in that Federal Home Loan Bank. First Savings Bank was in compliance with this requirement with an investment in Federal Home Loan Bank stock at September 30, 2013 of $5.5 million.

Federal Reserve Board System. The Federal Reserve Board regulations require savings associations to maintain non-interest earning reserves against their transaction accounts (primarily Negotiable Order of Withdrawal (NOW) and regular checking accounts). The regulations generally provide that reserves be maintained against aggregate transaction accounts as follows for 2013: a 3% reserve ratio is assessed on net transaction accounts up to and including $79.5 million; a 10% reserve ratio is applied above $79.5 million. The first $12.4 million of otherwise reservable balances (subject to adjustments by the Federal Reserve Board) are exempted from the reserve requirements. The amounts are adjusted annually and, for 2014, will require a 3% ratio for up to $89.0 million and an exemption of $13.3 million. First Savings Bank complies with the foregoing requirements. In October 2008, the Federal Reserve Board began paying interest on certain reserve balances.

Other Regulations

First Savings Bank's operations are also subject to federal laws applicable to credit transactions, including the:

- Truth-In-Lending Act, governing disclosures of credit terms to consumer borrowers;
- Home Mortgage Disclosure Act of 1975, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves;
- Equal Credit Opportunity Act, prohibiting discrimination on the basis of race, creed or other prohibited factors in extending credit;
- Fair Credit Reporting Act of 1978, governing the use and provision of information to credit reporting agencies;
- Fair Debt Collection Act, governing the manner in which consumer debts may be collected by collection agencies; and
- rules and regulations of the various federal agencies charged with the responsibility of implementing such federal laws.

The operations of First Savings Bank also are subject to laws such as the:

- Right to Financial Privacy Act, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records;
- Electronic Funds Transfer Act and Regulation E promulgated thereunder, which govern automatic deposits to and withdrawals from deposit accounts and customers' rights and liabilities arising from the use of automated teller machines and other electronic banking services; and
- Check Clearing for the 21st Century Act (also known as "Check 21"), which gives "substitute checks," such as digital check images and copies made from that image, the same legal standing as the original paper check.

Holding Company Regulation

General. As a savings and loan holding company, First Savings Financial Group is subject to Federal Reserve Board regulations, examinations, supervision, reporting requirements and regulations regarding its activities. In addition, the Federal Reserve Board has enforcement authority over First Savings Financial Group and its non-savings institution subsidiaries. Among other things, this authority permits the Federal Reserve Board to restrict or prohibit activities that are determined to be a serious risk to First Savings Bank.

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Pursuant to federal law and regulations and policy, a savings and loan holding company such as First Savings Financial Group may generally engage in the activities permitted for financial holding companies under Section 4(k) of the Bank Holding Company Act and certain other activities that have been authorized for savings and loan holding companies by regulation.

Federal law prohibits a savings and loan holding company from, directly or indirectly or through one or more subsidiaries, acquiring more than 5% of the voting stock of another savings association, or savings and loan holding company thereof, without prior written approval of the Federal Reserve Board or from acquiring or retaining, with certain exceptions, more than 5% of a non-subsidiary holding company or savings association. A savings and loan holding company is also prohibited from acquiring more than 5% of a company engaged in activities other than those authorized by federal law or acquiring or retaining control of a depository institution that is not insured by the FDIC. In evaluating applications by holding companies to acquire savings associations, the Federal Reserve Board must consider the financial and managerial resources and future prospects of the company and institution involved, the effect of the acquisition on the risk to the insurance funds, the convenience and needs of the community and competitive factors.

The Federal Reserve Board is prohibited from approving any acquisition that would result in a multiple savings and loan holding company controlling savings associations in more than one state, except: (i) the approval of interstate supervisory acquisitions by savings and loan holding companies; and (ii) the acquisition of a savings association in another state if the laws of the state of the target savings association specifically permit such acquisitions. The states vary in the extent to which they permit interstate savings and loan holding company acquisitions.

Capital. Savings and loan holding companies are not currently subject to specific regulatory capital requirements. The Dodd-Frank Act, however, requires the Federal Reserve Board to promulgate consolidated capital requirements for depository institution holding companies that are no less stringent, both quantitatively and in terms of components of capital, than those applicable to institutions themselves. That will eliminate the inclusion of certain instruments, such as trust preferred securities, from tier 1 capital. Instruments issued prior to May 19, 2010 will be grandfathered for companies with consolidated assets of $15 billion or less. There is a five year transition period from the July 21, 2010 date of enactment of the Dodd-Frank Act before the capital requirements will apply to savings and loan holding companies.

Source of Strength. The Dodd-Frank Act also extends the “source of strength” doctrine to savings and loan holding companies. The regulatory agencies must promulgate regulations implementing the “source of strength” policy that holding companies act as a source of strength to their subsidiary depository institutions by providing capital, liquidity and other support in times of financial stress.

Federal savings banks must notify the Federal Reserve Board prior to paying a dividend to First Savings Financial Group. The Federal Reserve Board may disapprove a dividend if, among other things, the Federal Reserve Board determines that the federal savings bank would be undercapitalized on a pro forma basis or the dividend is determined to raise safety or soundness concerns.

Acquisition of First Savings Financial Group. Under the Federal Change in Bank Control Act, a notice must be submitted to the Federal Reserve Board if any person (including a company), or group acting in concert, seeks to acquire direct or indirect “control” of a savings and loan holding company or savings association. Under certain circumstances, a change of control may occur, and prior notice is required, upon the acquisition of 10% or more of the outstanding voting stock of the company or institution, unless the Federal Reserve Board has found that the acquisition will not result in a change of control of First Savings Financial Group. Under the Change in Control Act, the Federal Reserve Board generally has 60 days from the filing of a complete notice to act, taking into consideration certain factors, including the financial and managerial resources of the acquirer and the anti-trust effects of the acquisition. Any company that acquires control would then be subject to regulation as a savings and loan holding company.

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Federal Securities Laws

First Savings Financial Group's common stock is registered with the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended. First Savings Financial Group is subject to the information, proxy solicitation, insider trading restrictions and other requirements under the Securities Exchange Act of 1934, as amended.

INCOME TAXATION

Federal Taxation

General. We report our income on a fiscal year basis using the accrual method of accounting. The federal income tax laws apply to us in the same manner as to other corporations with some exceptions, including particularly our reserve for bad debts discussed below. The following discussion of tax matters is intended only as a summary and does not purport to be a comprehensive description of the tax rules applicable to us. For its 2013 fiscal year, First Savings Bank's maximum federal income tax rate was 34%.

First Savings Financial Group and First Savings Bank have entered into a tax allocation agreement. Because First Savings Financial Group owns 100% of the issued and outstanding capital stock of First Savings Bank, First Savings Financial Group and First Savings Bank are members of an affiliated group within the meaning of Section 1504(a) of the Internal Revenue Code, of which group First Savings Financial Group is the common parent corporation. As a result of this affiliation, First Savings Bank may be included in the filing of a consolidated federal income tax return with First Savings Financial Group and, if a decision to file a consolidated tax return is made, the parties agree to compensate each other for their individual share of the consolidated tax liability and/or any tax benefits provided by them in the filing of the consolidated federal income tax return.

Our Federal income tax returns have not been audited during the last five years.

Bad Debt Reserves. For fiscal years beginning before June 30, 1996, thrift institutions that qualified under certain definitional tests and other conditions of the Internal Revenue Code were permitted to use certain favorable provisions to calculate their deductions from taxable income for annual additions to their bad debt reserve. A reserve could be established for bad debts on qualifying real property loans, generally secured by interests in real property improved or to be improved, under the percentage of taxable income method or the experience method. The reserve for nonqualifying loans was computed using the experience method. Federal legislation enacted in 1996 repealed the reserve method of accounting for bad debts and the percentage of taxable income method for tax years beginning after 1995 and required savings institutions to recapture or take into income certain portions of their accumulated bad debt reserves. Approximately $4.6 million of our accumulated bad debt reserves would not be recaptured into taxable income unless First Savings Bank makes a "non-dividend distribution" to First Savings Financial Group as described below.

Distributions. If First Savings Bank makes "non-dividend distributions" to First Savings Financial Group, the distributions will be considered to have been made from First Savings Bank's unrecaptured tax bad debt reserves, including the balance of its reserves as of December 31, 1987, to the extent of the "non-dividend distributions," and then from First Savings Bank's supplemental reserve for losses on loans, to the extent of those reserves, and an amount based on the amount distributed, but not more than the amount of those reserves, will be included in First Savings Bank's taxable income. Non-dividend distributions include distributions in excess of First Savings Bank's current and accumulated earnings and profits, as calculated for federal income tax purposes, distributions in redemption of stock, and distributions in partial or complete liquidation. Dividends paid out of First Savings Bank's current or accumulated earnings and profits will not be so included in First Savings Bank's taxable income.

The amount of additional taxable income triggered by a non-dividend distribution is an amount that, when reduced by the tax attributable to the income, is equal to the amount of the distribution. Therefore, if First Savings Bank makes a non-dividend distribution to First Savings Financial Group, approximately one and one-half times the amount of the distribution not in excess of the amount of the reserves would be includable in income for federal income tax purposes, assuming a 34% federal corporate income tax rate. First Savings Bank does not intend to pay dividends that would result in a recapture of any portion of its bad debt reserves.

State Taxation

Indiana. Indiana imposes an 8.5% franchise tax based on a financial institution's adjusted gross income as defined by statute. The Indiana franchise tax rate will be reduced to 8.0%, 7.5%, 7.0% and 6.5% for the Company's tax years ending September 30, 2015, 2016, 2017 and 2018, respectively, and will remain at 6.5% for tax years ending after September 30, 2018. In computing adjusted gross income, deductions for municipal interest, U.S. Government interest, the bad debt deduction computed using the reserve method and pre-1990 net operating losses are disallowed.

Our state income tax returns have not been audited during the last five years.

Item 1A. RISK FACTORS

Our concentration in non-owner occupied residential real estate loans may expose us to increased credit risk.

At September 30, 2013, $38.2 million, or 20.7% of our residential mortgage loan portfolio and 9.1% of our total loan portfolio, consisted of loans secured by non-owner occupied residential properties. Loans secured by non-owner occupied properties generally expose a lender to greater risk of non-payment and loss than loans secured by owner occupied properties because repayment of such loans depend primarily on the tenant's continuing ability to pay rent to the property owner, who is our borrower, or, if the property owner is unable to find a tenant, the property owner's ability to repay the loan without the benefit of a rental income stream. In addition, the physical condition of non-owner occupied properties is often below that of owner occupied properties due to lax property maintenance standards, which has a negative impact on the value of the collateral properties. Furthermore, some of our non-owner occupied residential loan borrowers have more than one loan outstanding with us. At September 30, 2013, we had 11 non-owner occupied residential loan relationships, each having an outstanding balance over $500,000, with aggregate outstanding balances of $11.2 million. Consequently, an adverse development with respect to one credit relationship may expose us to a greater risk of loss compared to an adverse development with respect to an owner occupied residential mortgage loan. At September 30, 2013, non-performing non-owner occupied residential loans amounted to $2.1 million. Non-owner occupied residential properties held as real estate owned amounted to $300,000 at September 30, 2013. For more information about the credit risk we face, see *"Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Risk Management."*

Our recent emphasis on commercial real estate lending and commercial business lending may expose us to increased lending risks.

At September 30, 2013, $149.4 million, or 35.7%, of our loan portfolio consisted of commercial real estate loans and commercial business loans. Subject to market conditions, we intend to increase our origination of these loans. Commercial real estate loans generally expose a lender to greater risk of non-payment and loss than one- to four-family residential mortgage loans because repayment of the loans often depends on the successful operation of the property and the income stream of the borrowers. Commercial real estate loans also typically involve larger loan balances to single borrowers or groups of related borrowers both at origination and at maturity because many of our commercial real estate loans are not fully-amortizing, but result in "balloon" balances at maturity. Commercial business loans expose us to additional risks since they typically are made on the basis of the borrower's ability to make repayments from the cash flow of the borrower's business and are secured by non-real estate collateral that may depreciate over time. In addition, some of our commercial borrowers have more than one loan outstanding with us. Consequently, an adverse development with respect to one loan or one credit relationship may expose us to a greater risk of loss compared to an adverse development with respect to a one- to four-family residential mortgage loan. At September 30, 2013, non-performing commercial business loans and non-performing commercial real estate loans totaled $218,000 and $4.8 million, respectively. For more information about the credit risk we face, see *"Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Risk Management."*

Our unseasoned commercial real estate loan and commercial business loan portfolios may expose us to increased lending risks.

A significant amount of our commercial real estate loans and commercial business loans are unseasoned, meaning that they were originated recently. Our limited experience with these loans does not provide us with a significant payment history pattern with which to judge future collectability. Furthermore, these loans have not been subjected to unfavorable economic conditions. As a result, it may be difficult to predict the future performance of this part of our loan portfolio. These loans may have delinquency or charge-off levels above our expectations, which could adversely affect our future performance.

Our construction loan and land and land development loan portfolios may expose us to increased credit risk.

