

First Savings Financial Group Inc  
Form 10-K  
December 29, 2016

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-K**

**(Mark One)**

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

For the fiscal year ended September 30, 2016

**OR**

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: **1-34155**

**FIRST SAVINGS FINANCIAL GROUP, INC.**

(Exact name of registrant as specified in its charter)

**Indiana**

(State or other jurisdiction of  
incorporation or organization)

**37-1567871**

(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
<b>Common Stock, par value \$0.01 per share</b>	<b>NASDAQ Stock Market, LLC</b>

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

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

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

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

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

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 \$56.3 million, based upon the closing price of \$33.98 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, 2016.

The number of shares outstanding of the registrant's common stock as of December 16, 2016 was 2,206,787.

DOCUMENTS INCORPORATED BY REFERENCE

**Portions of the Proxy Statement for the 2017 Annual Meeting of Stockholders are incorporated by reference in Part III of this Form 10-K.**

INDEX

	<b>Page</b>
<b><u>Part I</u></b>	
Item 1. <u>Business</u>	2
Item 1A. <u>Risk Factors</u>	19
Item 1B. <u>Unresolved Staff Comments</u>	26
Item 2. <u>Properties</u>	26
Item 3. <u>Legal Proceedings</u>	27
Item 4. <u>Mine Safety Disclosures</u>	27
<b><u>Part II</u></b>	
Item 5. <u>Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	28
Item 6. <u>Selected Financial Data</u>	30
Item 7. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	33
Item 7A. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	57
Item 8. <u>Financial Statements and Supplementary Data</u>	57
Item 9. <u>Changes in and Disagreements With Accountants on Accounting and Financial Disclosure</u>	57
Item 9A. <u>Controls and Procedures</u>	58
Item 9B. <u>Other Information</u>	58
<b><u>Part III</u></b>	
Item 10. <u>Directors, Executive Officers and Corporate Governance</u>	59
Item 11. <u>Executive Compensation</u>	59
Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	59

Item 13. Certain Relationships and Related Transactions, and Director Independence 59

Item 14. Principal Accounting Fees and Services 59

**Part IV**

Item 15. Exhibits and Financial Statement Schedules 60

SIGNATURES

*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 (the “Bank” or “First 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”.

In accordance with a Plan of Charter Conversion adopted by the Board of Directors of First Savings Bank on May 21, 2014, First Savings Bank converted from a federally-chartered savings bank to an Indiana-chartered commercial bank and became a member the Federal Reserve System effective December 19, 2014. As a result of the Bank’s charter conversion, First Savings Financial Group converted to a bank holding company and simultaneously elected financial holding company status effective December 19, 2014. See Note 27 of the Notes to Consolidated Financial Statements beginning of page F-1 of this annual report for additional information regarding the charter conversions.

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 and commercial mortgage loans. We also originate commercial business loans, 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, except as otherwise discussed herein.

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](http://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, 2016, which is the most recent date for which data is available from the Federal Deposit Insurance Corporation ("FDIC"), we held approximately 12.17%, 2.78%, 34.48%, 81.84% and 10.86% 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

Consistent with the Bank's conversion to an Indiana-chartered commercial bank in December 2014, the Bank is continuing 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.

The largest segments of our loan portfolio are commercial real estate loans and residential real estate mortgage loans, which are primarily one- to four-family residential loans, and, to a lesser extent, multi-family 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, as well as the portion of loans guaranteed by the U.S. Small Business Administration ("SBA") that we originate under its 7(a) program. We do not offer, have not offered and have not purchased or acquired Alt-A, sub-prime or no-documentation loans.

***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. 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, 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 \$13.7 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, 2016, our largest one- to four-family residential loan had an outstanding balance of \$1.5 million. This loan, which was originated in September 2016 and is secured by 12 duplexes containing 24 living units, was performing in accordance with its original terms at September 30, 2016.

***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 generally leased to investment grade national-brand retailers, the borrowers and collateral properties for which are outside of our primary market area. 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, lessee and industry of lessees as a percent of the overall loan portfolio, and as a percent of capital. The average size of these loans originated was \$1.1 million and the portfolio balance was \$93.3 million at September 30, 2016. Our largest such loan,

which was originated in May 2016 and secured by a single-tenant commercial retail building, had an outstanding balance of \$3.8 million at September 30, 2016 and was performing in accordance with its original terms at September 30, 2016.

At September 30, 2016, our largest commercial real estate loan had an outstanding balance of \$9.0 million. This loan, which was originated in September 2016, is secured by a commercial real estate development formerly owned by the Company that includes one multi-tenant, two single-tenant, and two two-tenant retail buildings. It was performing in accordance with its original terms at September 30, 2016. See Notes 5, 7 and 31 of the Notes to Consolidated Financial Statements beginning on page F-1 of this annual report for additional information.

**Construction Loans.** We originate construction loans for one-to four-family homes and 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 or lessee for the completed property at the time of origination. At September 30, 2016, we had approved commitments for speculative construction loans of \$10.6 million, of which \$4.9 million was outstanding. We require a maximum loan-to-value ratio of 80% for speculative construction loans. At September 30, 2016, our largest construction loan relationship was for a commitment of \$11.3 million, of which \$1.1 million was outstanding but 80% of this loan is participated to other financial institutions. This loan, which was originated in June 2016 and is secured by a national brand hotel, was performing in accordance with its original terms at September 30, 2016.

**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, 2016, our largest land development loan had an outstanding balance of \$2.0 million. This loan, which was originated in April 2016, was performing in accordance with its original terms at September 30, 2016.

**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, 2016, our largest multi-family mortgage loan had an outstanding balance of \$1.9 million. This loan, which was originated in August 2010, was performing in accordance with its original terms at September 30, 2016.

**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. We also offer auto and truck loans, personal loans and small boat loans. 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. 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, 2016, our largest consumer loan was a home equity line of credit with a commitment of \$350,000, of which \$291,000 was outstanding. This loan, which was originated in May 2014 and is secured by a first mortgage on a personal residence, was performing in accordance with its original terms at September 30, 2016.

**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, 2016, our largest commercial business loan was for a commitment of \$7.5 million, of which \$7.5 million was outstanding but \$2.5 million had been participated to other financial institutions. This loan, which was originated in September 2016 is made to a local hospital, was performing in accordance with its original terms at September 30, 2016.

### **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.

**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. We have generally 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 and centers of influence, such as real estate agents, attorneys, accountants and other professionals.

We have not historically sold whole loans, other than long-term fixed-rate residential mortgage loans that we originate, which we generally sell in the secondary market. We have not historically purchased whole loans; however, we acquired four brokered whole loans during the year ended September 30, 2012. The loans were purchased at an average of 90% of their principal balance and are secured by multi-family and retail shopping centers located in Indiana. At September 30, 2016, three of these loans remained outstanding with a total principal balance of \$4.1 million and were performing in accordance with their original terms.

While we generally do not sell participation interests in loans originated by us or purchase participation interests in loans originated by other financial institutions in order to supplement our lending portfolio, we may sell or purchase participation interests in loans from time to time depending on various factors. At September 30, 2016, \$27.0 million of loans included sold participation interests of \$12.8 million, for a net position of \$14.2 million outstanding in our portfolio. At September 30, 2016, acquired participation interests of loans from two lending relationships totaled \$1.0 million and our largest purchased participation interest with a single borrower was \$837,000. This loan, which was originated in January 2014 and is secured by a first mortgage on an industrial building, was performing in accordance with its original terms at September 30, 2016.

Beginning in April 2015, the Bank hired a management team, business development officers (loan officers), underwriters and supporting staff that are seasoned and experienced in SBA lending in order to enhance the Company's proficiency in SBA 7(a) program loan originations and sales. The Bank intends to continue hiring additional business development officers and appropriate supporting staff in order to grow this program, the borrowers and collateral for which are outside of our primary market area. The primary purpose of the program is to originate SBA 7(a) program loans and sell the amounts guaranteed by the SBA in the secondary market. The program is also designed to diversify the Company's geographic and interest rate risk profile with respect to the retained unguaranteed amounts given the geographic dispersion of the loans and collateral, and their floating rate structure. The Company originated SBA loans with a total commitment of \$27.0 million during the year end September 30, 2016. At September 30, 2016, \$23.5 million of SBA loans included sold guaranteed portions of \$13.6 million, for a net position of \$10.0 million outstanding in our portfolio. The amount outstanding in the Bank's portfolio at September 30, 2016 included \$5.1 million in SBA loans held for sale, \$1.3 million in the unguaranteed portion of SBA loans not yet sold and \$3.6 million in the unguaranteed portion of SBA loans sold. See Note 22 of the Notes to Consolidated Financial Statements beginning of page F-1 of this annual report for additional information regarding the fair value election for SBA loans held for sale at September 30, 2015. All SBA loans held for sale were carried at the lower of cost or market value at September 30, 2016.

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 conventional 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 non-SBA 7(a) program 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 individual office lending limits but less than \$1.5 million require approval by the Officer Loan Committee and loans resulting in aggregated lending relationships in excess of \$1.5 million but less than \$3.0 million require approval of the Executive Loan Committee. The Executive Loan Committee consists of the President, Area President, Chief Lending Officer, Chief of Credit Administration and two senior commercial lending officers, 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 \$3.0 million require approval by both the Executive Loan Committee and the Board of Directors.

Our SBA 7(a) program lending activities also 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 is \$2.0 million for the aggregate loan balance, of which 75% or greater is guaranteed by the SBA. Generally, all SBA 7(a) program loan requests for lending relationships that exceed the individual officer lending limits require approval by the SBA Officer Loan Committee. The SBA Officer Loan Committee consists of the President, Chief Lending Officer, Chief of Credit Administration, Chief of SBA Lending, Senior SBA Lending Officer and a senior commercial lending officer. The aggregated lending relationships for the

SBA 7(a) program may not exceed \$5.0 million according to SBA guidelines and therefore no loan requests require approval by the Board of Directors given that the portion of SBA 7(a) program loans that are not guaranteed by the SBA may not exceed \$1.25 million.

***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, 2016, our regulatory limit on loans to one borrower was \$10.4 million. At that date, our largest lending relationship was for a commitment of \$9.7 million, of which \$9.5 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, securities of various 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 Reserve System and Federal Home Loan Bank System, in particular a member of the Federal Home Loan Bank of Indianapolis (“FHLB”), First Savings Bank is also required to acquire and hold shares of capital stock in the Federal Reserve Bank and FHLB.

