

First Savings Financial Group Inc
Form 10-Q
May 16, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2016

OR

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

For the transition period from _____ to _____

Commission File No. 1-34155

First Savings Financial Group, Inc.

(Exact name of registrant as specified in its charter)

Indiana

37-1567871

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

501 East Lewis & Clark Parkway, Clarksville, Indiana 47129

(Address of principal executive offices) (Zip Code)

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

Not applicable

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No "

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No "

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

(Check one): Large Accelerated Filer " Accelerated Filer "

Non-accelerated Filer " Smaller Reporting Company x

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

The number of shares outstanding of the registrant's common stock as of March 31, 2016 was 2,204,787.

FIRST SAVINGS FINANCIAL GROUP, INC.

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

(In thousands, except share and per share data)	March 31, 2016	September 30, 2015
ASSETS		
Cash and due from banks	\$ 8,961	\$ 9,884
Interest-bearing deposits with banks	14,991	15,110
Total cash and cash equivalents	23,952	24,994
Interest-bearing time deposits	2,855	3,100
Trading account securities, at fair value	9,131	9,044
Securities available for sale, at fair value	177,444	178,328
Securities held to maturity	3,445	4,620
Loans held for sale (\$5,835 at fair value at September 30, 2015)	5,361	6,803
Loans, net	478,518	457,112
Federal Reserve Bank and Federal Home Loan Bank stock, at cost	6,936	6,720
Real estate development and construction	6,978	7,079
Premises and equipment	13,573	13,838
Other real estate owned, held for sale	594	618
Accrued interest receivable:		
Loans	1,414	1,259
Securities	1,368	1,396
Cash surrender value of life insurance	17,993	17,766
Goodwill	7,936	7,936
Core deposit intangibles	1,209	1,381
Other assets	6,412	7,952
Total Assets	\$ 765,119	\$ 749,946
LIABILITIES		
Deposits:		
Noninterest-bearing	\$ 75,885	\$ 71,184
Interest-bearing	491,537	462,113
Total deposits	567,422	533,297

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Repurchase agreements	1,343	1,342
Borrowings from Federal Home Loan Bank	100,000	104,867
Other long-term debt	4,537	4,632
Accrued interest payable	200	186
Advance payments by borrowers for taxes and insurance	869	883
Accrued expenses and other liabilities	9,503	10,382
Total Liabilities	683,874	655,589
STOCKHOLDERS' EQUITY		
Preferred stock of \$.01 par value per share Authorized 982,880 shares; none issued	-	-
Senior Non-Cumulative Perpetual Preferred Stock, Series A, \$.01 par value; Authorized 17,120 shares; issued and outstanding 17,120 shares at September 30, 2015; aggregate liquidation preference of \$17,120 at September 30, 2015	-	-
Common stock of \$.01 par value per share Authorized 20,000,000 shares; issued 2,542,042 shares; outstanding 2,204,787 shares (2,183,510 shares at September 30, 2015)	25	25
Additional paid-in capital - preferred	-	17,120
Additional paid-in capital - common	27,182	26,796
Retained earnings - substantially restricted	55,040	52,760
Accumulated other comprehensive income	5,068	4,210
Unearned ESOP shares	-	(197)
Less treasury stock, at cost - 337,255 shares (358,532 shares at September 30, 2015)	(6,070)	(6,357)
Total Stockholders' Equity	81,245	94,357
Total Liabilities and Stockholders' Equity	\$ 765,119	\$ 749,946

See notes to consolidated financial statements.

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

(In thousands, except share and per share data)	Three Months Ended March 31,		Six Months Ended March 31,	
	2016	2015	2016	2015
INTEREST INCOME				
Loans, including fees	\$5,546	\$5,350	\$11,011	\$10,720
Securities:				
Taxable	969	992	1,927	2,084
Tax-exempt	509	489	1,119	960
Dividend income	78	83	154	146
Interest-bearing deposits with banks	45	10	62	23
Total interest income	7,147	6,924	14,273	13,933
INTEREST EXPENSE				
Deposits	595	598	1,179	1,240
Repurchase agreements	1	1	2	2
Borrowings from Federal Home Loan Bank	392	308	735	548
Loans payable	40	45	80	93
Total interest expense	1,028	952	1,996	1,883
Net interest income	6,119	5,972	12,277	12,050
Provision for loan losses	125	212	125	419
Net interest income after provision for loan losses	5,994	5,760	12,152	11,631
NONINTEREST INCOME				
Service charges on deposit accounts	282	305	604	676
Net gain on trading account securities	251	89	428	160
Unrealized loss on derivative contract	-	(1)	(1
Net gain on sales of loans	97	49	327	134
Increase in cash surrender value of life insurance	112	117	227	245
Commission income	70	107	213	168
Real estate lease income	163	150	326	301
Other income	287	262	581	506
Total noninterest income	1,262	1,078	2,706	2,189
NONINTEREST EXPENSE				