At September 30, 2013, $30.7 million, or 7.3% of our loan portfolio consisted of construction loans, and land and land development loans, and $11.2 million, or 56.3% of the construction loan portfolio, consisted of speculative construction loans at that date. While recently the demand for construction loans has declined due to the decline in the housing market and tighter lending standards, historically, construction loans, including speculative construction loans, have been a material part of our loan portfolio. Speculative construction loans are loans made to builders who have not identified a buyer for the completed property at the time of loan origination. Subject to market conditions, we intend to continue to emphasize the origination of construction loans and land and land development loans. These loan types generally expose a lender to greater risk of nonpayment and loss than residential mortgage loans because the repayment of such loans often depends on the successful operation or sale of the property and the income stream of the borrowers and such loans typically involve larger balances to a single borrower or groups of related borrowers. In addition, many borrowers of these types of loans have more than one loan outstanding with us so an adverse development with respect to one loan or credit relationship can expose us to significantly greater risk of non-payment and loss. Furthermore, we may need to increase our allowance for loan losses through future charges to income as the portfolio of these types of loans grows, which would hurt our earnings. For more information about the credit risk we face, see *"Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Risk Management."*

We may suffer losses in our loan portfolio despite our underwriting practices.

Our results of operations are significantly affected by the ability of borrowers to repay their loans. Lending money is an essential part of the banking business. However, borrowers do not always repay their loans. The risk of non-payment is historically small, but if nonpayment levels are greater than anticipated, our earnings and overall financial condition, as well as the value of our common stock, could be adversely affected. No assurance can be given that our underwriting practices or monitoring procedures and policies will reduce certain lending risks. Loan losses can cause insolvency and failure of a financial institution and, in such an event, our stockholders could lose their entire investment. In addition, future provisions for loan losses could materially and adversely affect profitability. Furthermore, the application of various federal and state laws, including bankruptcy and insolvency laws, may limit the amount that can be recovered on these loans. For more information about the credit risk we face, see *"Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Risk Management."*

Our allowance for loan losses may not be adequate to cover actual losses.

Like all financial institutions, we maintain an allowance for loan losses to provide for probable incurred losses due to loan defaults, non-performance, and other qualitative factors. Our allowance for loan losses is based on our historical loss experience as well as an evaluation of the risks associated with our loan portfolio, including the size and composition of the loan portfolio, loan portfolio performance, fair value of collateral securing the loans, current economic conditions and geographic concentrations within the portfolio. Our allowance for loan losses may not be adequate to cover actual loan losses, and future provisions for loan losses could materially and adversely affect its financial results. For more information about our analysis and determination of allowance for loan losses, see *"Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Risk Management."*

If an other-than-temporary-impairment is recorded in connection with our investment portfolio it could have a negative impact on our profitability.

Our investment portfolio consists primarily of U.S. government agency and sponsored enterprises securities, mortgage backed securities and collateralized mortgage obligations issued by U.S. government agencies and sponsored enterprises, municipal bonds, and privately-issued collateralized mortgage obligations and asset-backed securities. We must evaluate these securities for other-than-temporary impairment loss ("OTTI") on a periodic basis. The privately-issued collateralized mortgage obligations and asset-backed securities exhibit signs of weakness, which may necessitate an OTTI charge in the future should the financial condition of the pools deteriorate further. Also, given the current economic environment and possible further deterioration in economic conditions, we may need to record an OTTI charge for our other investments should the issuers of those securities experience financial difficulties. Any future OTTI charges could significantly impact our earnings.

A return of recessionary conditions could result in increases in our level of non-performing loans and/or reduce demand for our products and services, which would lead to lower revenue, higher loan losses and lower earnings.

A return of recessionary conditions and/or continued negative developments in the domestic and international credit markets may significantly affect the markets in which we do business, the value of our loans and investments, and our ongoing operations, costs and profitability. Declines in real estate values and sales volumes and increased unemployment levels may result in higher than expected loan delinquencies, increases in our levels of non-performing and classified assets and a decline in demand for our products and services. These negative events may cause us to incur losses and may adversely affect our capital, liquidity, and financial condition.

Changing interest rates may hurt our earnings and asset value.

Our net interest income is the interest we earn on loans and investments less the interest we pay on our deposits and borrowings. Our net interest margin is the difference between the yield we earn on our assets and the interest rate we pay for deposits and our other sources of funding. Changes in interest rates up or down could adversely affect our net interest margin and, as a result, our net interest income. Although the yield we earn on our assets and our funding costs tend to move in the same direction in response to changes in interest rates, one can rise or fall faster than the other, causing our net interest margin to expand or contract. Our liabilities tend to be shorter in duration than our assets, so they may adjust faster in response to changes in interest rates. As a result, when interest rates rise, our funding costs may rise faster than the yield we earn on our assets, causing our net interest margin to contract until the yield catches up. Changes in the slope of the "yield curve" or the spread between short-term and long-term interest rates could also reduce our net interest margin. Normally, the yield curve is upward sloping, meaning short-term rates are lower than long-term rates. Because our liabilities tend to be shorter in duration than our assets, when the yield curve flattens or even inverts, we could experience pressure on our net interest margin as our cost of funds increases relative to the yield we can earn on our assets. Also, interest rate decreases can lead to increased prepayments of loans and mortgage-backed securities as borrowers refinance their loans to reduce borrowing costs. Under these circumstances, we are subject to reinvestment risk as we may have to redeploy such repayment proceeds into lower yielding investments, which would likely hurt our income. At September 30, 2013, approximately $230.9 million, or 55.2% of the total loan portfolio, consisted of fixed-rate mortgage loans. This investment in fixed-rate mortgage loans exposes the Company to increased levels of interest rate risk.

Changes in interest rates also affect the value of our interest-earning assets, and in particular our securities portfolio. Generally, the value of fixed-rate securities fluctuates inversely with changes in interest rates. Unrealized gains and losses on securities available for sale are reported as a separate component of equity, net of tax. Decreases in the fair value of securities available for sale resulting from increases in interest rates could have an adverse effect on stockholders' equity. For further discussion of how changes in interest rates could impact us, see *"Item 7.*

Management's Discussion and Analysis of Financial Condition and Results of Operations   Risk Management   Interest Rate Risk Management."

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Liquidity risk could impair our ability to fund operations and jeopardize our financial condition.

Liquidity is essential to our business. An inability to raise funds through deposits, borrowings, the sale of loans and other sources could have a material adverse effect on our liquidity. Our access to funding sources in amounts adequate to finance our activities could be impaired by factors that affect us specifically or the financial services industry in general. Factors that could detrimentally impact our access to liquidity sources include a decrease in the level of our business activity due to a market downturn or adverse regulatory action against us. Our ability to acquire deposits or borrow could also be impaired by factors that are not specific to us, such as a severe disruption of the financial markets or negative views and expectations about the prospects for the financial services industry as a whole.

If the goodwill that we recorded in connection with a business acquisition becomes impaired, it could have a negative impact on our profitability.

Goodwill represents the amount of acquisition cost over the fair value of net assets we acquired in the purchase of another financial institution. We review goodwill for impairment at least annually, or more frequently if events or changes in circumstances indicate the carrying value of the asset might be impaired. We determine impairment by comparing the implied fair value of the reporting unit goodwill with the carrying amount of that goodwill. If the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. Any such adjustments are reflected in our results of operations in the periods in which they become known. At September 30, 2013, our goodwill totaled $7.9 million. While we have recorded no such impairment charges since we initially recorded the goodwill, there can be no assurance that our future evaluations of goodwill will not result in findings of impairment and related write-downs, which may have a material adverse effect on our financial condition and results of operations.

Regulation of the financial services industry is undergoing major changes and future legislation could increase our cost of doing business or harm our competitive position.

In 2010 and 2011, in response to the financial crisis and recession that began in 2008, significant regulatory and legislative changes resulted in broad reform and increased regulation impacting financial institutions. The Dodd-Frank Act has created a significant shift in the way financial institutions operate. The Dodd-Frank Act also creates a new federal agency to administer consumer protection and fair lending laws, a function that was formerly performed by the depository institution regulators. The Dodd-Frank Act contains various other provisions designed to enhance the regulation of depository institutions. The full impact of the Dodd-Frank Act on our business and operations will not be known for years until regulations implementing the statute are written and adopted. The Dodd-Frank Act may have a material impact on our operations, particularly through increased regulatory burden and compliance costs. Any future legislative changes could have a material impact on our profitability, the value of assets held for investment or collateral for loans. Future legislative changes could require changes to business practices or force us to discontinue businesses and potentially expose us to additional costs, liabilities, enforcement action and reputational risk.

In addition to the enactment of the Dodd-Frank Act, the federal regulatory agencies have taken stronger supervisory actions against financial institutions that have experienced increased loan losses and other weaknesses as a result of the recent economic crisis. The actions include entering into written agreements and cease and desist orders that place certain limitations on operations. Federal bank regulators have also been using with more frequency their ability to impose individual minimum capital requirements on banks, which requirements may be higher than those required under the Dodd-Frank Act or that would otherwise qualify a bank as being "well capitalized" under applicable prompt corrective action regulations. If we were to become subject to a regulatory agreement or higher individual minimum capital requirements, such action may have a negative impact on our ability to execute our business plan, as well as our ability to grow, pay dividends or engage in mergers and acquisitions and may result in restrictions in our operations.

Additionally, in early July 2013, the Federal Reserve approved revisions to their capital adequacy guidelines and prompt corrective action rules that implement the revised standards of Basel III and address relevant provisions of the Dodd-Frank Act. Basel III and the regulations of the federal banking agencies require bank holding companies and banks to undertake significant activities to demonstrate compliance with the new and higher capital standards. Compliance with these rules will impose additional costs on the Company and the Bank.

Increased and/or special FDIC assessments will hurt our earnings.

The recent economic recession has caused a high level of bank failures, which has dramatically increased FDIC resolution costs and led to a significant reduction in the balance of the Deposit Insurance Fund. As a result, the FDIC has significantly increased the initial base assessment rates paid by financial institutions for deposit insurance. Increases in the base assessment rate have increased our deposit insurance costs and negatively impacted our earnings. In addition, in May 2009, the FDIC imposed a special assessment on all insured institutions. Our special assessment, which was reflected in earnings for the quarter ended June 30, 2009, was $217,000. In lieu of imposing an additional special assessment, the FDIC required all institutions to prepay their assessments for all of 2010, 2011 and 2012, which for us totaled $2.1 million. Additional increases in the base assessment rate or additional special assessments would negatively impact our earnings.

Strong competition within our primary market area could hurt our profits and slow growth.

We face intense competition both in making loans and attracting deposits. This competition has made it more difficult for us to make new loans and attract deposits. Price competition for loans and deposits might result in us earning less on our loans and paying more on our deposits, which would reduce net interest income. Competition also makes it more difficult to grow loans and deposits. At June 30, 2013, which is the most recent date for which data is available from the Federal Deposit Insurance Corporation, we held approximately 12.95%, 2.82%, 29.40%, 80.12% and 10.00% of the FDIC-insured deposits in Clark, Floyd, Harrison, Crawford and Washington Counties, Indiana, respectively. Some of the institutions with which we compete have substantially greater resources and lending limits than we have and may offer services that we do not provide. We expect competition to increase in the future as a result of legislative, regulatory and technological changes and the continuing trend of consolidation in the financial services industry. Our profitability depends upon our continued ability to compete successfully in our primary market area. See *"Item 1. Business Market Area"* and *"Item 1. Business Competition"* for more information about our primary market area and the competition we face.

Because the nature of the financial services business involves a high volume of transactions, we face significant operational risks.

Operational risk is the risk of loss resulting from our operations, including, but not limited to, the risk of fraud by employees or persons outside of the Company and Bank, the execution of unauthorized transactions by employees, errors relating to transaction processing and technology, breaches of the internal control system and compliance requirements and business continuation and disaster recovery. This risk of loss also includes the potential legal actions that could arise as a result of an operational deficiency or as a result of noncompliance with applicable regulatory standards, adverse business decisions or their implementation, and customer attrition due to potential negative publicity. In the event of a breakdown in the internal control system, improper operation of systems or improper employee actions, we could suffer financial loss, face regulatory action and suffer damage to our reputation.

Our business may be adversely affected by internet fraud.

We are inherently exposed to many types of operational risk, including those caused by the use of computer, internet and telecommunications systems. These risks may manifest themselves in the form of fraud by employees, by customers, other outside entities targeting us and/or our customers that use our internet banking, electronic banking or some other form of our telecommunications systems. Given the growing level of use of electronic, internet-based, and networked systems to conduct business directly or indirectly with our clients, certain fraud losses may not be avoidable regardless of the preventative and detection systems in place.

We may experience interruptions or breaches in our information system security.

We rely heavily on communications and information systems to conduct our business. Any failure or interruption of these systems could result in failures or disruptions in our customer relationship management, general ledger, deposit, loan and other systems. While we have policies and procedures designed to prevent or limit the effect of the failure or interruption of these information systems, there can be no assurance that any such failures or interruptions will not occur or, if they do occur, that they will be adequately addressed. The occurrence of any failures or interruptions of these information systems could damage our reputation, result in a loss of customer business, subject us to additional regulatory scrutiny, or expose us to civil litigation and possible financial liability, any of which could have a material adverse effect on our financial condition and results of operations.

A failure in or breach, including cyber attacks, of our operational or security systems, or those of our third party vendors and other service providers, could disrupt our businesses, result in the disclosure or misuse of confidential or proprietary information, damage our reputation, increase our costs and cause losses.

As a financial institution, we are susceptible to fraudulent activity that may be committed against us or our clients and that may result in financial losses to us or our clients, privacy breaches against our clients, or damage to our reputation. Such fraudulent activity may take many forms, including check fraud, electronic fraud, wire fraud, phishing, and other dishonest acts. In recent periods, there has been a rise in electronic fraudulent activity within the financial services industry, especially in the commercial banking sector, due to cyber criminals targeting commercial bank accounts. Consistent with industry trends, we have also experienced an increase in attempted electronic fraudulent activity in recent periods.