At September 30, 2016, 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 bonds, privately-issued collateralized mortgage obligations and asset-backed securities, and a pass-through asset-backed security guaranteed by the SBA. We have invested \$10.0 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, 2016, trading account securities recorded at fair value totaled \$9.3 million.

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 time deposits. 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 FHLB to supplement our investable funds. 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 System functions as a central reserve bank providing credit for member financial institutions. First Savings Bank, as a member of the FHLB, is required to acquire and hold shares of capital stock in the FHLB and is 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 the U.S., U.S. government agencies or U.S. government-sponsored enterprises), 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 FHLB's assessment of the institution's creditworthiness. We have two federal funds purchased line of credit facilities with other financial institutions that are subject to continued borrower eligibility and are intended to support short-term liquidity needs. We also utilize brokered certificates of deposit and retail repurchase agreements as sources of borrowings and may use broker repurchase agreements and internet certificates of deposit from time to time, depending on our liquidity needs and pricing of these facilities versus other funding alternatives.

## **Personnel**

As of September 30, 2016, we had 161 full-time employees and 17 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 has two wholly-owned subsidiaries, First Savings Bank and First Savings Insurance Risk Management, Inc (the “Captive”). The Bank has three subsidiaries, Southern Indiana Financial Corporation and FFCC, Inc. (“FFCC”), 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 participated in the development and leasing of commercial real estate. First Savings Investments, Inc. holds and manages an investment securities portfolio. The Captive, an 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 accordance with the Plan of Complete Liquidation adopted by FFCC’s board of directors and approval by the Bank as its sole shareholder on December 21, 2016, FFCC will voluntarily dissolve and completely liquidate effective December 31, 2016. As a result of the liquidation, FFCC will distribute its net assets to the Bank on December 31, 2016.

## **REGULATION AND SUPERVISION**

### **General**

First Savings Bank converted its charter from a federal savings bank to an Indiana commercial bank on December 19, 2014. First Savings Bank, as an Indiana commercial bank, is subject to extensive regulation, examination and supervision by the Indiana Department of Financial Institutions (“INDFI”). As a member bank of the Federal Reserve System, First Savings Bank’s primary federal regulator is the Federal Reserve Board (“FRB”). First Savings Bank is also 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 FDIC. First Savings Bank must file reports with its regulatory agencies 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 INDFI and FRB 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 Deposit 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 INDFI, FRB, or Congress, could have a material adverse impact on First Savings Financial Group and First Savings Bank and their operations.

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.

### **Regulation of First Savings Bank**

***Business Activities.*** The activities of Indiana banks, such as First Savings Bank, are governed by Indiana and federal laws and regulations. Those laws and regulations delineate the nature and extent of the business activities in which banks may engage. As an Indiana commercial bank, First Savings Bank is not constrained by percentage of assets or capital limits on specific types of lending, as was the case with the previous federal savings bank charter.

Federal law generally limits the activities as principal and equity investments of FDIC insured state banks to those permitted for national banks. Activities as principal of state bank subsidiaries are also limited to those permitted for subsidiaries of national banks, absent regulatory approval for a particular subsidiary activity. In addition, federal law limits the authority of Federal Reserve System member banks, such as First Savings Bank, to purchase investment securities. Generally, such authority is limited to investment securities permissible for national banks, which includes investment grade, marketable debt obligations. Certain activities, such as the establishment of new branches and mergers and acquisitions, require the prior approval of both the INDFI and the FRB.

**Loans to One Borrower.** Indiana law establishes limits on a bank's loans to one borrower. Generally, subject to certain exceptions, an Indiana bank 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. These limits are similar to those applicable to First Savings Bank under its previous federal savings bank charter.

**Capital Requirements.** Federal regulations require FDIC insured depository institutions, including state chartered Federal Reserve System member banks, to meet several minimum capital standards: a common equity Tier 1 capital to risk-based assets ratio of 4.5%, a Tier 1 capital to risk-based assets ratio of 6.0%, a total capital to risk-based assets of 8% and a 4% Tier 1 capital to total assets leverage ratio. The existing capital requirements were effective January 1, 2015 and are the result of a final rule implementing regulatory amendments based on recommendations of the Basel Committee on Banking Supervision and certain requirements of the Dodd-Frank Act.

As noted, the capital standards require the maintenance of common equity Tier 1 capital, Tier 1 capital and total capital to risk-weighted assets of at least 4.5%, 6% and 8%, respectively, and a leverage ratio of at least 4% Tier 1 capital. Common equity Tier 1 capital is generally defined as common stockholders' equity and retained earnings. Tier 1 capital is generally defined as common equity Tier 1 and Additional Tier 1 capital. Additional Tier 1 capital generally includes certain noncumulative perpetual preferred stock and related surplus and minority interests in equity accounts of consolidated subsidiaries. Total capital includes Tier 1 capital (common equity Tier 1 capital plus Additional Tier 1 capital) and Tier 2 capital. Tier 2 capital is comprised of capital instruments and related surplus meeting specified requirements, and may include cumulative preferred stock and long-term perpetual preferred stock, mandatory convertible securities, intermediate preferred stock and subordinated debt. Also included in Tier 2 capital is the allowance for loan and lease losses limited to a maximum of 1.25% of risk-weighted assets and, for institutions that have exercised an opt-out election regarding the treatment of Accumulated Other Comprehensive Income ("AOCI"), up to 45% of net unrealized gains on available-for-sale equity securities with readily determinable fair market values. Institutions that have not exercised the AOCI opt-out have AOCI incorporated into common equity Tier 1 capital (including unrealized gains and losses on available-for-sale securities). Calculation of all types of regulatory capital is subject to deductions and adjustments specified in the regulations.

In determining the amount of risk-weighted assets for purposes of calculating risk-based capital ratios, assets, including certain off-balance sheet assets (e.g., recourse obligations, direct credit substitutes, residual interests) are

multiplied by a risk weight factor assigned by the regulations based on the risks believed inherent in the type of asset. Higher levels of capital are required for asset categories believed to present greater risk. For example, a risk weight of 0% is assigned to cash and U.S. government securities, a risk weight of 50% is generally assigned to prudently underwritten first lien one to four- family residential mortgages, a risk weight of 100% is assigned to commercial and consumer loans, a risk weight of 150% is assigned to certain past due loans and a risk weight of between 0% to 600% is assigned to permissible equity interests, depending on certain specified factors.

In addition to establishing the minimum regulatory capital requirements, the regulations limit capital distributions by the institution and certain discretionary bonus payments to management if an institution does not hold a “capital conservation buffer” consisting of 2.5% of common equity Tier 1 capital to risk-weighted assets above the amount necessary to meet its minimum risk-based capital requirements. The capital conservation buffer requirement was phased in beginning January 1, 2016 at 0.625% of risk-weighted assets and is increasing each year until fully implemented at 2.5% on January 1, 2019.

The FRB 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.

As of September 30, 2016, First Savings Bank met all applicable capital adequacy requirements.

**Prompt Corrective Regulatory Action.** Federal law establishes a system of prompt corrective action to resolve the problems of undercapitalized institutions. The law requires that certain supervisory actions be taken against undercapitalized institutions, the severity of which depends on the degree of undercapitalization. The FRB has adopted regulations to implement the prompt corrective action legislation as to state member banks. The regulations were amended to incorporate the previously mentioned increased regulatory capital standards that were effective January 1, 2015. An institution is deemed to be "well capitalized" if it has a total risk-based capital ratio of 10.0% or greater, a Tier 1 risk-based capital ratio of 8.0% or greater, a leverage ratio of 5.0% or greater and a common equity Tier 1 ratio of 6.5% or greater. An institution is "adequately capitalized" if it has a total risk-based capital ratio of 8.0% or greater, a Tier 1 risk-based capital ratio of 6.0% or greater, a leverage ratio of 4.0% or greater and a common equity Tier 1 ratio of 4.5% or greater. An institution is "undercapitalized" if it has a total risk-based capital ratio of less than 8.0%, a Tier 1 risk-based capital ratio of less than 6.0%, a leverage ratio of less than 4.0% or a common equity Tier 1 ratio of less than 4.5%. An institution is deemed to be "significantly undercapitalized" if it has a total risk-based capital ratio of less than 6.0%, a Tier 1 risk-based capital ratio of less than 4.0%, a leverage ratio of less than 3.0% or a common equity Tier 1 ratio of less than 3.0%. An institution is considered to be "critically undercapitalized" if it has a ratio of tangible equity (as defined in the regulations) to total assets that is equal to or less than 2.0%.

Subject to a narrow exception, a receiver or conservator is required to be appointed for an institution that is "critically undercapitalized" within specified time frames. The regulations also provide that a capital restoration plan must be filed with the FRB within 45 days of the date an institution 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 institution'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 FRB 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 FDIC. Under the FDIC'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 and certain specified adjustments. On February 7, 2011, the FDIC issued final rules, effective April 1,

2011, implementing changes to the assessment process. The changes resulted from the Dodd-Frank Act's directive to base assessments on an institution's total assets less tangible capital instead of deposits, as had been the FDIC's practice. The assessment rates (inclusive of adjustments) currently range from two and one half to 45 basis points of total capital less tangible assets, depending upon the particular institution's risk category. 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.

Due to difficult economic conditions in 2008 and 2009, deposit insurance per account owner was raised to \$250,000. That change was made permanent by the Dodd-Frank Act.

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 FDIC 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 FDIC. The FDIC has exercised that discretion by establishing a target fund ratio of 2%, which it has established as a long term goal.

The FDIC 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 FDIC 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 FRB or FDIC. The management of First Savings Bank does not know of any practice, condition or violation that might lead to termination of deposit insurance.

**Limitation on Dividends.** Indiana law authorizes a bank's board of directors to declare dividends out of profits as deemed expedient. However, application to and the prior approval of the INDFI and FRB is required before payment of a dividend if total dividends for the calendar year exceed net income for the year to date plus the amount of retained net income for the preceding two years. Federal law specifies that a bank may not pay a dividend if it fails to satisfy any applicable federal capital requirement after the dividend.