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Compensation and benefits	2,805	2,637	6,368	5,638
Occupancy and equipment	721	652	1,373	1,256
Data processing	414	348	767	729
Advertising	135	147	235	253
Professional fees	319	201	611	515
FDIC insurance premiums	122	115	243	224
Net (gain) loss on other real estate owned	(24)	16	50	21
Other operating expenses	740	760	1,477	1,614
Total noninterest expense	5,232	4,876	11,124	10,250
Income before income taxes	2,024	1,962	3,734	3,570
Income tax expense	389	435	856	843
Net Income	\$1,635	\$1,527	\$2,878	\$2,727
Preferred stock dividends declared	19	43	62	86
Net Income Available to Common Shareholders	\$1,616	\$1,484	\$2,816	\$2,641
Net income per common share:				
Basic	\$0.73	\$0.69	\$1.28	\$1.24
Diluted	\$0.70	\$0.66	\$1.22	\$1.18
Weighted average common shares outstanding:				
Basic	2,204,787	2,138,931	2,195,727	2,125,369
Diluted	2,303,946	2,245,371	2,300,695	2,231,574
Dividends per common share	\$0.13	\$0.12	\$0.25	\$0.23

See notes to consolidated financial statements.

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

(In thousands)	Three Months Ended March 31,		Six Months Ended March 31,	
	2016	2015	2016	2015
Net Income	\$ 1,635	\$ 1,527	\$ 2,878	\$ 2,727
OTHER COMPREHENSIVE INCOME, NET OF TAX				
Unrealized gains on securities available for sale:				
Unrealized holding gains arising during the period	1,072	1,173	1,292	2,168
Income tax expense	(374)	(417)	(434)	(770)
Net of tax amount	698	756	858	1,398
Other Comprehensive Income	698	756	858	1,398
Comprehensive Income	\$ 2,333	\$ 2,283	\$ 3,736	\$ 4,125

See notes to consolidated financial statements.

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

(In thousands, except share and per share data)	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Unearned Stock Compensation and ESOP	Treasury Stock	Total
Six Months Ended March 31, 2015:								
Balances at October 1, 2014	\$-	\$25	\$43,199	\$47,175	\$3,853	\$(699)	\$(6,473)	\$87,080
Net income	-	-	-	2,727	-	-	-	2,727
Other comprehensive income	-	-	-	-	1,398	-	-	1,398
Preferred stock dividends	-	-	-	(86)	-	-	-	(86)
Common stock dividends (\$0.23 per share)	-	-	-	(471)	-	-	-	(471)
Stock compensation expense	-	-	108	-	-	131	-	239
Shares released by ESOP trust	-	-	397	-	-	256	-	653
Stock options exercises - 20,972 shares	-	-	(89)	-	-	-	367	278
Purchase of 4,791 treasury shares	-	-	-	-	-	-	(119)	(119)
Balances at March 31, 2015	\$-	\$25	\$43,615	\$49,345	\$5,251	\$(312)	\$(6,225)	\$91,699
Six Months Ended March 31, 2016:								
Balances at October 1, 2015	\$-	\$25	\$43,916	\$52,760	\$4,210	\$(197)	\$(6,357)	\$94,357
Net income	-	-	-	2,878	-	-	-	2,878
Other comprehensive income	-	-	-	-	858	-	-	858
Preferred stock dividends	-	-	-	(62)	-	-	-	(62)

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Common stock dividends (\$0.25 per share)	-	-	-	(536)	-	-	-	(536)
Shares released by ESOP trust	-	-	504	-	-	197	-	701
Stock options exercises - 26,210 shares	-	-	(118)	-	-	-	466	348
Redemption of preferred stock - 17,120 shares	-	-	(17,120)	-	-	-	-	17,120
Purchase of 4,933 treasury shares	-	-	-	-	-	-	(179)	(179)
Balances at March 31, 2016	\$-	\$25	\$27,182	\$55,040	\$5,068	\$-	\$(6,070)	\$81,245

See notes to consolidated financial statements.