In addition, our operations rely on the secure processing, storage and transmission of confidential and other information on our computer systems and networks. Although we take numerous protective measures to maintain the confidentiality, integrity and availability of our and our clients' information across all geographic and product lines, and endeavor to modify these protective measures as circumstances warrant, the nature of the threats continues to evolve. As a result, our computer systems, software and networks and those of our customers may be vulnerable to unauthorized access, loss or destruction of data (including confidential client information), account takeovers, unavailability of service, computer viruses or other malicious code, cyber attacks and other events that could have an adverse security impact and result in significant losses by us and/or our customers. Despite the defensive measures we take to manage our internal technological and operational infrastructure, these threats may originate externally from third parties, such as foreign governments, organized crime and other hackers, and outsource or infrastructure-support providers and application developers, or the threats may originate from within our organization. Given the increasingly high volume of our transactions, certain errors may be repeated or compounded before they can be discovered and rectified.

We also face the risk of operational disruption, failure, termination or capacity constraints of any of the third parties that facilitate our business activities, including exchanges, clearing agents, clearing houses or other financial intermediaries. Such parties could also be the source of an attack on, or breach of, our operational systems, data or infrastructure. In addition, as interconnectivity with our clients grows, we increasingly face the risk of operational failure with respect to our clients' systems.

Although to date we have not experienced any material losses relating to cyber attacks or other information security breaches, there can be no assurance that we will not suffer such losses in the future. Our risk and exposure to these matters remains heightened because of, among other things, the evolving nature of these threats, the outsourcing of some of our business operations, and the continued uncertain global economic environment. As cyber threats continue to evolve, we may be required to expend significant additional resources to continue to modify or enhance our protective measures or to investigate and remediate any information security vulnerabilities.

We maintain an insurance policy which we believe provides sufficient coverage at a manageable expense for an institution of our size and scope with similar technological systems. However, we cannot assure that this policy will afford coverage for all possible losses or would be sufficient to cover all financial losses, damages, penalties, including lost revenues, should we experience any one or more of our or a third party's systems failing or experiencing attack.

We operate in a highly regulated environment and we may be adversely affected by changes in laws and regulations.

The Bank is subject to extensive regulation, supervision and examination by the Office of the Comptroller of the Currency, its chartering authority, and by the Federal Deposit Insurance Corporation, as insurer of its deposits. The Company is also subject to regulation and supervision by the Federal Reserve Bank of St. Louis. Such regulation and supervision governs the activities in which an institution and its holding company may engage, and are intended primarily for the protection of the insurance fund and the depositors and borrowers of the Bank rather than for holders of the Company’s common stock. Regulatory authorities have extensive discretion in their supervisory and enforcement activities, including the imposition of restrictions on our operations, the classification of our assets and determination of the level of our allowance for loan losses. If our regulators require us to charge-off loans or increase our allowance for loan losses, our earnings would suffer. Any change in such regulation and oversight, whether in the form of regulatory policy, regulations, legislation or supervisory action, may have a material impact on our operations. For a further discussion, see *“Item 1. Business Regulation and Supervision.”*

Our ability to pay dividends is subject to certain limitations and restrictions, and there is no guarantee that we will be able to continue paying the same level of dividends in the future that we paid in 2013 or that we will be able to pay future dividends at all.

Our ability to pay dividends is limited by regulatory restrictions and the need to maintain sufficient consolidated capital. The ability of the Bank to pay dividends to the Company is limited by its obligations to maintain sufficient capital and liquidity, and by other regulatory restrictions. The Office of the Comptroller of the Currency and other banking regulators have proposed guidelines seeking greater liquidity and have issued regulations requiring greater capital requirements. If these regulatory requirements are not met, the Bank will not be able to pay dividends to the Company, and consequently we may be unable to pay dividends on our common stock. In addition, as a savings and loan holding company, our ability to declare and pay dividends is subject to the guidelines of the Federal Reserve Bank of St. Louis regarding capital adequacy and dividends.

On August 11, 2011, we issued shares of Senior Non-Cumulative Perpetual Preferred Stock, Series A to the United States Department of the Treasury as a result of participation in its Small Business Lending Fund program. We are prohibited from continuing to pay dividends on our common stock unless we have fully paid all required dividends on the senior preferred stock. Although we expect to be able to pay all required dividends on the senior preferred stock, there is no guarantee that we will be able to do so.

If we are unable to redeem the Senior Non-cumulative Perpetual Preferred Stock, Series A after an initial four-and-one-half year period, the cost of this capital will increase substantially.

If we are unable to redeem the Senior Non-cumulative Preferred Stock, Series A prior to February 11, 2016, the cost of this capital to us will increase from approximately $171,000 annually (based on the average dividend rate for 2013, or 1.0% per annum of the Series A preferred stock liquidation value) to $1.5 million annually (9.0% per annum of the Series A preferred stock liquidation value). This increase in the annual dividend rate on the Senior Non-cumulative Preferred Stock, Series A would have a material negative effect on the earnings we can retain for growth and to pay dividends on our common stock.

There is a limited trading market for our stock and you may not be able to resell your shares at or above the price you paid for them.

The price of the common stock purchased may decrease significantly. Although our common stock is quoted on the NASDAQ Capital Market under the symbol "FSFG", trading activity in the stock historically has been sporadic. A public trading market having the desired characteristics of liquidity and order depends on the presence in the market of willing buyers and sellers at any given time. The presence of willing buyers and sellers depends on the individual decisions of investors and general economic conditions, all of which are beyond our control.

Item 1B. UNRESOLVED STAFF COMMENTS

None.

Item 2. PROPERTIES

We conduct our business through our main office and branch offices. The following table sets forth certain information relating to these facilities as of September 30, 2013.

Location	Year Opened	Owned/ Leased
Main Office:		
Clarksville Main Office 501 East Lewis & Clark Parkway Clarksville, Indiana	1968	Owned
Branch Offices:		
Jeffersonville - Allison Lane Office 2213 Allison Lane Jeffersonville, Indiana	1975	Owned
Charlestown Office 1100 Market Street Charlestown, Indiana	1993	Owned
Floyd Knobs Office 3711 Paoli Pike Floyd Knobs, Indiana	1999	Owned
Georgetown Office 1000 Copperfield Drive Georgetown, Indiana	2003	Owned
Jeffersonville - Court Avenue Office 202 East Court Avenue Jeffersonville, Indiana	1986	Owned
Sellersburg Office 125 Hunter Station Way Sellersburg, Indiana	1995	Owned
Corydon Office 900 Hwy 62 NW Corydon, Indiana	1996	Owned
Salem Office 1336 S Jackson Street Salem, Indiana	1995	Owned
English Office 200 Indiana Avenue	1925	Owned

English, Indiana		
Marengo Office 125 W Old Short Street Marengo, Indiana	1984	Owned
Leavenworth Office 510 Hwy 62 Leavenworth, Indiana	1969	Owned
Lanesville Office 7340 Main Street NE Lanesville, Indiana	1948	Owned
Elizabeth Office 8160 Beech Street SE Elizabeth, Indiana	1975	Owned
New Albany Office 2218 State Street New Albany, Indiana	2013	Owned

The Bank owns one former branch office location that has been closed and consolidated into existing branch office operations. This is located in Milltown, Indiana, valued at the amount of $250,000, held for sale and included in other real estate owned, held for sale at September 30, 2013 on the balance sheet of the Consolidated Financial Statements beginning on page F-1 of this annual report.

The Company owns a 4.077 acre parcel of land in New Albany, Indiana, which it has developed for retail purposes through a subsidiary of the Bank, FFCC, Inc. The retail development includes over 36,000 square feet of leasable class-A retail space and includes the Bank's New Albany branch office location. See Note 8 of the Notes to Consolidated Financial Statements beginning on page F-1 of this annual report for additional information regarding the real estate development and construction.

The Company purchased an 8.097 acre parcel of land in Jeffersonville, Indiana, in July 2013 upon which it may locate a new main office and also develop for retail purposes in future years. However, there were no formal plans as of September 30, 2013 to proceed with a new main office location or development of the additional acreage. This land, with a carrying value of approximately $1.73 million, was included in premises and equipment at September 30, 20103 on the balance sheet of the Consolidated Financial Statements beginning on page F-1 of this annual report.

Item 3. LEGAL PROCEEDINGS

Periodically, there have been various claims and lawsuits against us, such as claims to enforce liens, condemnation proceedings on properties in which we hold security interests, claims involving the making and servicing of real property loans and other issues incident to our business. We are not a party to any pending legal proceedings that we believe would have a material adverse effect on our financial condition, results of operations or cash flows.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market for Common Equity and Related Stockholder Matters

The Company's common stock is listed on the NASDAQ Capital Market ("NASDAQ") under the trading symbol "FSFG." As of December 13, 2013, the Company had approximately 277 holders of record and 2,262,305 shares of common stock outstanding. The figure of shareholders of record does not reflect the number of person whose shares are in nominee or "street" name accounts through brokers. See Item 1, *"Business Regulation and Supervision Limitation on Capital Distributions"* and Note 26 of the Notes to Consolidated Financial Statements beginning on page F-1 of this annual report for information regarding dividend restrictions applicable to the Company.

The following table provides quarterly market price and dividend information per common share for the fiscal years ended September 30, 2013 and 2012 as reported by NASDAQ.

	High Sale	Low Sale	Dividends	Market price end of period
2013:				
Fourth Quarter	$ 28.20	$ 21.10	$ 0.10	$ 22.50
Third Quarter	23.67	21.35	0.10	23.34
Second Quarter	24.25	18.93	0.10	21.71
First Quarter	20.00	17.96	0.40	19.49
2012:				
Fourth Quarter	$ 19.55	$ 17.51	$ 0.00	$ 19.50
Third Quarter	18.49	16.80	0.00	17.65
Second Quarter	17.61	16.25	0.00	17.10
First Quarter	19.04	15.23	0.00	16.92

On November 21, 2013, the Company declared a quarterly cash dividend of $0.10 per share on its outstanding common stock, payable on or about December 31, 2013 to stockholders of record as of the close of business on December 1, 2013. The Company currently intends to maintain a policy of paying regular quarterly cash dividends; however, the Company cannot guarantee that it will pay dividends or that if paid, it will not reduce or eliminate dividends in the future.

Purchases of Equity Securities

The following table presents information regarding the Company's stock repurchase activity during the quarter ended September 30, 2013:

Period	(a) Total number of shares purchased	(b) Average price paid per share		(c) Total number of shares purchased as part of publicly announced plans or programs (1)	(d) Maximum number of shares that may yet be purchased under the plans or programs
July 1, 2013 through July 31, 2013					240,289
August 1, 2013 through August 31, 2013	2,500	$	22.26	2,500	237,789
September 1, 2013 through September 30, 2013	11,083	$	22.88	11,083	226,706
Total	13,583	$	22.76	13,583	226,706

(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 6. SELECTED FINANCIAL DATA

The following tables contain certain information concerning our consolidated financial position and results of operations, which is derived in part from our audited consolidated financial statements. The following is only a summary and should be read in conjunction with the audited consolidated financial statements and notes thereto beginning on page F-1 of this annual report.

	At September 30,				
(In thousands)	2013	2012	2011	2010	2009
Financial Condition Data:					
Total assets	$ 660,455	$ 638,913	$ 537,086	$ 508,442	$ 480,811
Cash and cash equivalents	20,815	38,791	27,203	11,278	10,404
Securities available-for-sale	164,167	152,543	108,577	109,976	72,580
Securities held-to-maturity	6,417	7,848	9,506	3,929	6,782
Loans, net	408,375	389,067	354,432	343,615	353,823
Deposits	477,726	494,234	387,626	366,161	350,816
Borrowings from Federal Home Loan Bank	89,348	53,062	53,137	67,159	55,773
Other borrowings	6,308	3,461	16,403	16,821	18,419
Stockholders' equity	82,253	82,926	76,601	55,151	52,877

	For the Year Ended September 30,				
(In thousands)	2013	2012	2011	2010	2009
Operating Data:					
Interest income	$ 27,175	$ 25,994	$ 25,983	$ 26,262	$ 13,008
Interest expense	3,936	4,675	5,385	6,117	4,440
Net interest income	23,239	21,319	20,598	20,145	8,568
Provision for loan losses	1,858	1,532	1,605	1,604	819
Net interest income after provision for loan losses	21,381	19,787	18,993	18,541	7,749
Noninterest income	4,258	3,422	3,008	2,916	1,263
Noninterest expense	19,132	17,464	16,308	18,020	9,231
Income (loss) before income taxes	6,507	5,745	5,693	3,437	(219)
Income tax expense (benefit)	1,811	1,458	1,679	808	(252)
Net income	4,696	4,287	4,014	2,629	33
Less: Preferred stock dividends declared	171	171	115	-	-
Net income available to common shareholders	$ 4,525	$ 4,116	$ 3,899	$ 2,629	$ 33

	For the Year Ended September 30,				
	2013	2012	2011	2010	2009
Per Share Data:					
Net income per common share, basic	$ 2.09	$ 1.90	$ 1.82	$ 1.17	$ 0.01
Net income per common share, diluted	1.99	1.85	1.78	1.17	0.01
Dividends per common share	0.70	0.00	0.00	0.08	0.00