If First Savings Bank's capital ever fell below its regulatory requirements or the FRB notified it that it was in need of increased supervision, its ability to pay dividends or otherwise make capital distributions could be restricted. In addition, the INDFI and/or FRB could prohibit a proposed capital distribution, which would otherwise be permitted by the regulation, if the regulator determined 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 FRB determines that a state member bank fails to meet any standard prescribed by the guidelines, the FRB may require the institution to submit an acceptable plan to achieve compliance with the standard.

**Community Reinvestment Act.** All federally-insured banks 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. 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 its other subsidiaries). The aggregate amount of covered transactions with any individual affiliate is limited to 10% of the capital and surplus of a bank. The aggregate amount of covered transactions with all affiliates is limited to 20% of a bank'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.

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 INDFI maintains enforcement authority over First Savings Bank, including the power to issue cease and desist orders and civil money penalties and remove directors, officers or employees. The INDFI also has the power to appoint a conservator or receiver for a bank upon insolvency, imminent insolvency, unsafe or unsound condition or certain other situations. The FRB has primary federal enforcement responsibility over Federal Reserve System member state banks 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 the bank. Formal enforcement action may range from the issuance of a capital directive or cease and desist order to removal of officers and/or directors. 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 FDIC, as deposit insurer, has the authority to recommend to the FRB that enforcement action be taken with respect to a member bank. If action is not taken by the FRB, the FDIC has authority to take such action under certain circumstances. In general, regulatory enforcement actions occur with respect to situations involving unsafe or unsound practices or conditions, violations of law or regulation or breaches of fiduciary duty. Federal and Indiana law also establish criminal penalties for certain violations.

**Assessments.** Indiana banks are required to pay assessments to the INDFI to fund the agency's operations. The assessments paid to the INDFI by First Savings Bank for the fiscal year ended September 30, 2016 totaled \$60,000.

**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 System provides a central credit facility primarily for member institutions. First Savings Bank, as a member of the FHLB, is required to acquire and hold shares of capital stock in the FHLB. First Savings Bank was in compliance with this requirement with an investment in FHLB capital stock at September 30, 2016 of \$6.0 million.

**Federal Reserve Board System.** The FRB regulations require banks to maintain 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 2016: a 3% reserve ratio is assessed on net transaction accounts up to and including \$110.2 million; a 10% reserve ratio is applied above \$110.2 million. The first \$15.2 million of otherwise reservable balances (subject to adjustments by the FRB) are exempted from the reserve requirements. First Savings Bank complies with the foregoing requirements. The amounts are adjusted annually and, for 2017, establish a 3% reserve ratio for aggregate transaction accounts up to \$115.1 million, a 10% ratio above \$115.1 million, and an exemption of \$15.5 million. In October 2008, the FRB 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.** Upon the charter conversion of First Savings Bank from a federal savings bank to an Indiana commercial bank, First Savings Financial Group became a bank holding company rather than a savings and loan holding company, and simultaneously elected financial holding company status. As a bank holding company, First Savings Financial Group is subject to FRB regulation, examination, supervision and reporting requirements. In addition, the FRB has enforcement authority over First Savings Financial Group and its non-savings institution subsidiaries. Among other things, this authority permits the FRB to restrict or prohibit activities that are determined to be a serious risk to First Savings Bank. The INDFI also has examination and enforcement authority since First Savings Financial Group controls an Indiana bank.

As a bank holding company, First Savings Financial Group is required to obtain the prior approval of the FRB to acquire all, or substantially all, of the assets of any other bank or bank holding company. Prior FRB approval is required for any bank holding company to acquire direct or indirect ownership or control of any voting securities of any bank or bank holding company if, after such acquisition, the acquiring bank holding company would, directly or indirectly, own or control more than 5% of any class of voting shares of the bank or bank holding company. In addition to the approval of the FRB, prior approval may for such acquisitions also be necessary from other agencies including the INDFI and agencies that regulate the target.

A bank holding company is generally prohibited from engaging in nonbanking activities, or acquiring direct or indirect control of more than 5% of the voting securities of any company engaged in non-banking activities. One of the principal exceptions to this prohibition is for activities found by the FRB to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. Some of the principal activities that the FRB has determined by regulation to be so closely related to banking are: (i) making or servicing loans; (ii) performing certain data processing services; (iii) providing discount brokerage services; (iv) acting as fiduciary, investment or financial advisor; (v) leasing personal or real property; (vi) making investments in corporations or projects designed primarily to promote community welfare; and (vii) acquiring a savings and loan association whose direct and indirect activities are limited to those permitted for bank holding companies.

The Gramm-Leach-Bliley Act of 1999 authorized a bank holding company that meets specified conditions, including being “well capitalized” and “well managed,” to opt to become a “financial holding company” and thereby engage in a broader array of financial activities than previously permitted. First Savings Financial Group has elected to become a financial holding company because of the activities of the Captive.

Bank holding companies are generally subject to consolidated capital requirements established by the FRB. The Dodd-Frank Act required the FRB to amend its consolidated minimum capital requirements for bank holding companies to make them no less stringent than those applicable to insured depository institutions themselves. The previously discussed final rule concerning regulatory capital accomplished this directive, effective January 1, 2015. However, legislation was enacted in December 2014 which required the FRB to amend its “Small Bank Holding Company” exemption from consolidated bank holding company capital requirements to generally extend the applicability of the exemption from \$500 million to \$1 billion in assets. Regulations doing so were effective May 15, 2015. Consequently, bank holding companies of under \$1 billion in consolidated assets, such as First Savings Financial Group, are exempt from consolidated regulatory capital requirements, unless the FRB determines otherwise in particular cases.

The FRB's policies also require that a bank holding company serve as a source of financial strength to its subsidiary banks by standing ready to use available resources to provide adequate capital funds to those banks during periods of financial stress or adversity and by maintaining the financial flexibility and capital-raising capacity to obtain additional resources for assisting its subsidiary banks where necessary. The Dodd-Frank Act codified the source of strength doctrine.

A bank holding company is generally required to give the FRB prior written notice of any purchase or redemption of then outstanding equity securities if the gross consideration for the purchase or redemption, when combined with the net consideration paid for all such purchases or redemptions during the preceding 12 months, is equal to 10% or more of the company's consolidated net worth. The FRB may disapprove such a purchase or redemption if it determines that the proposal would constitute an unsafe and unsound practice, or violate any law, regulation, FRB order or directive, or any condition imposed by, or written agreement with, the FRB. There is an exception to this approval requirement for well-capitalized bank holding companies that meet certain other conditions.

The FRB has issued a policy statement regarding the payment of dividends and the repurchase of shares of common stock by bank holding companies. In general, the policy provides that dividends should be paid only out of current earnings and only if the prospective rate of earnings retention by the holding company appears consistent with the organization's capital needs, asset quality and overall financial condition. Regulatory guidance provides for prior regulatory consultation with respect to dividends in certain circumstances such as where the company's net income for the past four quarters, net of dividends' previously paid over that period, is insufficient to fully fund the dividend or the company's overall rate of earnings retention is inconsistent with the company's capital needs and overall financial condition. The ability of a holding company to pay dividends may be limited if a subsidiary bank becomes undercapitalized. The guidance also provides for regulatory consultation prior to a bank holding company redeeming or repurchasing regulatory capital instruments when the holding company is experiencing financial weaknesses or where the redemption or repurchase of common or preferred stock cause a net reduction in the amount of such equity instruments outstanding at the end of a quarter compared to the beginning of the quarter in which the redemption or repurchase occurs. These regulatory policies could affect the ability of First Savings Financial Group to pay dividends, repurchase shares of its stock or otherwise engage in capital distributions.

The status of First Savings Financial Group as a registered bank holding company under the Bank Holding Company Act does not exempt it from certain federal and state laws and regulations applicable to corporations generally including, without limitation, certain provisions of the federal securities laws.

**Acquisition of Control.** Under the federal Change in Bank Control Act, no person may acquire control of a bank holding company such as First Savings Financial Group unless the FRB has been given 60 days' prior written notice and has not issued a notice disapproving the proposed acquisition, taking into consideration certain factors, including the financial and managerial resources of the acquirer and the competitive effects of the acquisition. Control, as defined under federal law, means ownership, control of or holding irrevocable proxies representing more than 25% of any class of voting stock, control in any manner of the election of a majority of the company's directors, or a

determination by the regulator that the acquirer has the power to direct, or directly or indirectly to exercise a controlling influence over, the management or policies of the institution. Acquisition of more than 10% of any class of a bank holding company's voting stock constitutes a rebuttable presumption of control under the regulations under certain circumstances including where, is the case with First Savings Financial Group, the issuer has registered securities under Section 12 of the Securities Exchange Act of 1934. Indiana law requires INDFI approval for changes in control of companies controlling Indiana banks, with "control" defined to mean power to direct the management or policies of the holding company or power to vote at least 25% of the company's voting securities.

### **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 2016 fiscal year, the Company'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, as the Bank did prior to its conversion to a commercial bank in December 2014, 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 September 30, 1988, 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.** Effective July 1, 2013, Indiana amended its tax code to provide for reductions in the franchise tax rate. For the Company's tax year ended September 30, 2016, Indiana imposed a 7.5% franchise tax based on a financial institution's adjusted gross income as defined by statute. The Indiana franchise tax rate will be reduced to 7.0%, 6.5%, 6.5%, 6.25%, 6.0%, 5.5%, 5.0% and 4.9% for the Company's tax years ending September 30, 2017, 2018, 2019, 2020, 2021, 2022, 2023, and 2024 and years thereafter, respectively. 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, 2016, \$32.0 million, or 17.9% of our residential mortgage loan portfolio and 5.9% 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, 2016, we had nine non-owner occupied residential loan relationships, each having an outstanding balance over \$500,000, with aggregate outstanding balances of \$9.2 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, 2016, nonperforming non-owner occupied residential loans amounted to \$274,000. Non-owner occupied residential properties held as real estate owned amounted to \$57,000 at September 30, 2016. 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 emphasis on commercial real estate lending and commercial business lending may expose us to increased lending risks.**



At September 30, 2016, \$259.3 million, or 46.9%, 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, 2016, nonperforming commercial business loans and nonperforming commercial real estate loans totaled \$136,000 and \$1.6 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 construction loan and land and land development loan portfolios may expose us to increased credit risk.**

At September 30, 2016, \$69.1 million, or 12.5% of our loan portfolio consisted of construction loans, and land and land development loans, and \$10.6 million, or 18.3% of the construction loan portfolio (excluding portions participated to other financial institutions), consisted of speculative construction loans at that date. 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 adversely affect 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 our earnings and financial condition. 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 our earnings and financial condition. 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.*”

**Our SBA lending program is dependent upon the federal government and we face specific risks associated with originating SBA loans.**

Our SBA lending program is dependent upon the federal government. As an SBA Preferred Lender, we enable our clients to obtain SBA loans without being subject to the potentially lengthy SBA approval process necessary for lenders that are not SBA Preferred Lenders. The SBA periodically reviews the lending operations of participating lenders to assess, among other things, whether the lender exhibits prudent risk management. When weaknesses are identified, the SBA may request corrective actions or impose enforcement actions, including revocation of the lender’s Preferred Lender status. If we lose our status as a Preferred Lender, we may lose some or all of our customers to lenders who are SBA Preferred Lenders. Also, any changes to the SBA program, including changes to the level of guarantee provided by the federal government on SBA loans, could adversely affect our business and earnings.