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

(In thousands)	Six Months Ended March 31,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$2,878	\$2,727
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	125	419
Depreciation and amortization	737	721
Amortization of premiums and accretion of discounts on securities, net	265	388
(Increase) decrease in trading account securities	(87)	90
Loans originated for sale	(13,949)	(4,436)
Proceeds on sales of loans	14,446	4,531
Net gain on sales of loans	(327)	(134)
Net realized and unrealized (gain) loss on other real estate owned	(4)	12
Unrealized loss on derivative contract	-	1
Increase in cash surrender value of life insurance	(227)	(245)
Deferred income taxes	(199)	(247)
ESOP and stock compensation expense	628	808
(Increase) decrease in accrued interest receivable	(127)	1
Increase in accrued interest payable	14	4
Change in other assets and liabilities, net	483	(91)
Net Cash Provided By Operating Activities	4,656	4,549
CASH FLOWS FROM INVESTING ACTIVITIES		
(Investment in) redemption of interest-bearing time deposits	245	(735)
Purchase of securities available for sale	(10,284)	(11,684)
Proceeds from maturities of securities available for sale	5,395	6,117
Proceeds from maturities of securities held to maturity	1,123	342
Principal collected on securities	6,827	8,737
Net increase in loans	(20,489)	(11,652)
Purchase of Federal Reserve Bank stock	-	(945)
Purchase of Federal Home Loan Bank stock	(216)	(461)
Proceeds from redemption of Federal Home Loan Bank stock	-	461
Investment in historic tax credit entity	-	(417)
Proceeds from sale of other real estate owned	299	495
Investment in real estate development and construction	2	-

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Purchase of premises and equipment	(201)	(204)
Net Cash Used In Investing Activities	(17,299)	(9,946)

CASH FLOWS FROM FINANCING ACTIVITIES

Net increase in deposits	34,125	3,743
Net increase in repurchase agreements	1	2
Decrease in Federal Home Loan Bank line of credit	(14,867)	(7,994)
Proceeds from Federal Home Loan Bank advances	35,000	205,000
Repayment of Federal Home Loan Bank advances	(25,000)	(195,000)
Repayment of other long-term debt	(95)	(88)
Net decrease in advance payments by borrowers for taxes and insurance	(14)	(1)
Redemption of preferred stock	(17,120)	-
Proceeds from exercise of stock options	169	278
Purchase of treasury stock	-	(119)
Dividends paid on preferred stock	(62)	(86)
Dividends paid on common stock	(536)	(471)
Net Cash Provided By Financing Activities	11,601	5,264
Net Decrease in Cash and Cash Equivalents	(1,042)	(133)
Cash and cash equivalents at beginning of period	24,994	20,330
Cash and Cash Equivalents at End of Period	\$23,952	\$20,197

See notes to consolidated financial statements.

FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Presentation of Interim Information

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

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

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

In the opinion of management, the accompanying unaudited consolidated financial statements include all adjustments considered necessary to present fairly the financial position as of March 31, 2016, the results of operations for the three- and six-month periods ended March 31, 2016 and 2015, and the cash flows for the six-month periods ended March 31, 2016 and 2015. All of these adjustments are of a normal, recurring nature. Such adjustments are the only adjustments included in the unaudited consolidated financial statements. Interim results are not necessarily indicative of results for a full year.

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

statements and related notes for the year ended September 30, 2015 included in the Company's Annual Report on Form 10-K.

The unaudited consolidated financial statements include the accounts of the Company and its subsidiaries. All material intercompany balances and transactions have been eliminated in consolidation. Certain prior period amounts have been reclassified to conform with the current period presentation. The reclassifications had no effect on net income or stockholders' equity.

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FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

2. Investment Securities

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

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

Trading Account Securities

The Company invests in small and medium lot, investment grade municipal bonds through a managed brokerage account. The brokerage account is managed by an investment advisory firm registered with the U.S. Securities and Exchange Commission. At March 31, 2016 and September 30, 2015, trading account securities recorded at fair value totaled \$9.1 million and \$9.0 million, respectively, and were comprised of investment grade municipal bonds. During the six-months ended March 31, 2016, the Company reported net gains on trading account securities of \$428,000, including net realized gains on the sale of securities of \$425,000 and net unrealized gains on securities still held as of the balance sheet date of \$3,000. During the three-months ended March 31, 2016, the Company reported net gains on trading account securities of \$251,000, including net realized gains on the sale of securities of \$232,000 and net unrealized gains on securities still held as of the balance sheet date of \$19,000. During the six-months ended March 31, 2015, the Company reported net gains on trading account securities of \$160,000, including net realized gains on the sale of securities of \$159,000 and net unrealized gains on securities still held as of the balance sheet date of \$1,000. During the three-months ended March 31, 2015, the Company reported net gains on trading account securities of \$89,000, including net realized gains on the sale of securities of \$82,000 and net unrealized gains on securities still held as of the balance sheet date of \$7,000.

FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

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

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

	Gross Amortized Cost (In thousands)	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2016:				
Securities available for sale:				
Agency bonds and notes	\$1,044	\$ 11	\$ -	\$1,055
Agency mortgage-backed	50,632	776	28	51,380
Agency CMO	17,843	108	87	17,864
Privately-issued CMO	2,744	360	-	3,104
Privately-issued ABS	4,257	989	3	5,243
SBA certificates	1,314	6	-	1,320
Municipal bonds	91,727	5,770	19	97,478
Total securities available for sale	\$169,561	\$ 8,020	\$ 137	\$177,444
Securities held to maturity:				
Agency mortgage-backed	\$280	\$ 26	\$ -	\$306
Municipal bonds	3,165	445	-	3,610
Total securities held to maturity	\$3,445	\$ 471	\$ -	\$3,916

FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

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

The amortized cost and fair value of investment securities as of March 31, 2016 by contractual maturity are shown below. Expected maturities of mortgage-backed securities, CMO and ABS may differ from contractual maturities because the mortgages underlying the obligations may be prepaid without penalty.

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)			
Due within one year	\$2,269	\$2,303	\$372	\$402
Due after one year through five years	5,895	6,278	946	1,079
Due after five years through ten years	20,330	22,127	1,225	1,413

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Due after ten years	64,277	67,825	622	716
	92,771	98,533	3,165	3,610
CMO	20,587	20,968	-	-
ABS	4,257	5,243	-	-
SBA certificates	1,314	1,320	-	-
Mortgage-backed securities	50,632	51,380	280	306
	\$169,561	\$177,444	\$3,445	\$3,916

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FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

Information pertaining to investment securities with gross unrealized losses at March 31, 2016, aggregated by investment category and the length of time that individual securities have been in a continuous loss position, follows:

	Number of Investment Positions (Dollars in thousands)	Fair Value	Gross Unrealized Losses
Securities available for sale:			
Continuous loss position less than twelve months:			
Agency mortgage-backed	5	\$4,189	\$ 15
Agency CMO	2	3,345	7
Privately-issued ABS	2	77	3
Municipal bonds	1	388	4
Total less than twelve months	10	7,999	29
Continuous loss position more than twelve months:			
Agency mortgage-backed	2	1,826	13
Agency CMO	2	5,673	80
Municipal bonds	2	1,308	15
Total more than twelve months	6	8,807	108
Total securities available for sale	16	\$16,806	\$ 137

At March 31, 2016, the Company did not have any securities held to maturity with an unrealized loss.

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

The total available for sale debt securities in loss positions at March 31, 2016, which consisted of U.S. government agency mortgage-backed securities and CMO and municipal bonds, had depreciated approximately 0.79% from their amortized cost basis and are fixed and variable rate securities with a weighted-average yield of 1.90% and a weighted-average coupon rate of 3.15% at March 31, 2016. All of the agency and municipal securities are issued by U.S. government-sponsored enterprises and municipal governments, and are generally secured by first mortgage loans and municipal project revenues.

FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

The Company evaluates the existence of a potential credit loss component related to the decline in fair value of the privately-issued CMO and ABS portfolios each quarter using an independent third party analysis. At March 31, 2016, the Company held seventeen privately-issued CMO and ABS securities acquired in a 2009 bank acquisition with an aggregate carrying value of \$2.2 million and fair value of \$3.1 million that have been downgraded to a substandard regulatory classification due to a downgrade of the security's credit quality rating by various nationally recognized statistical rating organizations ("NRSRO").

At March 31, 2016, two privately-issued ABS were in loss positions and had depreciated approximately 4.04% from the Company's carrying value and were collateralized by residential mortgage loans. These securities had a total fair value of \$77,000 and a total unrealized loss of \$3,000 at March 31, 2016, and were rated below investment grade by NRSROs. Based on the independent third party analysis of the expected cash flows, management has determined that the decline in value for these securities are temporary and, as a result, no other-than-temporary impairment was recognized on the privately-issued CMO and ABS portfolios at March 31, 2016. While the Company did not recognize a credit-related impairment loss at March 31, 2016, additional deterioration in market and economic conditions may have an adverse impact on the credit quality in the future and therefore, require a credit-related impairment charge.

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

During the three- and six-month periods ended March 31, 2016 and March 31, 2015, the Company did not realize any gross gains or losses on sales of available for sale securities.

Certain available for sale debt securities were pledged under repurchase agreements and to secure FHLB borrowings at March 31, 2016 and September 30, 2015, and may be pledged to secure federal funds borrowings.

FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

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

Loans at March 31, 2016 and September 30, 2015 consisted of the following:

	March 31, 2016	September 30, 2015	
	(In thousands)		
Real estate mortgage:			
1-4 family residential	\$ 180,215	\$ 181,873	
Commercial	186,105	172,995	
Multifamily residential	22,212	21,647	
Residential construction	21,590	19,723	
Commercial construction	14,655	15,548	
Land and land development	10,429	11,061	
Commercial business loans	39,530	32,574	
Consumer:			
Home equity loans	19,942	19,423	
Auto loans	5,048	5,452	
Other consumer loans	1,998	2,159	
Gross loans	501,724	482,455	
Undisbursed portion of construction loans	(16,314)	(18,599)	
Principal loan balance	485,410	463,856	
Deferred loan origination fees and costs, net	(141)	(120)	
Allowance for loan losses	(6,751)	(6,624)	
Loans, net	\$478,518	\$ 457,112	

During the six-month period ended March 31, 2016, there was no significant change in the Company's lending activities or methodology used to estimate the allowance for loan losses as disclosed in the Company's Annual Report on Form 10-K for the year ended September 30, 2015.

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At March 31, 2016 and September 30, 2015, the recorded investment in consumer mortgage loans collateralized by residential real estate properties in the process of foreclosure was \$796,000 and \$806,000, respectively.

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FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

The following table provides the components of the recorded investment in loans as of March 31, 2016:

	Residential	Commercial			Land & Land	Commercial		
	Real	Real	Multifamily	Construction	Development	Business	Consumer	Total
	Estate	Estate						
	(In thousands)							
Recorded Investment in Loans:								
Principal loan balance	\$ 180,215	\$ 186,105	\$ 22,212	\$ 19,931	\$ 10,429	\$ 39,530	\$ 26,988	\$ 485,410
Accrued interest receivable	549	550	44	48	30	134	59	1,414
Net deferred loan origination fees and costs	235	(269)	(19)	(74)	8	(13)	(9)	(141)
Recorded investment in loans	\$ 180,999	\$ 186,386	\$ 22,237	\$ 19,905	\$ 10,467	\$ 39,651	\$ 27,038	\$ 486,683
Recorded Investment in Loans as Evaluated for Impairment:								
Individually evaluated for impairment	\$ 4,495	\$ 6,485	\$ -	\$ -	\$ -	\$ 273	\$ 274	\$ 11,527
Collectively evaluated for impairment	176,088	179,901	22,237	19,905	10,467	39,378	26,735	474,711
Acquired with deteriorated credit quality	416	-	-	-	-	-	29	445
Ending balance	\$ 180,999	\$ 186,386	\$ 22,237	\$ 19,905	\$ 10,467	\$ 39,651	\$ 27,038	\$ 486,683

FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

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

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

FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

An analysis of the allowance for loan losses as of March 31, 2016 is as follows:

	Residential		Commercial		Land & Land Development	Commercial		Total
	Real Estate	Real Estate	Multifamily	Construction		Business	Consumer	
	(In thousands)							
Ending Allowance Balance Attributable to Loans:								
Individually evaluated for impairment	\$-	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3	\$3
Collectively evaluated for impairment	286	4,595	157	651	345	625	89	6,748
Acquired with deteriorated credit quality	-	-	-	-	-	-	-	-
Ending balance	\$286	\$ 4,595	\$ 157	\$ 651	\$ 345	\$ 625	\$ 92	\$6,751

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

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

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Acquired with deteriorated
credit quality

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

An analysis of the changes in the allowance for loan losses for the three months ended March 31, 2016 is as follows:

	Residential Commercial				Land & Land		Commercial	
	Real Estate	Real Estate	Multifamily	Construction	Development	Business	Consumer	Total
	(In thousands)							
Changes in Allowance for Loan Losses:								
Beginning balance	\$370	\$ 4,514	\$ 147	\$ 594	\$ 338	\$ 575	\$ 106	\$6,644
Provisions	(62)	81	10	57	7	50	(18)	125
Charge-offs	(30)	-	-	-	-	-	(18)	(48)
Recoveries	8	-	-	-	-	-	22	30
Ending balance	\$286	\$ 4,595	\$ 157	\$ 651	\$ 345	\$ 625	\$ 92	\$6,751

An analysis of the changes in the allowance for loan losses for the six months ended March 31, 2016 is as follows:

	Residential Commercial				Land & Land		Commercial	
	Real Estate	Real Estate	Multifamily	Construction	Development	Business	Consumer	Total
	(In thousands)							
Changes in Allowance for Loan Losses:								
Beginning balance	\$444	\$ 4,327	\$ 156	\$ 551	\$ 369	\$ 678	\$ 99	\$6,624
Provisions	(182)	268	1	100	(24)	(53)	15	125
Charge-offs	(56)	-	-	-	-	-	(57)	(113)
Recoveries	80	-	-	-	-	-	35	115
Ending balance	\$286	\$ 4,595	\$ 157	\$ 651	\$ 345	\$ 625	\$ 92	\$6,751

FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

An analysis of the changes in the allowance for loan losses for the three months ended March 31, 2015 is as follows:

	Residential Real Estate	Commercial Real Estate	Multifamily	Construction	Land & Land Development	Commercial Business	Consumer	Total
	(In thousands)							
Changes in Allowance for Loan Losses:								
Beginning balance	\$442	\$ 4,217	\$ 163	\$ 344	\$ 299	\$ 826	\$ 159	\$6,450
Provisions	145	(108)	-	111	17	59	(12)	212
Charge-offs	(131)	-	-	-	-	-	(41)	(172)
Recoveries	1	-	-	-	-	1	22	24
Ending balance	\$457	\$ 4,109	\$ 163	\$ 455	\$ 316	\$ 886	\$ 128	\$6,514

An analysis of the changes in the allowance for loan losses for the six months ended March 31, 2015 is as follows:

	Residential Real Estate	Commercial Real Estate	Multifamily	Construction	Land & Land Development	Commercial Business	Consumer	Total
	(In thousands)							
Changes in Allowance for Loan Losses:								
Beginning balance	\$577	\$ 3,808	\$ 146	\$ 443	\$ 302	\$ 795	\$ 179	\$6,250
Provisions	(2)	301	17	12	14	90	(13)	419
Charge-offs	(143)	-	-	-	-	-	(73)	(216)
Recoveries	25	-	-	-	-	1	35	61
Ending balance	\$457	\$ 4,109	\$ 163	\$ 455	\$ 316	\$ 886	\$ 128	\$6,514

FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The following table presents impaired loans individually evaluated for impairment as of March 31, 2016 and for the three and six months ended March 31, 2016 and 2015.

	At March 31, 2016			Three Months Ended March 31, 2016			Six Months Ended March 31, 2016			Six Months Ended March 31, 2015		
	Recorded Investment Principal Balance	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Average Interest Income Recognized	Average Recorded Investment	Average Interest Income Recognized	Average Recorded Investment	Average Interest Income Recognized	Average Recorded Investment	Average Interest Income Recognized	
(In thousands)												
Loans with no related allowance recorded:												
Residential real estate	\$4,774	\$5,253	\$ -	\$5,591	\$ 38	\$5,685	\$ 37	\$5,437	\$ 73	\$5,729	\$ 72	
Commercial real estate	6,485	6,546	-	6,594	48	5,689	55	6,711	100	5,702	113	
Multifamily	-	-	-	-	-	-	-	-	-	-	-	
Construction	-	-	-	-	-	-	-	-	-	-	-	
Land and land development	-	-	-	-	-	-	-	-	-	-	-	
Commercial business	273	258	-	329	1	254	1	322	2	216	1	
Consumer	197	202	-	203	2	238	1	205	3	248	3	
	\$11,729	\$12,259	\$ -	\$12,717	\$ 89	\$11,866	\$ 94	\$12,675	\$ 178	\$11,895	\$ 189	
Loans with an allowance recorded:												
Residential real estate	\$-	\$-	\$ -	\$-	\$ -	\$142	\$ -	\$1	\$ -	\$152	\$ -	
Commercial real estate	-	-	-	-	-	6	-	-	-	3	-	
Multifamily	-	-	-	-	-	-	-	-	-	-	-	
Construction	-	-	-	-	-	-	-	-	-	-	-	
Land and land development	-	-	-	-	-	-	-	-	-	-	-	
Commercial business	-	-	-	-	-	12	-	-	-	7	-	

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Consumer	77	77	3	75	-	85	-	76	-	91	-
	\$77	\$77	\$ 3	\$75	\$ -	\$245	\$ -	\$77	\$ -	\$253	\$ -
Total:											
Residential real estate	\$4,774	\$5,253	\$ -	\$5,591	\$ 38	\$5,827	\$ 37	\$5,438	\$ 73	\$5,881	\$ 72
Commercial real estate	6,485	6,546	-	6,594	48	5,695	55	6,711	100	5,705	113
Multifamily	-	-	-	-	-	-	-	-	-	-	-
Construction	-	-	-	-	-	-	-	-	-	-	-
Land and land development	-	-	-	-	-	-	-	-	-	-	-
Commercial business	273	258	-	329	1	266	1	322	2	223	1
Consumer	274	279	3	278	2	323	1	281	3	339	3
	\$11,806	\$12,336	\$ 3	\$12,792	\$ 89	\$12,111	\$ 94	\$12,752	\$ 178	\$12,148	\$ 189

The Company recognized \$5,000 of interest income on an impaired commercial real estate loan using the cash receipts method during the six-month period ended March 31, 2015. The Company did not recognize any interest income using the cash receipts method during the three-month periods ended March 31, 2015. The Company did not recognize any interest income using the cash receipts method during the three and six-month periods ended March 31, 2016.

FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

The following table presents impaired loans individually evaluated for impairment as of September 30, 2015.

	Recorded Investment	Unpaid Principal Balance	Related Allowance
(In thousands)			
Loans with no related allowance recorded:			
Residential real estate	\$4,681	\$ 5,245	\$ -
Commercial real estate	7,041	7,079	-
Multifamily	-	-	-
Construction	-	-	-
Land and land development	-	-	-
Commercial business	222	282	-
Consumer	210	214	-
	\$12,154	\$ 12,820	\$ -
Loans with an allowance recorded:			
Residential real estate	\$9	\$ 9	\$ 9
Commercial real estate	-	-	-
Multifamily	-	-	-
Construction	-	-	-
Land and land development	-	-	-
Commercial business	-	-	-
Consumer	80	80	5
	\$89	\$ 89	\$ 14
Total:			
Residential real estate	\$4,690	\$ 5,254	\$ 9
Commercial real estate	7,041	7,079	-
Multifamily	-	-	-
Construction	-	-	-
Land and land development	-	-	-
Commercial business	222	282	-
Consumer	290	294	5

\$12,243 \$12,909 \$ 14

FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

Nonperforming loans consist of nonaccrual loans and loans over 90 days past due and still accruing interest. The following table presents the recorded investment in nonperforming loans at March 31, 2016:

	Loans 90+ Nonaccrual Loans		Total Nonperforming Loans
	Days Past Due	Still Accruing	
	(In thousands)		
Residential real estate	\$1,880	\$ 103	\$ 1,983
Commercial real estate	1,688	126	1,814
Multifamily	-	-	-
Construction	-	-	-
Land and land development	-	90	90
Commercial business	173	-	173
Consumer	157	-	157
Total	\$3,898	\$ 319	\$ 4,217

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

	Loans 90+ Nonaccrual Loans		Total Nonperforming Loans
	Days Past Due	Still Accruing	
	(In thousands)		
Residential real estate	\$1,923	\$ 155	\$ 2,078
Commercial real estate	1,855	-	1,855
Multifamily	-	-	-
Construction	-	-	-

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Land and land development	-	-	-
Commercial business	210	94	304
Consumer	165	3	168
Total	\$4,153	\$ 252	\$ 4,405

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FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

The following table presents the aging of the recorded investment in past due loans at March 31, 2016:

	30-59 Days Past Due (In thousands)	60-89 Days Past Due	90 + Days Past Due	Total Past Due	Current	Total Loans
Residential real estate	\$2,361	\$ 531	\$ 1,643	\$ 4,535	\$176,464	\$180,999
Commercial real estate	276	-	302	578	185,808	186,386
Multifamily	-	-	-	-	22,237	22,237
Construction	-	-	-	-	19,905	19,905
Land and land development	245	-	90	335	10,132	10,467
Commercial business	4	-	173	177	39,474	39,651
Consumer	94	3	32	129	26,909	27,038
Total	\$2,980	\$ 534	\$ 2,240	\$ 5,754	\$480,929	\$486,683

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

	30-59 Days Past Due (In thousands)	60-89 Days Past Due	90 + Days Past Due	Total Past Due	Current	Total Loans
Residential real estate	\$3,635	\$ 1,419	\$ 1,530	\$ 6,584	\$176,124	\$182,708
Commercial real estate	1,098	113	139	1,350	171,805	173,155
Multifamily	504	-	-	504	21,169	21,673
Construction	-	-	-	-	16,632	16,632
Land and land development	253	-	-	253	10,846	11,099
Commercial business	15	-	303	318	32,323	32,641
Consumer	81	14	32	127	26,960	27,087

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Total	\$5,586	\$ 1,546	\$ 2,004	\$ 9,136	\$455,859	\$464,995
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FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

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

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

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

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

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

FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass-rated loans. As of March 31, 2016, and based on the most recent analysis performed, the recorded investment in loans by risk category was as follows:

	Residential Real Estate	Commercial Real Estate			Land and Land Development	Commercial Business	Consumer	Total
	(In thousands)							
Pass	\$ 174,592	\$ 179,426	\$ 22,237	\$ 19,905	\$ 10,222	\$ 39,478	\$ 26,780	\$ 472,640
Special Mention	1,006	176	-	-	-	-	11	1,193
Substandard	5,231	6,784	-	-	245	173	244	12,677
Doubtful	170	-	-	-	-	-	3	173
Loss	-	-	-	-	-	-	-	-
Total	\$ 180,999	\$ 186,386	\$ 22,237	\$ 19,905	\$ 10,467	\$ 39,651	\$ 27,038	\$ 486,683

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

*(Unaudited)**Troubled Debt Restructurings*

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

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

The following table summarizes the Company’s recorded investment in TDRs at March 31, 2016 and September 30, 2015. There was no specific reserve included in the allowance for loan losses related to TDRs at March 31, 2016 and September 30, 2015.

	Accruing	Nonaccrual	Total
	(In thousands)		
March 31, 2016:			
Residential real estate	\$2,894	\$ 111	\$3,005
Commercial real estate	4,797	1,511	6,308
Commercial business	100	28	128

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Consumer	117	-	117
Total	\$7,908	\$ 1,650	\$9,558
September 30, 2015:			
Residential real estate	\$2,767	\$ 110	\$2,877
Commercial real estate	5,186	1,523	6,709
Commercial business	12	-	12
Consumer	125	-	125
Total	\$8,090	\$ 1,633	\$9,723

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FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

The following table summarizes information in regard to TDRs that were restructured during the three and six-month periods ended March 31, 2016 and 2015:

	Pre- Modification Principal Balance (In thousands)	Post- Modification Principal Balance
March 31, 2016:		
Three Months Ended March 31, 2016:		
Residential real estate	1 \$ 107	\$ 121
Total	1 \$ 107	\$ 121
Six Months Ended March 31, 2016:		
Residential real estate	5 \$ 181	\$ 247
Commercial business	2 88	118
Total	7 \$ 269	\$ 365
March 31, 2015:		
Six Months Ended March 31, 2015:		
Residential real estate	2 \$ 165	\$ 172
Total	2 \$ 165	\$ 172

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

At March 31, 2016 and September 30, 2015, the Company had committed to lend \$3,000 and \$2,000, respectively, in additional funds to a customer with outstanding loans classified as TDRs.

There were no principal charge-offs recorded as a result of TDRs during the six-month periods ended March 31, 2016 and 2015. There was no specific allowance for loan losses related to TDRs modified during the six-month periods ended March 31, 2016 and 2015. In the event that a TDR subsequently defaults, the Company evaluates the restructuring for possible impairment. As a result, the related allowance for loan losses may be increased or charge-offs may be taken to reduce the carrying amount of the loan.

During the six-month periods ended March 31, 2016 and 2015, the Company did not have any TDRs that were modified within the previous twelve months and for which there was a payment default. No charge-offs were recognized for TDRs with subsequent payment defaults for the six-month periods ended March 31, 2016 and 2015.

FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

Loan Servicing Rights

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

The aggregate fair value of loan servicing rights at March 31, 2016 approximated its carrying value. A valuation model employed by an independent third party calculates the present value of future cash flows and is used to estimate fair value at the date of sale and on a quarterly basis for impairment analysis purposes. Management periodically compares the valuation model inputs and results to published industry data in order to validate the model results and assumptions. Key assumptions used to estimate the fair value of the loan servicing rights include the discount rate and prepayment speed assumptions. For purposes of impairment, risk characteristics such as interest rate, loan type, term and investor type are used to stratify the loan servicing rights. Impairment is recognized through a valuation allowance to the extent that fair value is less than the carrying amount. Changes in the valuation allowance are reported in net gain on sales of loans in the consolidated statements of income.

The unpaid principal balance of commercial SBA 7(a) loans serviced for others was \$5.9 million at March 31, 2016. There were no commercial SBA 7(a) loans serviced for others at September 30, 2015 or March 31, 2015. Contractually specified servicing fees, late fees and ancillary fees earned on commercial SBA 7(a) loans of \$15,000 and \$27,000 for the three- and six-month periods ended March 31, 2016, respectively, are included in interest income on loans in the consolidated statements of income. This income is offset by direct servicing expenses related to commercial SBA 7(a) loans of \$20,000 and \$35,000 for the three- and six-month periods ended March 31, 2016, respectively.

An analysis of loan servicing rights for the six-month period ended March 31, 2016 is as follows:

(In thousands)

Balance, beginning of period	\$-
Servicing rights resulting from transfers of loans	156
Amortization	-
Change in valuation allowance	-
Balance, end of period	\$156

Residential mortgage loans originated for sale in the secondary market continue to be sold with servicing released.

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FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

4. Real Estate Development and Construction