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	At or For the Year Ended September 30,									
	2013		2012		2011		2010		2009	
Performance Ratios:										
Return on average assets	0.72	%	0.75	%	0.78	%	0.53	%	0.01	%
Return on average equity	5.63		5.42		6.85		4.93		0.06	
Interest rate spread (1)	3.98		4.07		4.30		4.44		3.41	
Net interest margin (2)	4.09		4.22		4.44		4.57		3.93	
Other expenses to average assets	2.94		3.05		3.15		3.66		3.90	
Efficiency ratio (3)	69.58		70.59		69.08		78.14		93.90	
Average interest-earning assets to average interest-bearing liabilities	115.27		116.16		111.98		109.89		125.66	
Dividend payout ratio	33.48						7.34			
Average equity to average assets	12.81		13.81		11.33		10.85		21.84	
Capital Ratios:										
Tangible capital (4)	10.36	%	10.12	%	11.34	%	7.84	%	7.55	%
Core capital (4)	10.36		10.12		11.34		7.84		7.55	
Risk-based capital (4)	17.04		17.07		17.52		12.77		12.32	
Asset Quality Ratios:										
Allowance for loan losses as a percent of total loans	1.32	%	1.23	%	1.29	%	1.09	%	1.03	%
Allowance for loan losses as a percent of non-performing loans	61.15		84.12		63.70		63.88		70.06	
Net charge-offs to average outstanding loans during the period	0.30		0.35		0.21		0.42		0.38	
Non-performing loans as a percent of total loans	2.17		1.46		2.02		1.71		1.47	
Non-performing assets as a percent of total assets	2.39		2.21		2.01		1.47		1.44	
Other Data:										
Number of offices	15		14		12		12		14	
Number of deposit accounts (5)	34,788		36,259		29,777		31,100		32,689	
Number of loans (6)	5,663		6,072		5,777		6,410		6,552	

(1) Represents the difference between the weighted average yield on average interest-earning assets and the weighted average cost on average interest-bearing liabilities. Tax exempt income is reported on a tax equivalent basis using a federal marginal tax rate of 34%.
(2) Represents net interest income as a percent of average interest-earning assets. Tax exempt income is reported on a tax equivalent basis using a federal marginal tax rate of 34%.
(3) Represents other expenses divided by the sum of net interest income and other income.
(4) Represents the capital ratios of only the Bank.
(5) The significant increase from 2011 to 2012 is due primarily to 5,826 deposit accounts acquired in the acquisition of the First Federal branches.
(6) The significant increase from 2011 to 2012 is due primarily to 768 loans acquired in the acquisition of the First Federal branches.

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Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

Overview

Income. Our primary source of pre-tax income is net interest income. Net interest income is the difference between interest income, which is the income that we earn on our loans and investments, and interest expense, which is the interest that we pay on our deposits and borrowings. Other significant sources of pre-tax income are service charges (mostly from service charges on deposit accounts and loan servicing fees), increases in the cash surrender value of life insurance, fees from sale of mortgage loans originated for sale in the secondary market, commissions on sales of securities and insurance products, and net realized and unrealized gains on trading account securities. We also recognize income from the sale of investment securities.

Allowance for Loan Losses. The allowance for loan losses is a valuation allowance for probable losses inherent in the loan portfolio. We evaluate the need to establish allowances against losses on loans on a quarterly basis. When additional allowances are necessary, a provision for loan losses is charged to earnings.

Expenses. The noninterest expenses we incur in operating our business consist of salaries and employee benefits expenses, occupancy expenses, data processing expenses, professional service fees, federal deposit insurance premiums, advertising, net losses on foreclosed real estate and other miscellaneous expenses. Our noninterest expenses increased for the year ended September 30, 2013 when compared to 2012 primarily as a result of nonrecurring expenses in 2013 relating to the opening of the new State Street branch in New Albany, Indiana. These 2013 additional expenses consisted primarily of compensation and benefits and occupancy and equipment.

Salaries and employee benefits consist primarily of: salaries and wages paid to our employees; payroll taxes; and expenses for health insurance, retirement plans and other employee benefits. We also recognize annual employee compensation expenses related to the equity incentive plan as the equity incentive awards vest. See Note 17 of the Notes to Consolidated Financial Statements beginning on page F-1 of this annual report for additional information regarding the stock based compensation plans.

Occupancy expenses, which are the fixed and variable costs of buildings and equipment, consist primarily of depreciation charges, furniture and equipment expenses, maintenance, real estate taxes and costs of utilities. Depreciation of premises and equipment is computed using the straight-line method based on the useful lives of the related assets, which range from three to 50 years.

Data processing expenses are the fees we pay to third parties for processing customer information, deposits and loans. Our data processing expenses decreased in the year ended September 30, 2013 when compared to 2012 primarily as a result of nonrecurring expenses in 2012 relating to the integration of the First Federal branches with the Bank's core operating system. These nonrecurring charges associated with the integration of the First Federal branches with the Bank's core operating system amounted to $327,000 during 2012.

Professional fees expense represents the fees we pay to third parties for legal, accounting, investment advisory and other consulting services. Our professional fees decreased in the year ended September 30, 2013 when compared to 2012 primarily as a result of nonrecurring expenses in 2012 relating to the acquisition and integration of the First Federal branches. The 2012 nonrecurring charges associated with the acquisition and integration of the First Federal branches amounted to $194,000.

Federal deposit insurance premiums are payments we make to the Federal Deposit Insurance Corporation for insurance of our deposit accounts.

Other expenses include expenses for office supplies, postage, telephone, insurance, regulatory assessments and other miscellaneous operating expenses.

Critical Accounting Policies

The accounting and reporting policies of the Company comply with accounting principles generally accepted in the United States of America and conform to general practices within the banking industry. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. The financial position and results of operations can be affected by these estimates and assumptions, which are integral to understanding reported results. Critical accounting policies are those policies that require management to make assumptions about matters that are highly uncertain at the time an accounting estimate is made; and different estimates that the Company reasonably could have used in the current period, or changes in the accounting estimate that are reasonably likely to occur from period to period, would have a material impact on the Company’s financial condition, changes in financial condition or results of operations. Most accounting policies are not considered by management to be critical accounting policies. Several factors are considered in determining whether or not a policy is critical in the preparation of financial statements. These factors include, among other things, whether the estimates are significant to the financial statements, the nature of the estimates, the ability to readily validate the estimates with other information including third parties or available prices, and sensitivity of the estimates to changes in economic conditions and whether alternative accounting methods may be utilized under generally accepted accounting principles. Significant accounting policies, including the impact of recent accounting pronouncements, are discussed in Note 1 of the Notes to Consolidated Financial Statements. The policies considered to be the critical accounting policies are described below.

Allowance for Loan Losses. The allowance for loan losses is the amount estimated by management as necessary to cover losses inherent in the loan portfolio at the balance sheet date. The allowance is established through the provision for loan losses, which is charged to income. Determining the amount of the allowance for loan losses necessarily involves a high degree of judgment. Among the material estimates required to establish the allowance are: loss exposure at default; the amount and timing of future cash flows on impacted loans; value of collateral; and determination of loss factors to be applied to the various elements of the portfolio. All of these estimates are susceptible to significant change. Management reviews the level of the allowance at least quarterly and establishes the provision for loan losses based upon an evaluation of the portfolio, past loss experience, current economic conditions and other factors related to the collectability of the loan portfolio. Although we believe that we use the best information available to establish the allowance for loan losses, future adjustments to the allowance may be necessary if economic or other conditions differ substantially from the assumptions used in making the evaluation. In addition, the Office of the Comptroller of the Currency, as an integral part of its examination process, periodically reviews our allowance for loan losses and may require us to recognize adjustments to the allowance based on its judgments about information available to it at the time of its examination. A large loss could deplete the allowance and require increased provisions to replenish the allowance, which would adversely affect earnings. Note 1 of the Notes to Consolidated Financial Statements beginning on page F-1 of this annual report describes the methodology used to determine the allowance for loan losses. The Company has not made any substantive changes to its methodology for determining the allowance for loan losses during the fiscal year ended September 30, 2013, and there have been no material changes in the assumptions or estimation techniques compared to prior years.

Other-Than-Temporary Impairment of Securities. The Company reviews all investment securities with significant declines in fair value for potential other-than-temporary impairment (“OTTI”) on a periodic basis. In evaluating the investment portfolio for OTTI, management considers the issuer’s credit rating, credit outlook, payment status and financial condition, the length of time the investment has been in a loss position, the size of the loss position and other meaningful information. Generally changes in market interest rates that result in a decline in value of an investment security are considered to be temporary, since the value of such investment can recover in the foreseeable future as market interest rates return to their original levels. However, such declines in value that are due to the underlying credit quality of the issuer or other adverse conditions that cannot be expected to improve in the foreseeable future, may be considered to be other-than-temporary. The Company recognizes credit-related OTTI on debt securities in earnings, while noncredit-related OTTI on debt securities not expected to be sold is recognized in accumulated other comprehensive income. Management believes this is a critical accounting policy because this evaluation of the underlying credit or analysis of other conditions contributing to the decline in value involves a high degree of complexity and requires us to make subjective judgments that often require assumptions or estimates about various matters. No other-than-temporary write-down charges to earnings were recognized during 2013 or 2012. See Note 4 of the Notes to Consolidated Financial Statements beginning on page F-1 of this annual report for additional information regarding OTTI.

Valuation Methodologies. In the ordinary course of business, management applies various valuation methodologies to assets and liabilities that often involve a significant degree of judgment, particularly when active markets do not exist for the items being valued. Generally, in evaluating various assets for potential impairment, management compares the fair value to the carrying value. Quoted market prices are referred to when estimating fair values for certain assets, such as investment securities. However, for those items for which market-based prices do not exist, management utilizes significant estimates and assumptions to value such items. Examples of these items include goodwill and other intangible assets, foreclosed and other repossessed assets, estimated present value of impaired loans, value ascribed to stock-based compensation and certain other financial investments. The use of different assumptions could produce significantly different results, which could have material positive or negative effects on the Company's results of operations.

Operating Strategy

Our mission is to operate and grow a profitable community-oriented financial institution. We plan to achieve this by executing our strategy of:

· continuing our historical focus on residential mortgage lending but de-emphasizing residential mortgage lending secured by non-owner occupied properties;

· pursuing opportunities to increase commercial real estate lending and commercial business lending;

· improving customer service and product offerings by leveraging the Bank's investment in new technology, including the core operating system;

· providing exceptional customer service to attract and retain customers;

· promoting our presence, brand image and product offerings in our primarily market area using our newly designed logo and marketing promotions that were launched in September 2011;

· continuing to monitor asset quality and credit risk in the loan and investment portfolios;

· recognizing improvements in noninterest income with respect to service charges on deposits as a result of restructuring deposit account types and fees, interchange income as a result of promoting increased debit card usage, commission income related to non-deposit investment products and gains on sales of mortgage loans sold in the secondary market;

· expanding our market share and market area by opening new branch offices and pursuing opportunities to acquire other financial institutions or branches; and

· increasing shareholder value through stock repurchase programs and dividends.

Continuing our historical focus on residential mortgage lending but de-emphasizing residential mortgage lending secured by non-owner occupied properties.

Our predominant lending activity has been residential mortgage lending in our primary market area. A significant portion of the residential mortgage loans that we had originated before 2005 are secured by non-owner occupied properties. Loans secured by non-owner occupied properties generally carry a greater risk of loss than loans secured by owner-occupied properties, and our non-performing loan balances have increased in recent periods primarily because of delinquencies in our non-owner occupied residential loan portfolio. Since 2005, when we hired a new President and Chief Executive Officer, we have de-emphasized non-owner occupied residential mortgage lending and have focused, and intend to continue to focus, our residential mortgage lending primarily on originating residential mortgage loans secured by owner-occupied properties. At September 30, 2013, 44.1% of our total loans were residential mortgage loans and 20.7% of our residential mortgage loans were secured by non-owner occupied properties. We intend to expand our emphasis on residential mortgage lending because this type of lending generally carries lower credit risk and has contributed to our historically favorable asset quality.

Pursuing opportunities to increase commercial real estate lending and commercial business lending.

In recent periods, we have begun to focus on commercial real estate and commercial business lending and intend to continue this focus. Commercial real estate loans and commercial business loans give us the opportunity to earn more income because these loans have higher interest rates than residential mortgage loans in order to compensate for the increased credit risk. At September 30, 2013, commercial real estate loans and commercial business loans represented 28.17% and 7.56%, respectively, of our total loans. We intend to continue to pursue these lending opportunities in our primary market area. In addition, the Company's participation in the United States Department of the Treasury's Small Business Lending Fund program, as discussed further in Note 25 of the Notes to Consolidated Financial Statements beginning on page F-1 of this annual report, also provides an incentive and capital to increase commercial lending.

During 2013, we began a commercial real estate lending program that is focused on loans to high net worth individuals that are secured by low loan-to-value, single-tenant commercial properties that are leased to investment grade national-brand retailers. This program is designed to diversify the Company's geographic and credit risk profile given the geographic dispersion of the loans and collateral, and the investment grade credit of the national-brand lessees. The Company originated $17.5 million of these loans during 2013 and the portfolio balance was $17.4 million at September 30, 2013.

Continuing to integrate the Community First and First Federal offices, customers and product lines.

During 2010, we began to integrate the Community First offices and customers by integrating the core operating systems of the Bank and Community First onto a single core operating system, which was successfully completed in August 2010. This single system permits Bank customers to utilize all office locations, permits Bank officers and staff to extract and monitor a standard set of information available from all office locations and allows the Bank to offer a uniform set of product offerings focus. In addition, during 2011 and 2012, we successfully rebranded all office locations, including those operating under the Community First name, with a new 'look' and logo for First Savings Bank in order to provide uniformity to our existing and prospective customer base. In 2012 and 2013 we integrated the First Federal offices and customers into the existing First Savings franchise.

Providing exceptional customer service to attract and retain customers.

As a community-oriented financial institution, we emphasize providing exceptional customer service as a means to attract and retain customers. We deliver personalized service and respond with flexibility to customer needs. We believe that our community orientation is attractive to our customers and distinguishes us from the larger banks that operate in our primary market area.