We generally sell the guaranteed portion of our SBA 7(a) program loans in the secondary market. These sales have resulted in premium income for us at the time of sale and created a stream of future servicing income. We may not be able to continue originating these loans or selling them in the secondary market. Furthermore, even if we are able to continue originating and selling SBA 7(a) program loans in the secondary market, we might not continue to realize premiums upon the sale of the guaranteed portion of these loans. When we sell the guaranteed portion of our SBA 7(a) program loans, we incur credit risk on the non-guaranteed portion of the loans, and if a customer defaults on the non-guaranteed portion of a loan, we share any loss and recovery related to the loan pro-rata with the SBA. If the SBA establishes that a loss on an SBA guaranteed loan is attributable to significant technical deficiencies in the manner in which the loan was originated, funded or serviced by us, the SBA may seek recovery of the principal loss related to the deficiency from us, which could adversely affect our business and earnings.

The laws, regulations and standard operating procedures that are applicable to SBA loan products may change in the future. We cannot predict the effects of these changes on our business and profitability. Because government regulation greatly affects the business and financial results of all commercial banks and bank holding companies, changes in the laws, regulations and procedures applicable to SBA loans could adversely affect our business and earnings.

**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 adversely affect our earnings.

**A return of recessionary conditions could result in increases in our level of nonperforming 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 nonperforming 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, 2016, approximately \$220.5 million, or 40.4% 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.*"

**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, 2016, 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.

**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, 2016, which is the most recent date for which data is available from the FDIC, we held approximately 12.17%, 2.78%, 34.48%, 81.84% and 10.86% 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.

**A disruption, failure in or breach, including cyber-attacks, of our operational, communications, information 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.**

We rely heavily on communications and information systems to conduct our business and 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. 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.

We 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 are inherently exposed to risks caused by the use of computer, internet and telecommunications systems, and susceptible to fraudulent activity that may be committed against us or our clients, which may result in financial losses to us or our clients, privacy breaches against our clients or damage to our reputation. These risks include fraud by employees, customers and other outside entities targeting us and/or our customers, and such fraudulent activity may take many forms, including internet fraud, 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. Given such increase in electronic fraudulent activity and 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.

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 INDFI, its chartering authority, the FRB, its primary federal regulator, and the FDIC, 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.*"

**We rely heavily on our management team and the unexpected loss of any of those personnel could adversely affect our operations, and we depend on our ability to attract and retain key personnel.**

We are a customer-focused and relationship-driven organization. We expect our future growth to be driven in a large part by the relationships maintained with our customers by our executive and other senior officers. Although we are party to non-compete and non-solicitation agreements with certain executive, senior and other officers, the unexpected loss of any of our key employees could have an adverse effect on our business, results of operations and financial condition.

The implementation of our business strategy will also require us to continue to attract, hire, motivate and retain skilled personnel to develop new customer relationships as well as new financial products and services. The market for qualified employees in the businesses in which we operate is competitive and we may not be successful in attracting, hiring or retaining key personnel. Our inability to attract, hire or retain key personnel could have a material adverse effect on our business, results of operations and financial condition.

**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 2016 or that we will be able to pay future dividends at all.**

Our ability to declare and pay dividends is subject to the guidelines of the FRB regarding capital adequacy and dividends, other regulatory restrictions, and the need to maintain sufficient consolidated capital. The ability of the Bank to pay dividends to the Company is subject to regulation by the INDFI, applicable Indiana law and the FRB, and is limited by the Bank's obligations to maintain sufficient capital and liquidity. In addition, banking regulators may propose guidelines seeking greater liquidity and regulations requiring greater capital requirements. If such new regulatory requirements were not met, the Bank would not be able to pay dividends to the Company, and consequently we may be unable 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.

**Insiders have substantial control over us, and this control may limit our shareholders' ability to influence corporate matters and may delay or prevent a third party from acquiring control over us.**

As of December 16, 2016, our directors, executive officers, and their related entities and persons currently beneficially own, in the aggregate, approximately 20.4% of our outstanding common stock. The significant concentration of stock ownership may adversely affect the trading price of our common stock due to investors' perception that conflicts of interest may exist or arise. In addition, these shareholders will be able to exercise influence over all matters requiring shareholder approval, including the election of directors and approval of corporate transactions, such as a merger or other sale of our company or its assets. This concentration of ownership could limit your ability to influence corporate matters and may have the effect of delaying or preventing a change in control, including a merger, consolidation or other business combination involving us, or discouraging a potential acquirer from making a tender offer or otherwise attempting to obtain control, even if that change in control would benefit our other shareholders. For information regarding the ownership of our outstanding stock by our directors, executive officers, and their related entities and persons, see "Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters" in this Report.

**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, 2016.

<b>Location</b>	<b>Year Opened</b>	<b>Owned/ Leased</b>
<b>Main Office:</b>		
Clarksville Main Office	1968	
501 East Lewis & Clark Parkway		Owned
Clarksville, Indiana		
<b>Branch Offices:</b>		
Jeffersonville - Allison Lane Office		
2213 Allison Lane	1975	Owned
Jeffersonville, Indiana		
Charlestown Office		
1100 Market Street	1993	Owned
Charlestown, Indiana		
Georgetown Office		
1000 Copperfield Drive	2003	Owned
Georgetown, Indiana		
Jeffersonville - Court Avenue Office	1986	Owned

202 East Court Avenue

Jeffersonville, Indiana

Sellersburg Office

125 Hunter Station Way                      1995      Owned

Sellersburg, Indiana

Corydon Office

900 Hwy 62 NW                                  1996      Owned

Corydon, Indiana

Salem Office

1336 S Jackson Street                      1995      Owned

Salem, Indiana

English Office

200 Indiana Avenue                          1925      Owned

English, Indiana

Marengo Office

125 W Old Short Street                      1984      Owned

Marengo, Indiana

Leavenworth Office

510 Hwy 62                                      1969      Owned

Leavenworth, Indiana

Lanesville Office

7340 Main Street NE                          1948      Owned

Lanesville, Indiana

Elizabeth Office

8160 Beech Street SE                        1975      Owned

Elizabeth, Indiana

New Albany Office

Leased

2218 State Street

2013

New Albany, Indiana

26



The Bank owns two former branch office locations that have been closed and the operations of which were consolidated into existing branch office operations. The property located in Floyds Knobs, Indiana is utilized by the Bank as an operation center and the property located in Milltown, Indiana, is valued at \$85,500 and was included in “other real estate owned, held for sale” at September 30, 2016 on the balance sheet of the Consolidated Financial Statements beginning on page F-1 of this annual report.

The Company owned a 4.077 acre parcel of land in New Albany, Indiana, which was developed by FFCC. The retail development included over 36,000 square feet of leasable class-A retail space and included the Bank’s New Albany branch office location. The retail development was sold September 29, 2016, at which time a 10-year lease with several renewal options was executed between the Bank and the new buyer for the branch office location. See Notes 5 and 7 of the Notes to Consolidated Financial Statements beginning on page F-1 of this annual report for additional information regarding the sale of this property.

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 subsequently divest of additional unused acreage in future years. However, there were no formal plans as of September 30, 2016 to proceed with a new main office location or divestiture of the additional acreage. This land, with a carrying value of approximately \$1.73 million, was included in “premises and equipment” at September 30, 2016 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 MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND  
5. 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 16, 2016, the Company had approximately 247 holders of record and 2,206,787 shares of common stock outstanding. The figure of shareholders of record does not reflect the number of persons 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, 2016 and 2015 as reported by NASDAQ.

	High Sale	Low Sale	Dividends	Market price end of period
2016:				
Fourth Quarter	\$36.20	\$34.54	\$ 0.13	\$ 36.16
Third Quarter	36.30	32.80	0.13	34.54
Second Quarter	36.00	32.50	0.13	33.98
First Quarter	36.98	33.89	0.12	36.43
2015:				
Fourth Quarter	\$36.39	\$29.25	\$ 0.12	\$ 34.00
Third Quarter	30.00	28.05	0.12	29.75
Second Quarter	29.57	25.55	0.12	28.95
First Quarter	26.45	24.50	0.11	26.25

On November 16, 2016, the Company declared a quarterly cash dividend of \$0.13 per share on its outstanding common stock, payable on or about December 30, 2016 to stockholders of record as of the close of business on December 2, 2016. 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, 2016:

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, 2016 through July 31, 2016	—	—	—	73,657
August 1, 2016 through August 31, 2016	—	—	—	73,657
September 1, 2016 through September 30, 2016	—	—	—	73,657
Total	—	—	—	73,657

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, which has no expiration date, 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.

## Equity Compensation Plan Information

The following table sets forth information as of September 30, 2016 about Company common stock that may be issued under the Company's equity compensation plans. All plans were approved by the Company's stockholders.