Continuing to monitor asset quality and credit risk.

Our strategy for credit risk management focuses on having well-defined credit policies and uniform underwriting criteria and providing prompt attention to potential problem loans. During 2013 and 2012, we have placed special emphasis on the improvement of asset quality and reductions in the levels of classified and criticized assets, which has resulted in significant improvements. For more information about our monitoring of credit risk and improvement in levels of classified and criticized assets, see *"Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Risk Management."*

Recognizing improvements in noninterest income.

The Company has recognized significant improvement in its levels of noninterest income for 2013 and 2012 as compared to prior fiscal years due primarily to net gains on sales of loans, net gains on trading securities, increases in cash surrender value of life insurance, real estate lease income, and surcharge and interchange income. However, the Company still underperforms compared to its peers, particularly with respect to service charges on deposit fee income. Therefore, the Company engaged a consulting firm in September 2013 for the purposes of enhancing noninterest income and reducing noninterest expense, the results from which are expected to begin being realized during 2014.

Expanding our market share and market area.

The 2009 acquisition of Community First expanded our market area into Harrison, Crawford and Washington Counties, Indiana, while the 2012 acquisition of the First Federal branches enhanced our presence in Harrison and Floyd Counties, Indiana. As previously discussed, we successfully rebranded the twelve office locations during 2011 and 2012 with a new look and logo for First Savings Bank and have also expanded our marketing efforts as a result of such. In addition, we intend to continue to pursue opportunities to expand our market share and market area by seeking to open additional branch offices and pursuing opportunities to acquire other financial institutions or branches of other financial institutions in our primary market area and surrounding areas.

Increasing shareholder value through stock repurchase programs and dividends.

The Company has been active in the repurchase of its common shares and has purchased and committed 242,388 shares to treasury as of September 30, 2013, which represents 9.54% of the 2,542,042 common shares issued in its public offering in October 2008. In addition, the Company has 226,706 common shares remaining for repurchase under the stock repurchase program approved by its Board of Directors on November 16, 2012. 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. For more information about our stock repurchases, see *"Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities."*

The Company paid a special cash dividend of $0.40 per common share during the quarter ended December 31, 2012 and implemented quarterly a cash dividend plan of $0.10 per common share beginning with the quarter ended March 31, 2013, under which it paid $0.10 per common share for the quarters ended March 31, June 30 and September 30, 2013, for a total of $0.70 per common share paid during the fiscal year ended September 30, 2013. The Company currently intends to maintain a policy of paying regular quarterly cash dividends; however, the Company cannot guarantee that it will pay dividends or that if paid, it will not reduce or eliminate dividends in the future. For more information about our dividends, see *"Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities."*

Issuance of Preferred Stock under the U.S. Department of the Treasury's Small Business Lending Fund

On August 11, 2011, First Savings Financial Group entered into and consummated a Securities Purchase Agreement (the "Purchase Agreement") with the Secretary of the Treasury, pursuant to which First Savings Financial Group issued 17,120 shares of Senior Non-Cumulative Perpetual Preferred Stock, Series A (the "Series A Preferred Stock"), having a liquidation amount per share equal to $1,000, for a total purchase price of $17.1 million. The Purchase Agreement was entered into, and the Series A Preferred Stock was issued, pursuant to the Small Business Lending Fund program, a $30 billion fund established under the Small Business Jobs Act of 2010, that encourages lending to small businesses by providing capital to qualified community banks with assets of less than $10 billion. See Note 25 of the Notes to Consolidated Financial Statements beginning of page F-1 of this annual report for additional information regarding the terms of the Series A Preferred Stock.

Balance Sheet Analysis

Cash and Cash Equivalents. At September 30, 2013 and 2012, cash and cash equivalents totaled $20.8 million and $38.8 million, respectively. The Bank is required to maintain reserve balances on hand and with the Federal Reserve Bank which are unavailable for investment but interest-bearing and the average amount of those reserve balances for the year ended September 30, 2013 was approximately $6.3 million.

Loans. Our primary lending activity is the origination of loans secured by real estate. We originate one-to four-family mortgage loans, multifamily loans, commercial real estate loans, commercial business loans and construction loans. To a lesser extent, we originate various consumer loans including home equity lines of credit.

Residential mortgage loans comprise the largest segment of our loan portfolio. At September 30, 2013, these loans totaled $184.4 million, or 44.1% of total loans, compared to $191.0 million, or 47.7% of total loans at September 30, 2012. Total residential mortgage loan balances decreased in 2013 primarily due to repayments and refinancings that were sold in the secondary market. We generally originate loans for investment purposes, although, depending on the interest rate environment, we typically sell 25-year and 30-year fixed-rate residential mortgage loans that we originate into the secondary market in order to limit exposure to interest rate risk and to earn noninterest income. Management intends to continue offering short-term adjustable rate residential mortgage loans and sell long-term fixed rate mortgage loans in the secondary market with servicing released.

Commercial real estate loans totaled $117.8 million, or 28.2% of total loans at September 30, 2013, compared to $90.3 million, or 22.6% of total loans at September 30, 2012. The balance of commercial real estate loans has increased primarily due to greater opportunity to originate these loans during 2013 as a result of our increased commercial lending personnel. Management continues to focus on pursuing nonresidential loan opportunities in order to further diversify the loan portfolio.

Consumer loans totaled $26.9 million, or 6.4% of total loans, at September 30, 2013 compared to $30.6 million, or 7.7% of total loans, at September 30, 2012. In general, organic consumer loans including automobile loans, home equity lines of credit, unsecured loans and loans secured by deposits, have declined due to pay-downs, payoffs, charge-offs and management's decision to focus on other lending opportunities with less inherent credit risk. In the aggregate, home equity lines of credit decreased $1.2 million, or 6.4%, while automobile loans decreased $1.7 million, or 20.7%, from September 30, 2012 to September 30, 2013.

Commercial business loans totaled $31.6 million, or 7.6% of total loans, at September 30, 2013 compared to $36.2 million, or 9.0% of total loans, at September 30, 2012. The balance of commercial business loans has decreased primarily due to repayments, payoffs, charge-offs and increased competition in the marketplace. Management continues to focus on pursuing commercial business loan opportunities in order to further diversify the loan portfolio.

Multi-family real estate loans totaled $26.8 million, or 6.4% of total loans at September 30, 2013, compared to $23.9 million, or 6.0% of total loans at September 30, 2012. The balance of multi-family real estate loans increased primarily due to greater opportunity to originate these loans during 2013.

Residential construction loans totaled $12.5 million, or 3.0% of total loans, at September 30, 2013 of which $7.7 million were speculative construction loans. At September 30, 2012, residential construction loans totaled $10.7 million, or 2.7% of total loans, of which $6.4 million were speculative loans. The general slowdown in the housing market in our primary market area and, to a lesser extent, increased competition in the market for these loans has somewhat decreased the opportunity to originate these loans and significantly grow this segment of the portfolio. We intend to continue pursuing quality construction lending opportunities as the housing market continues to recover.

Commercial construction loans totaled $6.7 million, or 1.6% of total loans, at September 30, 2013 compared to $5.2 million, or 1.3% of total loans at September 30, 2012. The general slowdown of commercial construction in our primary market area and increased competition in the marketplace has decreased the opportunity to originate these loans and grow this segment of the portfolio.

Land and land development loans totaled $11.4 million, or 2.7% of total loans at September 30, 2013, compared to $12.3 million, or 3.1% of total loans at September 30, 2012. These loans are primarily secured by vacant lots to be improved for residential and nonresidential development and farmland. The general slowdown of residential and commercial construction in our primary market area and increased competition in the marketplace has decreased the opportunity to originate these loans and grow this segment of the portfolio.

The following table sets forth the composition of our loan portfolio at the dates indicated.

	At September 30, 2013		2012		2011		2010		2009	
(Dollars in thousands)	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Real estate mortgage:										
Residential	$184,390	44.10 %	$190,958	47.72 %	$169,353	46.65 %	$172,007	49.33 %	$185,800	51.61 %
Commercial	117,782	28.17	90,290	22.56	73,513	20.25	53,869	15.45	48,090	13.36
Multi-family	26,759	6.40	23,879	5.97	24,909	6.86	20,360	5.84	12,584	3.50
Residential construction	12,537	3.00	10,748	2.69	8,002	2.20	15,867	4.55	14,555	4.04
Commercial construction	6,730	1.61	5,182	1.29	4,144	1.14	9,851	2.83	7,648	2.12
Land and land development	11,396	2.73	12,320	3.08	12,947	3.57	9,076	2.60	11,189	3.11
Total	359,594	86.01	333,377	83.31	292,868	80.67	281,030	80.60	279,866	77.74
Commercial business	31,627	7.56	36,189	9.04	40,628	11.19	30,905	8.86	36,901	10.25
Consumer:										
Home equity lines of credit	17,133	4.10	18,294	4.57	15,210	4.19	16,335	4.68	17,365	4.82
Auto loans	6,519	1.56	8,219	2.05	9,827	2.71	13,405	3.84	18,279	5.08
Other	3,266	0.77	4,114	1.03	4,514	1.24	7,030	2.02	7,567	2.11
Total	26,918	6.43	30,627	7.65	29,551	8.14	36,770	10.54	43,211	12.01
Total loans	418,139	100.00 %	400,193	100.00 %	363,047	100.00 %	348,705	100.00 %	359,978	100.00 %
Deferred loan origination fees and costs, net	(163)		(382)		(558)		(778)		(846)	
Undisbursed portion of loans in process	4,389		6,602		4,501		2,057		3,306	
Allowance for loan losses	5,538		4,906		4,672		3,811		3,695	
Loans, net	$408,375		$389,067		$354,432		$343,615		$353,823	

Loan Maturity

The following table sets forth certain information at September 30, 2013 regarding the dollar amount of loan principal repayments becoming due during the period indicated. The table does not include any estimate of prepayments which significantly shorten the average life of all loans and may cause our actual repayment experience to differ from that shown below. Demand loans having no stated schedule of repayments and no stated maturity, are reported as due in one year or less.

	At September 30, 2013					
(Dollars in thousands)	Residential Real Estate (1)	Commercial Real Estate (2)	Construction (3)	Commercial Business	Consumer	Total Loans
Amounts due in:						
One year or less	$ 26,104	$ 34,933	$ 19,267	$ 15,863	$ 7,501	$ 103,668
More than one year to two years	15,181	20,402	-	4,172	4,774	44,529
More than two years to three years	14,084	16,694	-	3,072	3,439	37,289
More than three years to five years	22,618	20,190	-	3,075	4,316	50,199
More than five years to ten years	42,466	27,266	-	3,138	5,129	77,999
More than ten years to fifteen years	31,590	5,890	-	1,440	1,759	40,679
More than fifteen years	59,106	3,803	-	867	-	63,776
Total	$ 211,149	$ 129,178	$ 19,267	$ 31,627	$ 26,918	$ 418,139

(1) Includes multi-family loans.
(2) Includes farmland and land and land development loans.
(3) Includes construction loans for which the Bank has committed to provide permanent financing.

Fixed vs. Adjustable Rate Loans

The following table sets forth the dollar amount of all loans at September 30, 2013 that are due after September 30, 2014, and have either fixed interest rates or adjustable interest rates. The amounts shown below exclude unearned loan origination fees.

(In thousands)	Fixed Rates	Adjustable Rates	Total
Residential real estate (1)	$ 108,451	$ 76,594	$ 185,045
Commercial real estate (2)	45,290	48,955	94,245
Construction	-	-	-
Commercial business	9,719	6,045	15,764
Consumer	5,678	13,739	19,417
Total	$ 169,138	$ 145,333	$ 314,471

(1) Includes multi-family loans.
(2) Includes farmland and land and land development loans.

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Loan Activity

The following table shows loans originated, purchased and sold during the periods indicated.

	Year Ended September 30,		
(In thousands)	2013	2012	2011
Total loans at beginning of period	$ 400,193	$ 363,047	$ 348,705
Loans originated:			
Residential real estate (1)	36,573	28,403	33,968
Commercial real estate (2)	60,503	29,622	26,313
Construction	9,122	8,239	4,440
Commercial business	8,296	8,936	17,327
Consumer	7,182	8,379	6,260
Total loans originated	121,676	83,579	88,308
Loans purchased		5,923	
Increase due to acquisition of First Federal branches		32,408	
Deduct:			
Loan principal repayments	(97,373)	(82,020)	(73,966)
Loan sales	(6,357)	(2,744)	
Net loan activity	17,946	37,146	14,342
Total loans at end of period	$ 418,139	$ 400,193	$ 363,047

(1) Includes multi-family loans.
(2) Includes farmland and land and land development loans.

Trading Account Securities. Our trading account securities represent an investment in a managed brokerage account in May 2012 that invests in small and medium lot, investment grade municipal bonds. The brokerage account is managed by an investment advisory firm registered with the U.S. Securities and Exchange Commission. At September 30, 2013, trading account securities recorded at fair value totaled $3.2 million, comprised of investment grade municipal bonds. See Note 4 of the Notes to Consolidated Financial Statements beginning on page F-1 of this annual report for additional information regarding trading account securities.

Securities Available for Sale. Our available for sale securities portfolio consists primarily of U.S. government agency and sponsored enterprises securities, mortgage backed securities and collateralized mortgage obligations issued by U.S. government agencies and sponsored enterprises, municipal bonds, and privately-issued collateralized mortgage obligations and asset-backed securities. Available for sale securities increased by $11.6 million from September 30, 2012 to September 30, 2013 primarily due to purchases of $51.0 million, which more than offset unrealized losses of $6.3 million, maturities and calls of $12.2 million, sales of $801,000 and principal repayments of $19.3 million.