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options and warrants	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in
---------------	---	---	---

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

	rights (a)	(b)	column (a) (c)
Equity compensation plans approved by security holders	187,050	\$ 13.25	88,000
Equity compensation plans not approved by security holders	N/A	N/A	N/A
Total	187,050	\$ 13.25	88,000

In December 2015 the Company adopted the 2016 Equity Incentive Plan (“2016 Plan”), which the Company’s shareholders approved in February 2016. The 2016 Plan provides for the award of stock options and restricted stock. The aggregate number of shares of the Company’s common stock available for issuance under the Plan may not exceed 88,000 shares, consisting of 66,000 stock options and 22,000 shares of restricted stock. As of September 30, 2016, no restricted shares and no stock options had been granted under the 2016 Plan. In November 2016, the Company granted 17,265 restricted shares, 42,895 incentive stock options and 8,400 non-statutory stock options to directors, officers and key employees. The restricted shares and stock options granted will vest ratably over five years and, once vested, the stock options are exercisable in whole or in part for a period up to ten years from the date of the award. See Note 17 of the Notes to Consolidated Financial Statements beginning on page F-1 of this annual report for additional information.

**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.

(In thousands)	At September 30,				
	2016	2015	2014	2013	2012
<b>Financial Condition Data:</b>					
Total assets	\$796,516	\$749,946	\$713,129	\$660,455	\$638,913
Cash and cash equivalents	29,342	24,994	20,330	20,815	38,791
Trading account securities	9,255	9,044	5,319	3,210	3,562
Securities available-for-sale	174,493	178,328	184,697	164,167	152,543
Securities held-to-maturity	3,166	4,620	5,419	6,417	7,848
Loans, net	518,611	457,112	433,876	408,375	389,067
Deposits	579,467	533,297	533,194	477,726	494,234
Borrowings from FHLB	121,633	104,867	79,548	89,348	53,062
Other borrowings	1,345	5,974	6,150	6,308	3,461
Stockholders' equity	86,580	94,357	87,080	82,253	82,926

(In thousands)	For the Year Ended September 30,					
	2016	2015	2014	2013	2012	
<b>Operating Data:</b>						
Interest income		\$29,456	\$27,987	\$27,494	\$27,175	\$25,994
Interest expense		4,167	3,778	3,555	3,936	4,675
Net interest income		25,289	24,209	23,939	23,239	21,319
Provision for loan losses		637	859	1,246	1,858	1,532
Net interest income after provision for loan losses		24,652	23,350	22,693	21,381	19,787
Noninterest income		3,372	5,976	5,046	4,258	3,422
Noninterest expense		22,435	20,999	20,272	19,132	17,464
Income before income taxes		5,589	8,327	7,467	6,507	5,745
Income tax expense (benefit)		(2,322)	1,576	2,077	1,811	1,458
Net income		7,911	6,751	5,390	4,696	4,287
Less: Preferred stock dividends declared		62	171	171	171	171
Net income available to common shareholders		\$7,849	\$6,580	\$5,219	\$4,525	\$4,116

Per Share Data:	For the Year Ended September 30,				
	2016	2015	2014	2013	2012
Net income per common share, basic	\$3.57	\$3.07	\$2.46	\$2.09	\$1.90
Net income per common share, diluted	3.41	2.93	2.34	1.99	1.85

Dividends per common share	0.51	0.47	0.43	0.70	0.00
----------------------------	------	------	------	------	------

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

	At or For the Year Ended September 30,									
	2016	2015	2014	2013	2012					
Performance Ratios:										
Return on average assets	1.03	%	0.93	%	0.78	%	0.72	%	0.75	%
Return on average equity	9.04		7.43		6.38		5.63		5.42	
Return on average common stockholders' equity	9.73		9.16		8.01		7.09		6.92	
Interest rate spread (1)	3.71		3.74		3.86		3.98		4.07	
Net interest margin (2)	3.81		3.84		3.93		4.09		4.22	
Other expenses to average assets	2.93		2.88		2.92		2.94		3.05	
Efficiency ratio (3)	68.20		69.57		69.94		69.58		70.59	
Average interest-earning assets to average interest-bearing liabilities	117.86		116.90		114.66		115.27		116.16	
Dividend payout ratio	14.03		14.74		16.96		33.48		–	
Average equity to average assets	11.45		12.47		12.17		12.81		13.81	
Capital Ratios (4):										
Total capital (to risk-weighted assets):										
Consolidated	11.82	%	16.21	%	N/A		N/A		N/A	
Bank	11.33		13.13		14.87	%	17.04	%	17.07	%
Tier 1 capital (to risk-weighted assets):										
Consolidated	10.66		14.96		N/A		N/A		N/A	
Bank	10.16		11.88		13.62		15.78		15.82	
Common equity Tier 1 capital (to risk-weighted assets):										
Consolidated	10.66		14.96		N/A		N/A		N/A	
Bank	10.16		11.88		N/A		N/A		N/A	
Tier 1 capital (to average adjusted total assets):										
Consolidated	8.43		11.01		N/A		N/A		N/A	
Bank	8.09		8.67		9.14		10.36		10.12	

Represents the difference between the weighted average yield on average interest-earning assets and the weighted (1) 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.

First Savings Financial Group was not subject to the regulatory capital requirements until its conversion from a savings and loan holding company to a bank holding company in December 2014. Therefore, the capital amounts and ratios presented for the years ended September 30, 2014, 2013, and 2012 are for the Bank only.

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

At or For the Year Ended September 30,

2016      2015      2014      2013      2012

Asset Quality Ratios:

Allowance for loan losses as a percent of total loans      1.30 %    1.37 %    1.40 %    1.32 %    1.23 %

Allowance for loan losses as a percent of nonperforming loans      182.76      150.37      145.96      61.15      84.12

Net charge-offs to average outstanding loans during the period      0.03      0.11      0.12      0.30      0.35

Nonperforming loans as a percent of total loans      0.71      0.91      0.96      2.17      1.46

Nonperforming assets as a percent of total assets      1.49      1.75      1.79      2.39      2.21

Other Data:

Number of offices      14      14      15      15      14

Number of deposit accounts      33,407      33,430      34,049      34,788      36,259

Number of loans      5,409      5,373      5,482      5,663      6,072

**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 residential mortgage and SBA loans originated for sale in the secondary market, commissions on sales of securities and insurance products, rents from real estate leasing, 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, 2016 when compared to 2015 primarily as a result of increased compensation and benefits and data processing.

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 increased in the year ended September 30, 2016 when compared to 2015 primarily as a result of the replacement of customer magnetic strip debit cards with EMV chip cards in 2016.

Professional fees expense represents the fees we pay to third parties for legal, accounting, investment advisory and other consulting services. Our professional fees increased in the year ended September 30, 2016 when compared to 2015 primarily as a result of the Bank's enhancement of the SBA lending program.

Federal deposit insurance premiums are payments we make to the FDIC to insure 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 (“U.S. GAAP”) and conform to general practices within the banking industry. The preparation of financial statements in conformity with U.S. GAAP 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 banking regulators, as an integral part of their examination process, periodically review our allowance for loan losses and may require us to recognize adjustments to the allowance based on their judgments about information available to them at the time of their 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, 2016, and there have been no material changes in the assumptions or estimation techniques compared to prior years.

**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 loans held for sale, loan servicing rights, 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. See Notes 22 and 23 of the Notes to Consolidated Financial Statements beginning on page F-1 of this annual report for additional information.

**Deferred Tax Assets.** Income tax expense involves estimates related to the valuation allowance on deferred tax assets. A valuation allowance reduces deferred tax assets to the amount management believes is more likely than not to be realized. In evaluating the realization of deferred tax assets, management considers the likelihood that sufficient taxable income of appropriate character will be generated within carryback and carryforward periods, including consideration of available tax planning strategies. See Note 18 of the Notes to Consolidated Financial Statements beginning on page F-1 of this annual report for additional information.

## 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, including SBA 7(a) program lending;

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

  - providing exceptional customer service to attract and retain customers;

  - promoting our presence, brand image and product offerings in our primary market area;

  - 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 and portions of loans guaranteed by the SBA 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.***

Historically, 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, which generally carry a greater risk of loss than loans secured by owner-occupied properties. However, since 2005, 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, 2016, 32.2% of our total loans were residential mortgage loans and 17.9% of our residential mortgage loans were secured by non-owner occupied properties. We intend to continue 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.***

Commercial real estate loans and commercial business loans provide us the opportunity to earn more income because these loans generally have higher interest rates than residential mortgage loans in order to compensate for the increased credit risk. In recent periods, we have focused more heavily on commercial real estate and commercial business lending and intend to continue pursuing these lending opportunities. At September 30, 2016, commercial real estate loans and commercial business loans represented 39.3% and 7.6%, respectively, of our total loans.

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 generally leased to investment grade national-brand retailers, the borrowers and collateral properties for which are outside of our primary market area. 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 \$38.5 million of these loans during the year ended September 30, 2016 and the portfolio balance was \$93.3 million at September 30, 2016.

Beginning in April 2015, the Bank hired a management team, business development officers (loan officers), underwriters and supporting staff that are seasoned and experienced in U.S. Small Business Administration ("SBA") lending in order to enhance the Company's proficiency in SBA 7(a) and other program loan originations and sales. The Bank intends to continue hiring additional business development officers and appropriate supporting staff in order to grow this program, the borrowers and collateral for which are outside of our primary market area. The primary purpose of the program is to originate SBA 7(a) program loans and sell the amounts guaranteed by the SBA in the secondary market. The program is also designed to diversify the Company's geographic and interest rate risk profile with respect to the retained unguaranteed amounts given the geographic dispersion of the loans and collateral, and their floating rate structure. The Company originated SBA loans with a total commitment of \$27.0 million during the year end September 30, 2016. At September 30, 2016, \$23.5 million of SBA loans included sold guaranteed portions of \$13.6 million, for a net position of \$10.0 million outstanding in our portfolio.

***Improving customer service and product offerings with new technology.***

We continue to enhance our proficiencies and refine the processes for the core operating system in order to enhance the customer experience. In addition, we continue to improve product offerings and services to our customers with core-related and ancillary technologies, including mobile banking, mobile check capture, person-to-person and business-to-business payment capabilities, and automated teller machines with check imaging for self-service deposit transactions.

***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 the years 2012 through 2015, we 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. We will continue to place emphasis on maintaining a robust credit culture, improving asset quality, and reducing classified and criticized assets. 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 underperforms compared to its peers with respect to service charges on deposit fee income. Therefore, the Company continues to focus on enhancing service charges on deposit fee income as the Bank continues to transition its deposit base to that more consistent with a commercial bank, and seek alternative sources of noninterest income. In addition, the Company expects to generate additional noninterest income as a result of gains on sales of loan amounts guaranteed by the SBA sold in the secondary market.