Securities Held to Maturity. Our held to maturity securities portfolio consists primarily of mortgage-backed securities issued by government sponsored enterprises and municipal bonds. Held to maturity securities decreased by $1.4 million from September 30, 2012 to September 30, 2013 primarily due to maturities and principal repayments of $1.4 million.

The following table sets forth the amortized costs and fair values of our investment securities at the dates indicated.

(In thousands)	At September 30, 2013 Amortized Cost	Fair Value	2012 Amortized Cost	Fair Value	2011 Amortized Cost	Fair Value
Securities available for sale:						
Agency bonds and notes	$ 15,877	$ 15,197	$ 15,940	$ 16,064	$ 12,762	$ 12,866
Agency mortgage-backed securities	41,720	41,714	42,255	43,420	17,719	18,309
Agency CMO	24,200	24,074	17,186	17,541	25,368	25,691
Privately-issued CMO	3,881	4,616	4,283	5,289	4,414	4,704
Privately-issued asset-backed	5,829	7,799	5,797	7,227	5,623	6,692
SBA certificates	2,081	2,093				
Municipal	68,072	68,581	58,135	62,933	37,344	40,259
Equity securities		93		69		56
Total	$ 161,660	$ 164,167	$ 143,596	$ 152,543	$ 103,230	$ 108,577
Securities held to maturity:						
Agency mortgage-backed securities	$ 721	$ 773	$ 1,342	$ 1,460	$ 2,337	$ 2,521
Municipal	5,696	5,741	6,506	6,854	7,169	7,169
Total	$ 6,417	$ 6,514	$ 7,848	$ 8,314	$ 9,506	$ 9,690

The following table sets forth the activity in our investment available for sale and held to maturity securities portfolio during the periods indicated.

(In thousands)	At or For the Year Ended September 30, 2013	2012	2011
Mortgage-backed securities:			
Mortgage-backed securities, beginning of period (1)	$ 44,880	$ 20,830	$ 17,977
Purchases	11,361	33,762	9,157
Sales			(154)
Maturities			
Repayments and prepayments	(11,629)	(9,596)	(6,177)
Net amortization of premiums and accretion of discounts on securities	(887)	(625)	(348)
Gains on sales			9
Increase (decrease) in net unrealized gain	(1,238)	509	366
Net increase (decrease) in mortgage-backed securities	(2,393)	24,050	2,853
Mortgage-backed securities, end of period (1)	$ 42,487	$ 44,880	$ 20,830
Investment securities:			
Investment securities, beginning of period (1)	$ 115,977	$ 97,437	$ 96,143
Purchases	39,591	43,014	39,813
Sales	(801)	(2,265)	(6,941)
Maturities	(12,990)	(13,318)	(26,273)
Repayments and prepayments	(8,281)	(12,529)	(5,931)
Net accretion of premiums and discounts on securities	273	242	474

Other than temporary impairment loss						
Gains on sales		1		30		95
Increase (decrease) in net unrealized gain		(5,576)		3,366		57
Net increase in investment securities		12,217		18,540		1,294
Investment securities, end of period (1)	$	128,194	$	115,977	$	97,437

(1) At fair value.

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The following table sets forth the stated maturities and weighted average yields of debt securities at September 30, 2013. Weighted average yields on tax-exempt securities are presented on a tax equivalent basis using a federal marginal tax rate of 34%. Certain mortgage-backed securities and collateralized mortgage obligations have adjustable interest rates and will reprice annually within the various maturity ranges. These repricing schedules are not reflected in the table below. Weighted average yield calculations on investments available for sale do not give effect to changes in fair value that are reflected as a component of equity.

	One Year or Less		More than One Year to Five Years		More than Five Years to Ten Years		More than Ten Years		Total	
(Dollars in thousands)	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighte Average Yield
Securities available for sale:										
Agency bonds and notes	$	%	$	%	$8,319	1.34 %	$6,878	2.00 %	$15,197	1.64
Agency mortgage-backed securities			130	4.01	583	2.56	41,001	2.45	41,714	2.45
Agency CMO			1,168	1.41	845	2.06	22,061	1.61	24,074	1.62
Privately-issued CMO							4,616	9.37	4,616	9.37
Privately-issued ABS							7,799	24.47	7,799	24.47
SBA Certificates							2,093	0.92	2,093	0.92
Municipal	2,139	3.09	4,015	3.37	11,437	4.85	50,990	5.38	68,581	5.10
Total	$2,139	3.09 %	$5,313	2.96 %	$21,184	3.30 %	$135,438	4.87 %	$164,074	4.59
Securities held to maturity:										
Agency mortgage-backed securities	$	%	$	%	$	%	$721	4.73 %	$721	4.73
Municipal	634	5.75	2,162	6.17	1,680	6.95 %	1,220	6.78	5,696	6.48
Total	$634	5.75 %	$2,162	6.17 %	$1,680	6.95 %	$1,941	6.02 %	$6,417	6.29

As of September 30, 2013, we did not own any investment securities of a single issuer that had an aggregate book value in excess of 10% of the Company's stockholders' equity at that date, other than securities and obligations issued by U.S. government agencies and sponsored enterprises.

Deposits. Deposit accounts, generally obtained from individuals and businesses throughout our primary market area, are our primary source of funds for lending and investments. Our deposit accounts are comprised of noninterest-bearing accounts, interest-bearing savings, checking and money market accounts and certificates of deposits. Deposits decreased $16.5 million from September 30, 2012 to September 30, 2013. In the aggregate, the Bank recognized decreases in noninterest-bearing checking accounts of $409,000 and certificates of deposit of $41.8 million, partially offset by increases in interest-bearing checking accounts of $13.2 million, money market deposit accounts of $7.6 million and interest-bearing savings accounts of $4.9 million when comparing the two years.

Brokered certificates of deposit totaled $3.0 million at both September 30, 2013 and 2012. We have continued to promote relationship-oriented deposit accounts but at times utilize a certain level of brokered certificates of deposit as a lower-cost alternative to retail certificates of deposit. In addition, we have continued to develop and promote cash management services including sweep accounts and remote deposit capture during 2013 in order to increase the level of commercial deposit accounts. We believe that the development and promotion of these products has made us more competitive in attracting commercial deposits during recent periods.

The following table sets forth the balances of our deposit accounts at the dates indicated.

	At September 30,		
(In thousands)	2013	2012	2011
Non-interest-bearing demand deposits	$ 50,093	$ 50,502	$ 33,426
NOW accounts	113,670	100,438	67,801
Money market accounts	71,794	64,186	39,511
Savings accounts	67,463	62,610	42,191
Certificates of deposit	174,706	216,498	204,697
Total	$ 477,726	$ 494,234	$ 387,626

The following table indicates the amount of jumbo certificates of deposit by time remaining until maturity as of September 30, 2013. Jumbo certificates of deposit require minimum deposits of $100,000.

(In thousands)	Amount
Three months or less	$ 5,160
Over three through six months	6,826
Over six through twelve months	13,416
Over twelve months	27,533
Total	$ 52,935

The following table sets forth time deposits classified by rates at the dates indicated.

	At September 30,		
(In thousands)	2013	2012	2011
0.00 - 1.00%	$ 84,442	$ 88,816	$ 102,036
1.01 - 2.00%	46,692	66,867	36,736
2.01 - 3.00%	30,382	43,106	34,934
3.01 - 4.00%	8,113	10,523	14,869
4.01 - 5.00%	3,177	5,313	13,488
5.01 - 6.00%	1,900	1,873	2,519
6.01 - 7.00%			115
7.01 - 8.00%			
Total	$ 174,706	$ 216,498	$ 204,697

The following table sets forth the amount and maturities of time deposits at September 30, 2013.

	Amount Due					
(Dollars in thousands)	Less Than One Year	More Than One Year to Two Years	More Than Two Years to Three Years	More Than Three Years	Total	Percent of Total Time Deposit Accounts
0.00 - 1.00%	$ 61,367	$ 14,433	$ 4,311	$ 4,331	$ 84,442	48.33 %
1.01 - 2.00%	17,025	11,270	5,451	12,946	46,692	26.73
2.01 - 3.00%	2,914	9,974	7,644	9,850	30,382	17.39
3.01 - 4.00%	2,905	881	109	4,218	8,113	4.64
4.01 - 5.00%	1,214	216	781	966	3,177	1.82
5.01 - 6.00%	19		1,221	660	1,900	1.09
6.01 - 7.00%						
Total	$ 85,444	$ 36,774	$ 19,517	$ 32,971	$ 174,706	100.00 %

The following table sets forth deposit activity for the periods indicated.

	Year Ended September 30,					
(In thousands)	2013		2012		2011	
Beginning balance	$	494,234	$	387,626	$	366,161
Increase due to acquisition of First Federal branches				116,541		
Increase (decrease) before interest credited		(19,527)		(14,215)		17,846
Interest credited		3,019		4,282		3,619
Net increase in deposits		(16,508)		106,608		21,465
Ending balance	$	477,726	$	494,234	$	387,626

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Borrowings. We use borrowings from the Federal Home Loan Bank of Indianapolis (FHLBI) consisting of advances and borrowings under a line of credit arrangement to supplement our supply of funds for loans and investments. We also utilize retail and broker repurchase agreements as sources of borrowings.

The following table sets forth certain information regarding the Bank's use of FHLBI borrowings.

	Year Ended September 30,								
(Dollars in thousands)	2013			2012			2011		
Maximum amount of FHLBI borrowings outstanding at any month-end during period	$	89,348		$	98,381		$	78,162	
Average FHLBI borrowings outstanding during period		69,198			67,346			63,990	
Weighted average interest rate during period		1.53	%		1.68	%		1.71	%
Balance outstanding at end of period	$	89,348		$	53,062		$	53,137	
Weighted average interest rate at end of period		1.15	%		2.11	%		1.89	%

The outstanding balance of borrowings from the FHLBI increased $36.2 million from $53.1 million at September 30, 2012 to $89.3 million at September 30, 2013. FHLBI borrowings are primarily used to fund loan demand and to purchase available for sale securities. See Note 13 of the Notes to Consolidated Financial Statements beginning on page F-1 of this annual report for additional information regarding FHLBI borrowings.

The following table sets forth certain information regarding the Bank's use of borrowings under retail repurchase agreements.

	Year Ended September 30,								
(Dollars in thousands)	2013			2012			2011		
Maximum amount of retail repurchase agreements outstanding at any month-end during period	$	1,335		$	1,329		$	1,321	
Average retail repurchase agreements outstanding during period		1,332			1,324			1,316	
Weighted average interest rate during period		0.45	%		0.62	%		0.63	%
Balance outstanding at end of period	$	1,335		$	1,329		$	1,321	
Weighted average interest rate at end of period		0.25	%		0.50	%		0.63	%

The following table sets forth certain information regarding the Bank's use of borrowings under repurchase agreements with broker-dealers.

	Year Ended September 30,					
(Dollars in thousands)	2013		2012		2011	
Maximum amount of broker repurchase agreements outstanding at any month-end during period	$	-	$	15,047	$	15,473
Average broker repurchase agreements outstanding during period		-		2,785		15,312

Weighted average interest rate during period	-	2.09	%		2.07	%
Balance outstanding at end of period	-	-		$	15,082	
Weighted average interest rate at end of period	-	-			1.62	%

See Note 12 of the Notes to Consolidated Financial Statements beginning on page F-1 of this annual report for additional information regarding repurchase agreements.

Other Long-Term Debt. On July 27, 2012, FFCC, Inc. entered into a loan agreement with another financial institution to finance the retail development project discussed in Note 6 of the Notes to Consolidated Financial Statements beginning on page F-1 of this annual report. The loan has a maximum commitment of $5 million and FFCC, Inc. had borrowed $5.0 million under the loan at September 30, 2013. See Note 14 of the Notes to Consolidated Financial Statements beginning on page F-1 of this annual report for additional information regarding other long-term debt.

Results of Operations for the Years Ended September 30, 2013 and 2012

Overview. The Company reported net income of $4.7 million and net income available to common shareholders of $4.5 million ($1.99 per common share diluted; weighted average common shares outstanding of 2,269,063, as adjusted) for the year ended September 30, 2013, compared to net income of $4.3 million and net income available to common shareholders of $4.1 million ($1.85 per common share diluted; weighted average common shares outstanding of 2,230,188, as adjusted) for the year ended September 30, 2012.

As discussed in "Noninterest Expense" below, the Company recognized nonrecurring pretax charges totaling $597,000 during the year ended September 30, 2012 for the acquisition and integration of the First Federal branches, including data processing costs of $327,000, professional fees of $194,000 and other miscellaneous expenses of $76,000.

Net Interest Income. Net interest income increased $1.9 million, or 9.0%, from $21.3 million for the year ended September 30, 2012 to $23.2 million for the year ended September 30, 2013 primarily as the result of an increase in the average balance of interest earning assets from 2012 to 2013, which more than offset a decrease in the interest rate spread from 2012 to 2013. The interest rate spread, the difference between the average tax-equivalent yield on interest-earning assets and the average cost of interest-bearing liabilities, decreased from 4.07% for 2012 to 3.98% for 2013 due primarily to a decrease in the average tax-equivalent yield on interest-earning assets from 5.11% for 2012 to 4.75% for 2013, which more than offset a decrease in the average cost of interest-bearing liabilities from 1.04% for 2012 to 0.77% for 2013.