***Expanding our market share and market area.***

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 a net of 337,255 shares to treasury as of September 30, 2016, which represents 13.3% of the 2,542,042 common shares issued in its public offering in October 2008. In addition, the Company has 73,657 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 cash dividend of \$0.12 per common share during the quarter ended December 31, 2015 and increased the quarterly cash dividend plan to \$0.13 per common share beginning with the quarter ended March 31, 2016, under which it paid \$0.13 per common share for the quarters ended March 31, June 30 and September 30, 2016, for a total of \$0.51 per common share paid during the fiscal year ended September 30, 2016. 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.*”

## Balance Sheet Analysis

**Cash and Cash Equivalents.** At September 30, 2016 and 2015, cash and cash equivalents totaled \$29.3 million and \$25.0 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. The average amount of those reserve balances for the year ended September 30, 2016 was approximately \$10.3 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.

At September 30, 2016, residential mortgage loans totaled \$178.4 million, or 32.2% of total loans, compared to \$181.9 million, or 37.2% of total loans at September 30, 2015. Total residential mortgage loan balances decreased in 2016 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 generally sell long-term fixed rate mortgage loans in the secondary market with servicing released.

Commercial real estate loans totaled \$217.4 million, or 39.3% of total loans at September 30, 2016, compared to \$173.0 million, or 35.9% of total loans at September 30, 2015. The balance of commercial real estate loans has increased primarily due to the previously discussed lending program that is focused on loans secured by low loan-to-value, single-tenant commercial properties that are generally leased to investment grade national-brand retailers, the borrowers and collateral properties for which are outside of our primary market area. Management continues to focus on pursuing nonresidential loan opportunities in order to further diversify the loan portfolio.

Multi-family real estate loans totaled \$18.4 million, or 3.3% of total loans at September 30, 2016, compared to \$21.6 million, or 4.5% of total loans at September 30, 2015. These loans are primarily secured by apartment buildings and other multi-tenant developments in our primary market area.

Residential construction loans totaled \$24.3 million, or 4.4% of total loans, at September 30, 2016 of which \$10.6 million were speculative construction loans. At September 30, 2015, residential construction loans totaled \$19.7 million, or 4.1% of total loans, of which \$8.9 million were speculative loans. The increase in residential construction loans is due primarily to the continuing recovery of the housing market.

Commercial construction loans totaled \$33.7 million, or 6.1% of total loans, at September 30, 2016 compared to \$15.5 million, or 3.2% of total loans at September 30, 2015. The increase is due primarily to the increase of commercial construction in our primary market area.

Land and land development loans totaled \$11.1 million, or 2.0% of total loans at September 30, 2016, compared to \$11.1 million, or 2.3% of total loans at September 30, 2015. These loans are primarily secured by vacant lots to be improved for residential and nonresidential development, and farmland.

Commercial business loans totaled \$42.0 million, or 7.6% of total loans, at September 30, 2016 compared to \$32.6 million, or 6.8% of total loans, at September 30, 2015. The increase is due primarily to the increase of commercial business lending opportunities in our primary market area. Management continues to focus on pursuing commercial business loan opportunities in order to further diversify the loan portfolio.

Consumer loans totaled \$28.3 million, or 5.1% of total loans, at September 30, 2016 compared to \$27.0 million, or 5.6% of total loans, at September 30, 2015. In general, organic consumer loans including automobile loans, home equity lines of credit, unsecured loans and loans secured by deposits, has only slightly increased due to pay-downs, payoffs, charge-offs and management's decision to focus on other lending opportunities with less inherent credit risk. Home equity lines of credit increased \$1.9 million, or 10.0%, while automobile loans decreased \$594,000, or 10.9%, and other consumer loans decreased \$57,000, or 2.6%, from September 30, 2015 to September 30, 2016.



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

(Dollars in thousands)	At September 30,		2015		2014		2013		2012
	2016		Amount	Percent	Amount	Percent	Amount	Percent	Amount
Real estate mortgage:									
Residential	\$178,364	32.22 %	\$181,873	37.70 %	\$182,743	40.94 %	\$184,390	44.10 %	\$190,958
Commercial	217,378	39.27	172,995	35.86	153,896	34.48	117,782	28.17	90,290
Multi-family	18,431	3.32	21,647	4.49	21,286	4.77	26,759	6.40	23,879
Residential construction	24,275	4.39	19,723	4.08	14,528	3.25	12,537	3.00	10,748
Commercial construction	33,685	6.09	15,548	3.22	8,354	1.87	6,730	1.61	5,182
Land and land development	11,137	2.01	11,061	2.29	11,290	2.53	11,396	2.73	12,320
Total	483,270	87.30	422,847	87.64	392,097	87.84	359,594	86.01	333,377
Commercial business	41,967	7.58	32,574	6.75	28,448	6.37	31,627	7.56	36,189
Consumer:									
Home equity lines of credit	21,370	3.86	19,423	4.03	17,903	4.01	17,133	4.10	18,294
Auto loans	4,858	0.88	5,452	1.13	5,619	1.26	6,519	1.56	8,219
Other	2,102	0.38	2,159	0.45	2,320	0.52	3,266	0.77	4,114
Total	28,330	5.12	27,034	5.61	25,842	5.79	26,918	6.43	30,627
Gross loans	553,567	100.00%	482,455	100.00%	446,387	100.00%	418,139	100.00%	400,193
Undisbursed portion of construction loans	(27,623 )		(18,599 )		(6,271 )		(4,389 )		(6,602 )
Principal loan balance	525,944		463,856		440,116		413,750		393,591
Deferred loan origination fees and costs, net	(211 )		(120 )		10		163		382
Allowance for loan losses	(7,122 )		(6,624 )		(6,250 )		(5,538 )		(4,906 )
Loans, net	\$518,611		\$457,112		\$433,876		\$408,375		\$389,067

## Loan Maturity

The following table sets forth certain information at September 30, 2016 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.

(In thousands)	At September 30, 2016					Total Loans
	Residential Real Estate (1)	Commercial Real Estate (2)	Construction (3)	Commercial Business	Consumer	
Amounts due in:						
One year or less	\$17,342	\$41,000	\$57,960	\$17,820	\$5,757	\$139,879
More than one year to two years	12,265	25,567	-	5,978	4,488	48,298
More than two years to three years	10,912	21,567	-	4,622	3,343	40,444
More than three years to five years	19,751	42,202	-	5,399	4,441	71,793
More than five years to ten years	41,499	75,190	-	5,468	6,940	129,097
More than ten years to fifteen years	34,034	16,543	-	1,273	3,361	55,211
More than fifteen years	60,992	6,446	-	1,407	-	68,845
Total	\$196,795	\$228,515	\$57,960	\$41,967	\$28,330	\$553,567

(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, 2016 that are due after September 30, 2017, 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
----------------	-------------	------------------	-------



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

Residential real estate (1)	\$ 84,591	\$ 94,862	\$179,453
Commercial real estate (2)	73,541	113,974	187,515
Construction	-	-	-
Commercial business	16,106	8,041	24,147
Consumer	4,201	18,372	22,573
Total	\$ 178,439	\$ 235,249	\$413,688

(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 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, 2016 and 2015, trading account securities recorded at fair value totaled \$9.3 million and \$9.0 million, respectively, comprised of investment grade municipal bonds. See Note 3 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, privately-issued collateralized mortgage obligations and asset-backed securities, and a pass-through asset-backed security guaranteed by the SBA. Available for sale securities decreased by \$3.8 million, from \$178.3 million at September 30, 2015 to \$174.5 million at September 30, 2016, due primarily to maturities and calls of \$6.7 million and principal repayments of \$14.7 million, which more than offset purchases of \$15.7 million and unrealized gains of \$2.6 million. There were no sales recognized in 2016.

**Securities Held to Maturity.** Our held to maturity securities portfolio consists of mortgage-backed securities issued by government sponsored enterprises and municipal bonds. Held to maturity securities decreased by \$1.5 million from September 30, 2015 to September 30, 2016, due primarily to maturities and principal repayments of \$1.6 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, 2016		2015		2014	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
<b>Securities available for sale:</b>						
Agency bonds and notes	\$1,024	\$1,032	\$5,564	\$5,582	\$12,269	\$12,091
Agency mortgage-backed securities	46,376	47,405	47,418	48,278	51,845	52,255
Agency CMO	16,053	16,095	18,943	19,014	29,648	29,484
Privately-issued CMO	2,359	2,652	3,005	3,470	3,302	3,920
Privately-issued asset-backed	3,675	4,532	4,820	6,109	5,552	7,353
SBA certificates	1,220	1,227	1,472	1,480	1,753	1,762
Municipal	94,567	101,550	90,380	94,395	74,148	77,832
<b>Total</b>	<b>\$165,274</b>	<b>\$174,493</b>	<b>\$171,602</b>	<b>\$178,328</b>	<b>\$178,517</b>	<b>\$184,697</b>
<b>Securities held to maturity:</b>						
Agency mortgage-backed securities	\$260	\$283	\$345	\$376	\$455	\$492
Municipal	2,906	3,371	4,275	4,815	4,964	5,357

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

Total	\$3,166	\$3,654	\$4,620	\$5,191	\$5,419	\$5,849
-------	---------	---------	---------	---------	---------	---------

41

The following table sets forth the stated maturities and weighted average yields of debt securities at September 30, 2016. 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.