Total interest income increased $1.2 million, or 4.5% from $26.0 million for the year ended September 30, 2012 to $27.2 million for the year ended September 30, 2013. The increase in total interest income is due primarily to an increase in the average balance of interest earning assets of $68.3 million from $522.7 million for 2012 to $591.0 million for 2013, which more than offset the change in total interest income due to a decrease in the average tax-equivalent yield on interest-earning assets from 5.11% for 2012 to 4.75% for 2013. The increase in the average balance of interest-earning assets primarily relates to increases in the average balance of loans of $31.4 million, investment securities of $34.5 million and interest-bearing deposits with banks of $1.9 million.

Interest income on loans increased $515,000, or 2.5%, from $20.6 million for 2012 to $21.1 million for 2013 despite a decrease in the average tax-equivalent yield on loans from 5.58% for 2012 to 5.27% for 2013, due to an increase in the average balance of loans outstanding of $31.3 million from $371.1 million for 2012 to $402.4 million for 2013. The increase in the average balance of loans outstanding is due primarily to an increase in commercial real estate loans. In an effort to increase the size and diversity of the loan portfolio, the Bank offered competitive rates on short-term commercial real estate mortgage loans and was successful in originating these loans, which minimized the attrition in the residential real estate, commercial business and consumer loan portfolios.

Interest income on investment securities increased $599,000, or 11.5%, from $5.2 million for 2012 to $5.8 million for 2013. The increase in interest income on investment securities is due primarily to an increase in the average balance of investment securities of $34.5 million, or 25.1%, from $137.4 million for 2012 to $171.9 million for 2013, which more than offset the change in interest income on investment securities due to a decrease in the average tax-equivalent yield on investments securities from 4.26% for 2012 to 3.86% for 2013. During 2013, in an effort to maximize earnings and diversify the asset portfolio, the Bank increased its investments in CMOs issued by U.S. government agencies and sponsored enterprises, and municipal bonds.

Total interest expense decreased $739,000, or 15.7%, due primarily to a decrease in the average cost of funds from 1.04% for 2012 to 0.77% for 2013, which more than offset the change in total interest expense due to a $62.7 million increase in the average balance of interest-bearing liabilities from $450.0 million for 2012 to $512.7 million for 2013. The average balance of interest-bearing deposits increased $59.9 million, or 15.9%, from $378.3 million for 2012 to $438.2 million for 2013 and the average cost of funds for deposits was 0.92% for 2012 compared to 0.64% for 2013. The increase in the average balance of deposits is due primarily to the acquisition of the First Federal branches in July 2012. The average balance of borrowings increased $2.8 million, or 3.8%, from $71.7 million for 2012 to $74.5 million for 2013 and the average cost of funds for borrowings was 1.67% for 2012 compared to 1.53% for 2013. The average cost of interest-bearing liabilities decreased for 2013 primarily as a result of a reduction in the rates offered on deposit accounts during 2013, the repricing of time deposits at lower market rates during 2013, and the use of a certain level of lower-cost borrowings.

Average Balances and Yields.

The following tables present 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. 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%.

	Year Ended September 30, 2013				2012				2011			
(Dollars in thousands)	Average Balance	Interest and Dividends	Yield/ Cost		Average Balance	Interest and Dividends	Yield/ Cost		Average Balance	Interest and Dividends	Yield/ Cost	
Assets:												
Interest-bearing deposits with banks	$ 11,295	$ 29	0.26	%	$ 9,346	$ 11	0.12	%	$ 4,609	$ 18	0.39	%
Loans	402,430	21,227	5.27		371,066	20,709	5.58		348,522	20,766	5.96	
Investment securities	128,363	5,781	4.50		104,715	5,066	4.84		101,760	5,100	5.01	
Mortgage-backed securities	43,502	845	1.94		32,635	785	2.41		16,381	504	3.08	
Federal Home Loan Bank stock	5,415	200	3.69		4,965	151	3.04		4,194	112	2.67	
Total interest-earning assets	591,005	28,082	4.75		522,727	26,722	5.11		475,466	26,500	5.57	
Non-interest-earning assets	59,944				49,979				42,068			
Total assets	$ 650,949				$ 572,706				$ 517,534			
Liabilities and equity:												
NOW accounts	$ 108,668	$ 314	0.29		$ 78,530	$ 424	0.54		$ 64,967	$ 342	0.53	
Money market deposit accounts	69,736	276	0.40		48,878	347	0.71		37,150	276	0.74	
Passbook accounts	65,950	60	0.09		48,055	125	0.26		40,398	103	0.25	
Certificates of deposit	193,884	2,149	1.11		202,797	2,580	1.27		201,483	3,247	1.61	
Total interest-bearing deposits	438,238	2,799	0.64		378,260	3,476	0.92		343,998	3,968	1.15	
Borrowings (1)	74,478	1,137	1.53		71,743	1,199	1.67		80,618	1,417	1.76	
Total interest-bearing liabilities	512,716	3,936	0.77		450,003	4,675	1.04		424,616	5,385	1.27	
Non-interest-bearing deposits	49,886				40,304				31,485			
Other non-interest-bearing liabilities	4,971				3,325				2,793			
Total liabilities	567,573				493,632				458,894			

Total equity	83,376		79,074		58,640	
Total liabilities and equity	$ 650,949		$ 572,706		$ 517,534	
Net interest income		$ 24,146		$ 22,047		$ 21,115
Interest rate spread		3.98 %		4.07 %		4.30 %
Net interest margin		4.09 %		4.22 %		4.44 %
Average interest-earning assets to average interest-bearing liabilities		115.27 %		116.16 %		111.98 %

(1) Includes Federal Home Loan Bank borrowings, repurchase agreements and other long-term debt.

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Rate/Volume Analysis. The following table sets forth the effects of changing rates and volumes on our net interest income. 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.

	Year Ended September 30, 2013 Compared to Year Ended September 30, 2012 Increase (Decrease) Due to			Year Ended September 30, 2012 Compared to Year Ended September 30, 2011 Increase (Decrease) Due to		
(In thousands)	Volume	Rate	Net	Volume	Rate	Net
Interest income:						
Interest-bearing deposits with banks	$ 2	$ 16	$ 18	$ (21)	$ 14	$ (7)
Loans	1,511	(993)	518	(3,830)	3,773	(57)
Investment securities	1,038	(323)	715	201	(235)	(34)
Mortgage-backed securities	144	(84)	60	360	(79)	281
Other interest-earning assets	15	34	49	22	17	39
Total interest-earning assets	2,710	(1,350)	1,360	(3,268)	3,490	222
Interest expense:						
Deposits	737	(1,414)	(677)	488	(980)	(492)
Federal Home Loan Bank advances	53	(115)	(62)	(149)	(69)	(218)
Total interest-bearing liabilities	790	(1,529)	(739)	339	(1,049)	(710)
Net increase (decrease) in net interest income	$ 1,920	$ 179	$ 2,099	$ (3,607)	$ 4,539	$ 932

Provision for Loan Losses. The provision for loan losses increased $326,000, or 21.3%, from $1.5 million for the year ended September 30, 2012 to $1.9 million for the year ended September 30, 2013. During 2013, the Bank had net charge-offs of $1.2 million compared to $1.3 million for 2012. The gross loan portfolio increased $17.9 million from $400.2 million at September 30, 2012 to $418.1 million at September 30, 2013, primarily in the commercial real estate mortgage portfolio. Nonperforming loans increased $3.3 million from $5.8 million at September 30, 2012 to $9.1 million at September 30, 2013, due primarily to a single commercial real estate loan with an outstanding balance of $4.0 million that was placed on nonaccrual status as of September 30, 2013 based on regulatory guidance. This loan is classified as a troubled debt restructuring, but the loan was current and performing according to the terms of the note as of September 30, 2013. 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 the growth in the commercial real estate mortgage loan portfolio and the increase in nonperforming loans during 2013. See "*Analysis of Nonperforming and Classified Assets*" included herein. It is management's assessment that the allowance for loan losses at September 30, 2013 was adequate and appropriately reflected the inherent risk of loss in the Bank's loan portfolio at that date.

Noninterest Income. Noninterest income increased $836,000, or 24.4%, from $3.4 million for the year ended September 30, 2012 to $4.3 million for the year ended September 30, 2013. The increase is due primarily to an increase in net gain on sale of loans of $313,000 from $197,000 in 2012 to $510,000 in 2013, and an increase in real estate lease income of $317,000, which was new in 2013 and relates to the real estate development discussed in Note 6 of the Notes to Consolidated Financial Statements beginning on page F-1 of this annual report, and an increase in net gain on trading securities of $247,000 from $217,000 in 2012 to $464,000 in 2013. These increases and additional gains were partially offset by a gain on a life insurance policy of $324,000 that was recognized in 2012.

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Noninterest Expense. Noninterest expenses increased $1.7 million, or 9.5%, from $17.5 million for the year ended September 30, 2012 to $19.1 million for the year ended September 30, 2013. The increase was due primarily to increases in compensation and benefits expense of $1.4 million and occupancy and equipment expense of $385,000, which more than offset decreases in advertising of $160,000 and data processing of $157,000. The increase in compensation and benefits expense is due primarily to normal salary, wages and benefits increases, plus the addition of employees as a result of the acquisition of the First Federal branches and increased ESOP compensation expense of approximately $399,000 primarily due to the accelerated repayment of the ESOP loan during the December 2012 quarter. The increase in occupancy and equipment expense is due primarily to the operation of the acquired First Federal branches and the Bank's new branch location in New Albany, Indiana, which opened in August 2013. The decrease in advertising expense was due primarily to a rebranding and advertising campaign for the Bank's new 'look' and logo in 2012. The decreases in data processing are due primarily to expenditures associated with the acquisition and integration of the First Federal branches in 2012.

Income Tax Expense. The Company recognized income tax expense of $1.8 million for the year ended September 30, 2013, for an effective tax rate of 27.8%, compared to income tax expense of $1.5 million, for an effective tax rate of 25.4%, for the year ended September 30, 2012. The higher effective tax rate for the year ended September 30, 2013 was due primarily to a lower level of tax exempt income for 2013. See Note 18 of the Notes to Consolidated Financial Statements beginning on page F-1 of this annual report for additional information regarding income taxes.

Risk Management

Overview. Managing risk is essential to successfully managing a financial institution. Our most prominent risk exposures are credit risk, interest rate risk and market risk. Credit risk is the risk of not collecting the interest and/or the principal balance of a loan or investment when it is due. Interest rate risk is the potential reduction of interest income as a result of changes in interest rates. Market risk arises from fluctuations in interest rates that may result in changes in the values of financial instruments, such as available-for-sale securities that are accounted for on a mark-to-market basis. Other risks that we face are operational risks, liquidity risks and reputation risk. Operational risks include risks related to fraud, regulatory compliance, processing errors, technology and disaster recovery. Liquidity risk is the possible inability to fund obligations to depositors, lenders or borrowers. Reputation risk is the risk that negative publicity or press, whether true or not, could cause a decline in our customer base or revenue or in the value of our common stock once we become a public company. The Company implemented an enterprise risk management structure during 2012 in order to better manage and mitigate these identified and perceived risks.

Credit Risk Management. Our strategy for credit risk management focuses on having well-defined credit policies and uniform underwriting criteria and providing prompt attention to potential problem loans.

When a borrower fails to make a required loan payment, we take a number of steps to have the borrower cure the delinquency and restore the loan to current status. When the loan becomes 15 days past due, a late notice is sent to the borrower and a late fee is assessed. When the loan becomes 30 days past due, a more formal letter is sent. Between 15 and 30 days past due, telephone calls are also made to the borrower. After 30 days, we regard the borrower as in default. The borrower may be sent a letter from our attorney and we may commence collection proceedings. If a foreclosure action is instituted and the loan is not brought current, paid in full, or refinanced before the foreclosure sale, the real property securing the loan generally is sold at foreclosure. Generally, when a consumer loan becomes 60 days past due, we institute collection proceedings and attempt to repossess any personal property that secures the loan. Generally, we institute foreclosure proceedings when a loan is 60 days past due. Management obtains the approval of the Board of Directors to proceed with foreclosure of property. Management informs the Board of Directors monthly of all loans in nonaccrual status, all loans in foreclosure and all repossessed property and assets that we own.

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Analysis of Nonperforming and Classified Assets. We consider non-accrual loans, troubled debt restructurings, repossessed assets and loans that are 90 days or more past due to be nonperforming assets. Loans are generally placed on non-accrual status when they become 90 days delinquent at which time the accrual of interest ceases and the allowance for any uncollectible accrued interest is established and charged against operations. Typically, payments received on a non-accrual loan are first applied to the outstanding principal balance.

Real estate that we acquire as a result of foreclosure or by deed-in-lieu of foreclosure is classified as real estate owned until it is sold. When property is acquired it is recorded at its fair market value less estimated costs to sell at the date of foreclosure. Holding costs and declines in fair value after acquisition of the property result in charges against income. See Note 8 of the Notes to Consolidated Financial Statements beginning on page F-1 of this annual report for additional information regarding foreclosed real estate.

The following table provides information with respect to our nonperforming assets at the dates indicated. Included in nonperforming loans are loans for which the Bank has modified the repayment terms, and therefore are considered to be troubled debt restructurings. The Bank had twenty-three troubled debt restructurings totaling $5.9 million, which were performing according to their terms and on accrual status, as of September 30, 2013. See Note 5 of the Notes to Consolidated Financial Statements beginning on page F-1 of this annual report for additional information regarding trouble debt restructurings.