(Dollars in thousands)	One Year or Less		More than One Year to Five Years		More than Five Years to Ten Years		More than Ten Years		Total	
	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield
Securities available for sale:										
Agency bonds and notes	\$-	- %	\$-	- %	\$-	- %	\$1,032	1.50 %	\$1,032	1.50 %
Agency mortgage-backed securities	10	4.65	9,613	1.95	5,061	2.12	32,721	2.36	47,405	2.25
Agency CMO	-	-	3,200	1.80	1,088	1.88	11,807	1.91	16,095	1.89
Privately-issued CMO	-	-	-	-	-	-	2,652	9.01	2,652	9.01
Privately-issued ABS	-	-	-	-	-	-	4,532	17.62	4,532	17.62
SBA certificates	-	-	-	-	1,227	1.63	-	-	1,227	1.63
Municipal	2,252	4.45	8,919	4.61	21,267	4.59	69,112	4.84	101,550	4.76
Total	\$2,262	4.45 %	\$21,732	3.02 %	\$28,643	3.92 %	\$121,856	4.43 %	\$174,493	4.17 %
Securities held to maturity:										
Agency mortgage-backed securities	\$-	- %	\$-	- %	\$-	- %	\$260	4.91 %	\$260	4.91 %
Municipal	208	6.80	962	6.85	1,171	6.91	565	6.63	2,906	6.83
Total	\$208	6.80 %	\$962	6.85 %	\$1,171	6.91 %	\$825	6.09 %	\$3,166	6.67 %

As of September 30, 2016, 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 time deposits. Deposits increased \$46.2 million from \$533.3 million at September 30, 2015 to \$579.5 million at September 30, 2016. The Bank recognized increases in time deposits of \$15.3 million, interest-bearing savings accounts of \$9.4 million, interest-bearing checking accounts of \$9.1 million, noninterest-bearing checking accounts of \$8.7 million and money market deposit accounts of \$3.7 million when comparing the two years. Brokered certificates of deposit totaled \$81.5 million at September 30, 2016 compared to \$59.4 million at September 30, 2015. We have continued to promote relationship-oriented deposit accounts but at times also utilize brokered certificates of deposit as a lower-cost alternative to retail time deposits. In addition, we have continued to develop and promote cash management services including sweep accounts and remote deposit capture 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.

(In thousands)	At September 30,		
	2016	2015	2014
Non-interest-bearing demand deposits	\$79,859	\$71,184	\$56,092
NOW accounts	145,816	136,670	117,200
Money market accounts	60,702	57,008	81,144
Savings accounts	83,911	74,539	71,235
Time deposits	209,179	193,896	207,523
Total	\$579,467	\$533,297	\$533,194

The following table indicates the amount of jumbo certificates of deposit by time remaining until maturity as of September 30, 2016. Jumbo certificates of deposit require minimum deposits of \$100,000.

(In thousands)	Amount
Three months or less	\$5,574
Over three through six months	5,502
Over six through twelve months	8,389
Over twelve months	21,342
Total	\$40,807

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

(In thousands)	At September 30,		
	2016	2015	2014
0.00 - 1.00%	\$132,477	\$128,176	\$134,795
1.01 - 2.00%	62,153	42,584	38,502
2.01 - 3.00%	8,946	15,344	25,203
3.01 - 4.00%	4,047	4,179	5,156
4.01 - 5.00%	892	1,674	1,935
5.01 - 6.00%	664	1,939	1,932
Total	\$209,179	\$193,896	\$207,523

The following table sets forth the amount and maturities of time deposits at September 30, 2016.

Amount Due

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

(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%	\$101,447	\$ 16,650	\$ 6,715	\$ 7,665	\$132,477	63.33	%
1.01 - 2.00%	12,719	1,771	28,115	19,548	62,153	29.71	
2.01 - 3.00%	12	–	109	8,825	8,946	4.28	
3.01 - 4.00%	18	329	1,558	2,142	4,047	1.93	
4.01 - 5.00%	411	80	11	390	892	0.43	
5.01 - 6.00%	658	6	–	–	664	0.32	
Total	\$115,265	\$ 18,836	\$ 36,508	\$ 38,570	\$209,179	100.00	%

**Borrowings.** We use borrowings from the FHLB 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 repurchase agreements as a source of borrowings.

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

(Dollars in thousands)	Year Ended September 30,					
	2016		2015		2014	
Maximum amount of FHLB borrowings outstanding at any month-end during period	\$121,633		\$119,085		\$102,565	
Average FHLB borrowings outstanding during period	100,894		94,413		88,271	
Weighted average interest rate during period	1.50	%	1.24	%	1.27	%
Balance outstanding at end of period	\$121,633		\$104,867		\$79,548	
Weighted average interest rate at end of period	1.50	%	1.48	%	1.10	%

The outstanding balance of borrowings from the FHLB increased \$16.7 million, from \$104.9 million at September 30, 2015 to \$121.6 million at September 30, 2016. FHLB 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 FHLB borrowings.

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

(Dollars in thousands)	Year Ended September 30,					
	2016		2015		2014	
Maximum amount of retail repurchase agreements outstanding at any month-end during period	\$1,345		\$1,342		\$1,338	
Average retail repurchase agreements outstanding during period	1,343		1,340		1,336	
Weighted average interest rate during period	0.25	%	0.25	%	0.25	%
Balance outstanding at end of period	\$1,345		\$1,342		\$1,338	
Weighted average interest rate at end of period	0.25	%	0.25	%	0.25	%

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 entered into a loan agreement with another financial institution to finance the retail development project discussed in Note 5 of the Notes to Consolidated Financial Statements beginning on page F-1 of this annual report. The loan had a maximum commitment of \$5.0 million and the outstanding balance of the loan was \$4.6 million at September 30, 2015. The real estate development was sold on September 29, 2016, at which time the loan was repaid in full. 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.

**Stockholders' Equity.** Stockholders' equity decreased \$7.8 million, from \$94.4 million at September 30, 2015 to \$86.6 million at September 30, 2016. The decrease is due to the redemption of \$17.1 million of preferred stock, which was originally issued pursuant to the Small Business Lending Fund ("SBLF") program of the United States Department of the Treasury. The redemption of the SBLF preferred stock was partially offset by retained net income of \$6.7 million and an increase in the net unrealized gain on available for sale securities of \$1.7 million during the year ended September 30, 2016. See Note 26 of the Notes to Consolidated Financial Statements beginning on page F-1 of this annual report for additional information regarding the SBLF program preferred stock.

## Results of Operations for the Years Ended September 30, 2016 and 2015

**Overview.** The Company reported net income of \$7.9 million and net income available to common shareholders of \$7.8 million (\$3.41 per common share diluted; weighted average common shares outstanding of 2,303,628, as adjusted) for the year ended September 30, 2016, compared to net income of \$6.8 million and net income available to common shareholders of \$6.6 million (\$2.93 per common share diluted; weighted average common shares outstanding of 2,247,966, as adjusted) for the year ended September 30, 2015. During the year ended September 30, 2016, the Company recognized a \$4.7 million historic structure rehabilitation tax credit related to its equity investment in a community-based economic development (“CBED”) project, which resulted in a net tax benefit of \$2.3 million for the year. As a result of the recognition of the tax credit, the Company also recognized a \$4.2 million impairment loss in noninterest income during the year ended September 30, 2016 related to the equity investment in the CBED project. The net impact of the tax benefit and the impairment loss was a \$332,000 increase in net income for the year ended September 30, 2016. During the year ended September 30, 2016, the Company also recognized \$2.0 million in other income related to the gain on sale of its commercial real estate development in New Albany, Indiana (“Wesley Commons”). Excluding these nonrecurring items, the Company would have reported net income and net income available to common shareholders of \$6.5 million, or \$2.80 per diluted share, for the year ended September 30, 2016. Net income for 2015 included an \$831,000 gain on life insurance. Excluding the impact of this nonrecurring item, the Company would have reported net income of \$6.1 million and net income available to common shareholders of \$5.9 million, or \$2.64 per diluted share, for the year ended September 30, 2015.

**Net Interest Income.** Net interest income increased \$1.1 million or 4.5%, from \$24.2 million for the year ended September 30, 2015 to \$25.3 million for the year ended September 30, 2016, primarily as the result of an increase in the average balance of interest earning assets from 2015 to 2016, which more than offset a decrease in the interest rate spread from 2015 to 2016. 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 3.74% for 2015 to 3.71% for 2016 due primarily to an increase in the average balance of interest-bearing liabilities from \$565.9 million for 2015 to \$591.1 million for 2016, and an increase in the average cost of interest-bearing liabilities from 0.67% for 2015 to 0.70% for 2016.

Total interest income increased \$1.5 million, or 5.2%, from \$28.0 million for the year ended September 30, 2015 to \$29.5 million for the year ended September 30, 2016. The increase in total interest income is due primarily to an increase in the average balance of interest earning assets of \$35.0 million, from \$661.6 million for 2015 to \$696.6 million for 2016, with the average tax-equivalent yield on interest-earning assets of 4.41% for both 2015 and 2016. The increase in the average balance of interest-earning assets primarily relates to increases in the average balance of loans of \$36.3 million and interest-bearing deposits with banks of \$4.5 million.

Interest income on loans increased \$1.5 million, or 6.7%, from \$21.4 million for 2015 to \$22.9 million for 2016, due primarily to an increase in the average balance of loans outstanding of \$36.3 million, from \$452.4 million for 2015 to \$488.7 million, which more than offset the change in total interest income due to a decrease in the average

tax-equivalent yield on loans from 4.76% for 2015 to 4.70% for 2016. The increase in the average balance of loans outstanding is due primarily to an increase in commercial real estate mortgage loans, as a result of the previously discussed lending program that is focused on loans secured by low loan-to-value, single-tenant commercial properties that are generally leased to investment grade national-brand retailers, the borrowers and collateral properties for which are outside of our primary market area.

Interest income on investment securities decreased \$36,000, or 0.6%, totaling \$6.2 million for both 2015 and 2016. The decrease in interest income on investment securities is due primarily to a decrease in the average balance of investment securities of \$5.6 million, from \$185.2 million for 2015 to \$179.6 million for 2016, which more than offset the change in total interest income due to an increase in the average tax-equivalent yield on investment securities from 3.93% for 2015 to 4.10% for 2016. The increase in the average tax-equivalent yield on investment securities was due primarily to an increased investment in municipal bonds, which generally provide a higher rate of interest than securities issued by U.S. government agencies and sponsored enterprises.