	At September 30,				
(Dollars in thousands)	2013	2012	2011	2010	2009
Non-accrual loans:					
Residential real estate	$ 3,519	$ 2,775	$ 3,758	$ 2,753	$ 1,995
Commercial real estate	4,817	899	1,133	843	1,022
Multi-family					
Construction	29	174	174	490	461
Land and land development			340		537
Commercial business	218	66	2	207	572
Consumer	310	175	215	303	145
Total (1)	8,893	4,089	5,622	4,596	4,732
Accruing loans past due 90 days or more:					
Residential real estate	143	1,548	603	602	128
Commercial real estate		3	949	327	
Multi-family					
Construction				272	228
Land and land development					
Commercial business		98	99	137	67
Consumer	21	94	61	62	119
Total	164	1,743	1,712	1,400	542
Total non-performing loans	9,057	5,832	7,334	5,996	5,274
Trouble debt restructurings classified as performing loans:					
Residential real estate	2,187	2,993	1,499		
Commercial real estate	1,274	1,290	812		
Multifamily	2,306	2,356			
Commercial business	17	14			
Consumer	146	158			

Total troubled debt restructurings classified as performing loans	5,930	6,811	2,311		
Real estate owned	799	1,481	1,028	1,331	1,589
Other non-performing assets	2		126	171	64
Total non-performing assets	$ 15,788	$ 14,124	$ 10,799	$ 7,498	$ 6,927
Total non-performing loans to total loans	2.17 %	1.46 %	2.02 %	1.71 %	1.47 %
Total non-performing loans to total assets	1.37 %	0.91 %	1.37 %	1.17 %	1.10 %
Total non-performing assets to total assets	2.39 %	2.21 %	2.01 %	1.47 %	1.44 %

(1) Total nonaccrual loans at September 30, 2010 includes four trouble debt restructurings totaling $592,000 that were on non-accrual as of that date. Total nonaccrual loans at September 30, 2013 includes seven trouble debt restructurings totaling $4.8 million that were on non-accrual as of that date.

Federal regulations require us to review and classify our assets on a regular basis. In addition, the Office of the Comptroller of the Currency has the authority to identify problem assets and, if appropriate, require them to be classified. There are three classifications for problem assets: substandard, doubtful and loss. "Substandard assets" must have one or more defined weaknesses and are characterized by the distinct possibility that we will sustain some loss if the deficiencies are not corrected. "Doubtful assets" have the weaknesses of substandard assets with the additional characteristic that the weaknesses make collection or liquidation in full on the basis of currently existing facts, conditions and values questionable, and there is a high possibility of loss. An asset classified "loss" is considered uncollectible and of such little value that continuance as an asset of the institution, without establishment of a specific allowance or charge-off, is not warranted. The regulations also provide for a "special mention" category, described as assets which do not currently expose us to a sufficient degree of risk to warrant classification but do possess credit deficiencies or potential weaknesses deserving our close attention. When we classify an asset as doubtful we may establish a specific allowance for loan losses. If we classify an asset as loss, we charge off an amount equal to 100% of the portion of the asset classified loss.

The following table shows the aggregate amounts of investment in classified and criticized assets at the dates indicated.

	At September 30,		
(In thousands)	2013	2012	2011
Special mention assets	$ 7,256	$ 10,595	$ 6,962
Substandard assets (1)	18,965	22,734	26,989
Doubtful assets	1,087	1,055	1,317
Loss assets			
Total classified assets	20,052	23,789	28,306
Total criticized assets	$ 27,308	$ 34,384	$ 35,268

(1) Includes substandard loans and investment securities, other real estate owned and repossessed assets.

Classified assets includes loans that are classified due to factors other than payment delinquencies, such as lack of current financial statements and other required documentation, insufficient cash flows or other deficiencies, and, therefore, are not included as non-performing assets. Other than as disclosed in the above tables, there are no other loans where management has serious doubts about the ability of the borrowers to comply with the present loan repayment terms. Classified assets also include investment securities that have experienced a downgrade of the security's credit quality rating by various rating agencies.

At September 30, 2013, the Company held twenty privately-issued CMO and ABS securities with an aggregate amortized cost of $2.9 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. Based on an independent third party analysis, the Bank expects to collect the contractual principal and interest cash flows for these securities and, as a result, no other-than-temporary impairment has been recognized on the privately-issued CMO or ABS portfolio. At September 30, 2012, the Company held eighteen privately-issued CMO and ABS securities with an aggregate amortized cost of $3.0 million and fair value of $3.9 million that had been downgraded to a substandard regulatory classification due to a downgrade of the security's credit quality rating by various rating agencies.

Delinquencies. The following table provides information about delinquencies in our loan portfolio at the dates indicated.

(Dollars in thousands)	At September 30, 2013 30-89 Days Number of Loans	Principal Balance of Loans	90 Days or More Number of Loans	Principal Balance of Loans	At September 30, 2012 30-89 Days Number of Loans	Principal Balance of Loans	90 Days or More Number of Loans	Principal Balance of Loans
Residential real estate	68	$ 4,188	37	$ 2,731	88	$ 6,400	42	$ 4,055
Commercial real estate	3	504	4	696	4	120	4	842
Multi-family	1	35						
Construction								
Land and land development.	1	9			2	50		
Commercial business	1		2	217	5	107	3	163
Consumer	26	237	11	218	39	380	11	176
Total	100	$ 4,973	54	$ 3,862	138	$ 7,057	60	$ 5,237

(Dollars in thousands)	At September 30, 2011 30-89 Days Number of Loans	Principal Balance of Loans	90 Days or More Number of Loans	Principal Balance of Loans
Residential real estate	66	$ 4,911	28	$ 2,191
Commercial real estate	4	613	6	1,966
Multi-family				
Construction			2	174
Land and land development....	1	45	1	341
Commercial business	7	1,040	3	100
Consumer	39	515	14	145
Total	117	$ 7,124	54	$ 4,917

Analysis and Determination of the Allowance for Loan Losses.

The allowance for loan losses is a valuation allowance for probable losses inherent in the loan portfolio. We evaluate the need to establish allowances against losses on loans on a quarterly basis. When additional allowances are necessary, a provision for loan losses is charged to earnings.

Our methodology for assessing the appropriateness of the allowance for loan losses consists of: (1) a specific allowance required for identified problem loans; (2) a general allowance on the remainder of the loan portfolio; and (3) an unallocated allowance to cover uncertainties that could affect management's estimate of probable losses. Although we determine the amount of each element of the allowance separately, the entire allowance for loan losses is available to absorb losses in the loan portfolio.

Specific Allowance Required for Identified Problem Loans. For substandard and doubtful loans that are also classified as impaired we establish a specific allowance when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of the loan.

General Allowance on the Remainder of the Loan Portfolio. We establish a general allowance for loans that are not currently classified as impaired in order to recognize the inherent losses associated with lending activities. The general allowance covers unimpaired loans and is based on historical loss experience adjusted for qualitative factors such as changes in economic conditions, changes in the volume of past due and non-accrual loans and classified assets, changes in the nature and volume of the portfolio, changes in the value of underlying collateral for collateral dependent loans, concentrations of credit, and other factors.

Unallocated Allowance. We may establish an unallocated allowance to cover uncertainties that could affect management's estimate of probable losses. Any unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimate specific and general losses in the loan portfolio. There was no unallocated allowance for loan losses at September 30, 2013, 2012 and 2011.

The following table sets forth the breakdown of the allowance for loan losses by loan category at the dates indicated.

	At September 30, 2013					2012					2011				
(Dollars in thousands)	Amount	% of Allowance to Total Allowance		% of Loans in Category to Total Loans		Amount	% of Allowance to Total Allowance		% of Loans in Category to Total Loans		Amount	% of Allowance to Total Allowance		% of Loans in Category to Total Loans	
Residential real estate	$780	14.08	%	44.10	%	$908	18.51	%	47.72	%	$833	17.83	%	46.65	%
Commercial real estate	2,826	51.03		28.17		2,204	44.92		22.56		1,314	28.13		20.25	
Multi-family	249	4.50		6.40		389	7.93		5.97		604	12.93		6.86	
Construction	229	4.14		4.61		52	1.06		3.98		56	1.20		3.34	
Land and land development	299	5.40		2.73		2	0.04		3.08		53	1.13		3.57	
Commercial business	907	16.38		7.56		1,084	22.10		9.04		1,525	32.64		11.19	
Consumer	248	4.47		6.43		267	5.44		7.65		287	6.14		8.14	
Total allowance for loan losses	$5,538	100.00	%	100.00	%	$4,906	100.00	%	100.00	%	$4,672	100.00	%	100.00	%

	At September 30, 2010						2009					
(Dollars in thousands)	Amount		% of Allowance to Total Allowance		% of Loans in Category to Total Loans		Amount		% of Allowance to Total Allowance		% of Loans in Category to Total Loans	
Residential real estate	$	1,242	32.59	%	49.33	%	$	1,493	40.40	%	51.61	%
Commercial real estate		600	15.74		15.45			271	7.33		13.36	
Multi-family		369	9.68		5.84						3.50	
Construction		218	5.72		7.38			302	8.17		6.17	
Land and land development		62	1.63		2.60			258	6.98		3.11	
Commercial business		891	23.38		8.86			444	12.02		10.25	
Consumer		429	11.26		10.54			927	25.10		12.00	
Total allowance for loan losses	$	3,811	100.00	%	100.00	%	$	3,695	100.00	%	100.00	%

Although we believe that we use the best information available to establish the allowance for loan losses, future adjustments to the allowance for loan losses may be necessary and our results of operations could be adversely affected if circumstances differ substantially from the assumptions used in making the determinations. Furthermore, while we believe we have established our allowance for loan losses in conformity with generally accepted accounting principles, there can be no assurance that the Office of the Comptroller of the Currency, in reviewing our loan portfolio, will not require us to increase our allowance for loan losses. The Office of the Comptroller of the Currency may require us to increase our allowance for loan losses based on judgments different from ours. In addition, because future events affecting borrowers and collateral cannot be predicted with certainty, there can be no assurance that the existing allowance for loan losses is adequate or that increases will not be necessary should the quality of any loans deteriorate as a result of the factors discussed above. Any material increase in the allowance for loan losses may adversely affect our financial condition and results of operations.

Analysis of Loan Loss Experience.

The following table sets forth an analysis of the allowance for loan losses for the periods indicated.

	Year Ended September 30,				
(Dollars in thousands)	2013	2012	2011	2010	2009
Allowance for loan losses at beginning of period	$ 4,906	$ 4,672	$ 3,811	$ 3,695	$ 1,729
Provision for loan losses	1,858	1,532	1,605	1,604	819
Charge offs:					
Residential real estate	284	510	651	334	580
Commercial real estate	11	543	68		
Multi-family		85			
Construction			8		
Land and land development				5	
Commercial business	1,013	33	86	964	39
Consumer	111	304	287	340	209
Total charge-offs	1,419	1,475	1,100	1,643	828
Recoveries:					
Residential real estate	65	109	79	68	57
Commercial real estate	25				
Multi-family					
Land and land development					
Construction					
Commercial business	41	2	214		
Consumer	62	66	63	87	82
Total recoveries	193	177	356	155	139
Net charge-offs	1,226	1,298	744	1,488	689
Increase due to acquisition of Community First					1,836
Allowance for loan losses at end of period	$ 5,538	$ 4,906	$ 4,672	$ 3,811	$ 3,695
Allowance for loan losses to non-performing loans	61.15 %	84.12 %	63.70 %	63.88 %	70.06 %
Allowance for loan losses to total loans outstanding at the end of the period	1.32 %	1.23 %	1.29 %	1.09 %	1.03 %
Net charge-offs to average loans outstanding during the period	0.30 %	0.35 %	0.21 %	0.42 %	0.38 %

Interest Rate Risk Management. We manage the interest rate sensitivity of our interest-bearing liabilities and interest-earning assets in an effort to minimize the adverse effects of changes in the interest rate environment. Deposit accounts typically react more quickly to changes in market interest rates than mortgage loans because of the shorter maturities of deposits. As a result, sharp increases in interest rates may adversely affect our earnings while decreases in interest rates may beneficially affect our earnings. To reduce the potential volatility of our earnings, we have sought to improve the match between asset and liability maturities and rates, while maintaining an acceptable interest rate spread. Our strategy for managing interest rate risk emphasizes: adjusting the maturities of borrowings; adjusting the investment portfolio mix and duration and generally selling in the secondary market substantially all newly originated, fixed rate one-to four-family residential real estate loans. We currently do not participate in hedging programs, interest rate swaps or other activities involving the use of derivative financial instruments; however, we acquired an interest rate cap contract in the acquisition of Community First. See Note 23 of the Notes to Consolidated Financial Statements beginning on page F-1 of this annual report for additional information regarding the use of derivative instruments.

We have an Asset/Liability Management Committee, which includes members of management approved by the Board of Directors, to communicate, coordinate and control all aspects involving asset/liability management. The committee establishes and monitors the volume, maturities, pricing and mix of assets and funding sources with the objective of managing assets and funding sources to provide results that are consistent with liquidity, growth, risk limits and profitability goals.

Our goal is to manage asset and liability positions to moderate the effects of interest rate fluctuations on net interest income and net income.

Market Risk Analysis. 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.

Results of our simulation modeling, which assumes an immediate and sustained parallel shift in market interest rates, project that the Company's net interest income could change as follows over a one-year horizon, relative to our base case scenario, based on September 30, 2013 and 2012 financial information.

Immediate Change in the Level of Interest Rates	At September 30, 2013 One Year Horizon Dollar Change		At September 30, 2013 One Year Horizon Percent Change		At September 30, 2012 One Year Horizon Dollar Change		At September 30, 2012 One Year Horizon Percent Change	
	(Dollars in thousands)							
300bp	$	(99)	(0.45)	%	$	411	1.80	%
200bp		(111)	(0.50)			274	1.20	