Total interest expense increased \$389,000, or 10.2%, due primarily to an increase in the average balance of interest-bearing liabilities of \$25.2 million, from \$565.9 million for 2015 to \$591.1 million for 2016, and an increase in the average cost of funds from 0.67% for 2015 to 0.70% for 2016. The average balance of interest-bearing deposits increased \$18.8 million, or 4.0%, from \$465.4 million for 2015 to \$484.2 million for 2016, and the average cost of funds for deposits was 0.52% for 2015 compared to 0.51% for 2016. The average balance of borrowings increased \$6.4 million, or 6.4%, from \$100.5 million for 2015 to \$106.9 million for 2016, and the average cost of funds for borrowings was 1.34% for 2015 compared to 1.57% for 2016. The average cost of interest-bearing liabilities increased for 2016 primarily as a result of the lengthening of maturities of wholesale funding liabilities in order to reposition the Company's interest rate risk sensitivity position.

### *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%.

(Dollars in thousands)	Year Ended September 30, 2016			2015			2014		
	Average Balance	Interest and Dividends	Yield/ Cost	Average Balance	Interest and Dividends	Yield/ Cost	Average Balance	Interest and Dividends	Yield/ Cost
<b>Assets:</b>									
Interest-bearing deposits with banks	\$21,481	\$109	0.51 %	\$16,971	\$48	0.28 %	\$12,356	\$35	0.28 %
Loans	488,702	22,955	4.70	452,426	21,526	4.76	428,844	21,047	4.91
Investment securities	130,947	6,346	4.85	135,819	6,235	4.59	136,806	6,118	4.47
Mortgage-backed securities	48,658	1,018	2.09	49,381	1,038	2.10	49,384	1,026	2.08
FRB and FHLB stock	6,859	310	4.52	6,976	303	4.34	5,802	245	4.22
Total interest-earning assets	696,647	30,738	4.41	661,573	29,150	4.41	633,192	28,471	4.50
Non-interest-earning assets	67,843			66,898			60,319		
Total assets	\$764,490			\$728,471			\$693,511		

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

Liabilities and equity:									
NOW accounts	\$147,851	\$306	0.21	\$127,265	\$242	0.19	\$122,883	\$241	0.20
Money market deposit accounts	57,857	148	0.26	66,153	206	0.31	67,108	244	0.36
Savings accounts	80,001	57	0.07	72,320	47	0.06	69,970	45	0.06
Time deposits	198,522	1,979	1.00	199,694	1,932	0.97	197,756	1,851	0.94
Total interest-bearing deposits	484,231	2,490	0.51	465,432	2,427	0.52	457,717	2,381	0.52
Borrowings (1)	106,852	1,677	1.57	100,480	1,351	1.34	94,534	1,174	1.24
Total interest-bearing liabilities	591,083	4,167	0.70	565,912	3,778	0.67	552,251	3,555	0.64
Non-interest-bearing deposits	75,368			62,008			51,811		
Other non-interest-bearing liabilities	10,491			9,699			5,025		
Total liabilities	676,942			637,619			609,087		
Total equity	87,548			90,852			84,424		
Total liabilities and equity	\$764,490			\$728,471			\$693,511		
Net interest income		\$26,571			\$25,372			\$24,916	
Interest rate spread			3.71 %			3.74 %			3.86 %
Net interest margin			3.81			3.84			3.93
Average interest-earning assets to average interest-bearing liabilities			117.86			116.90			114.66

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

**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.

(In thousands)	Year Ended September 30, 2016 Compared to Year Ended September 30, 2015 Increase (Decrease)			Year Ended September 30, 2015 Compared to Year Ended September 30, 2014 Increase (Decrease)		
	Due to			Due to		
	Volume	Rate	Net	Volume	Rate	Net
<b>Interest income:</b>						
Interest-bearing deposits with banks	\$ 15	\$ 46	\$ 61	\$ 13	\$ -	\$ 13
Loans	1,695	(266 )	1,429	1,077	(598 )	479
Investment securities	(193 )	304	111	(43 )	160	117
Mortgage-backed securities	(15 )	(5 )	(20 )	-	12	12
Other interest-earning assets	(4 )	11	7	51	7	58
Total interest-earning assets	1,498	90	1,588	\$ 1,098	(419 )	679
<b>Interest expense:</b>						
Deposits	121	(58 )	63	46	-	46
Borrowings (1)	88	238	326	78	99	177
Total interest-bearing liabilities	209	180	389	124	99	223
Net increase (decrease) in net interest income	\$ 1,289	\$ (90 )	\$ 1,199	\$ 974	\$ (518 )	\$ 456

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

**Provision for Loan Losses.** The provision for loan losses decreased \$222,000, or 25.8%, from \$859,000 for the year ended September 30, 2015 to \$637,000 for the year ended September 30, 2016. The gross loan portfolio increased \$71.1 million, from \$482.5 million at September 30, 2015 to \$553.6 million at September 30, 2016, primarily in the commercial real estate mortgage and commercial business loan portfolios. However, net charge-offs in 2016 were \$139,000 compared to \$485,000 for 2015 and nonperforming loans decreased \$508,000 from \$4.4 million at September 30, 2015 to \$3.9 million at September 30, 2016. 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. See "Analysis of Nonperforming and Classified Assets" included herein. It is management's assessment that the allowance for loan losses at September 30, 2016 was adequate and appropriately reflected the inherent risk of loss in the Bank's loan portfolio at that date.

**Noninterest Income.** Noninterest income decreased \$2.6 million, or 43.6%, from \$6.0 million for the year ended September 30, 2015 to \$3.4 million for the year ended September 30, 2016. The decrease was due primarily to the

aforementioned \$4.2 million impairment loss on the CBED project investment in 2016, a \$413,000 decrease in unrealized gain on loans held for sale, a \$105,000 decrease in service charges on deposit accounts, a \$139,000 decrease in real estate lease income and an \$831,000 gain on life insurance policies in 2015, which more than offset increases in net gain on sale of premises and equipment, net gain on sale of real estate development, net gain on sale of loans, and net gain on trading account securities of \$168,000, \$1.9 million, \$734,000 and \$308,000, respectively. The increases in net gain on sale of premises and equipment and net gain on sale of real estate development are due primarily to the aforementioned \$2.0 million gain on sale of Wesley Commons in September 2016. The increase in net gain on sale of loans is due primarily to the sale of loans guaranteed by the SBA.

**Noninterest Expense.** Noninterest expenses increased \$1.4 million, or 6.8%, from \$21.0 million for the year ended September 30, 2015 to \$22.4 million for the year ended September 30, 2016. The increase was due primarily to increases in compensation and benefits and data processing expenses of \$1.0 million and \$197,000, respectively. The increase in compensation and benefits expense is due primarily to increased staffing as a result of the Company's enhanced focus on its SBA lending activities, and normal salary, wage and benefits increases, which more than offset a decrease in ESOP compensation expense. The ESOP loan was repaid in full during the quarter ended December 31, 2015 and, as a result, no ESOP compensation expense was recognized during the remainder of the 2016 fiscal year. The increase in data processing expense is due primarily to the replacement of customer magnetic strip debit cards with EMV chip debit cards and data processing expense related to SBA lending activities.

**Income Tax Expense.** The Company recognized an income tax benefit of \$2.3 million for the year ended September 30, 2016, compared to income tax expense of \$1.6 million, for an effective tax rate of 18.9%, for the year ended September 30, 2015. The tax benefit for 2016 was due to the aforementioned recognition of the \$4.7 million tax credit as a result of the CBED project investment. 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. The Company has implemented an enterprise risk management structure 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.

**Analysis of Nonperforming and Classified Assets.** We consider nonaccrual 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 nonaccrual 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 nonaccrual 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 other 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 other real estate owned.

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 35 troubled debt restructurings totaling \$7.5 million, which were performing according to their terms and on accrual status, as of September 30, 2016. See Note 4 of the Notes to Consolidated Financial Statements beginning on page F-1 of this annual report for additional information regarding trouble debt restructurings.

(Dollars in thousands)	At September 30,				
	2016	2015	2014	2013	2012
Nonaccrual loans:					
Residential real estate	\$1,752	\$1,923	\$2,431	\$3,519	\$2,775
Commercial real estate	1,606	1,855	1,034	4,817	899
Multi-family	—	—	—	—	—
Construction	—	—	—	29	174
Land and land development	241	—	—	—	—
Commercial business	136	210	123	218	66
Consumer	140	165	216	310	175
Total (1)	3,875	4,153	3,804	8,893	4,089
Accruing loans past due 90 days or more:					
Residential real estate	22	155	458	143	1,548
Commercial real estate	—	—	—	—	3
Multi-family	—	—	—	—	—
Construction	—	—	—	—	—
Land and land development	—	—	—	—	—
Commercial business	—	94	—	—	98
Consumer	—	3	20	21	94
Total	22	252	478	164	1,743
Total nonperforming loans	3,897	4,405	4,282	9,057	5,832

Trouble debt restructurings classified as performing loans:										
Residential real estate	2,590	2,767	2,710	2,187	2,993					
Commercial real estate	4,692	5,186	4,671	1,274	1,290					
Multifamily	–	–	–	2,306	2,356					
Commercial business	95	12	22	17	14					
Consumer	109	125	134	146	158					
Total troubled debt restructurings classified as performing loans	7,486	8,090	7,537	5,930	6,811					
Real estate owned	519	618	953	799	1,481					
Other nonperforming assets	–	–	12	2	–					
Total nonperforming assets	\$11,902	\$13,113	\$12,784	\$15,788	\$14,124					
Total nonperforming loans to total loans	0.71	%	0.91	%	0.96	%	2.17	%	1.46	%
Total nonperforming loans to total assets	0.49		0.59		0.60		1.37		0.91	
Total nonperforming assets to total assets	1.49		1.75		1.79		2.39		2.21	

Total nonaccrual loans includes four, two, four, and seven trouble debt restructurings that were on nonaccrual (1) status at September 30, 2016, 2015, 2014 and 2013, respectively, totaling \$1.6 million, \$1.6 million, \$910,000 and \$4.8 million, respectively.

Federal regulations require us to review and classify our assets on a regular basis. In addition, the Bank's regulators have 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.

(In thousands)	At September 30,		
	2016	2015	2014
Special mention assets	\$584	\$6,250	\$14,832
Substandard assets (1)	15,310	18,289	17,277
Doubtful assets	104	420	224
Loss assets	—	—	—
Total classified assets	15,414	18,709	17,501
Total criticized assets	\$15,998	\$24,959	\$32,333

(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 nonperforming 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, 2016, the Company held seventeen privately-issued CMO and ABS securities with an aggregate carrying value of \$2.0 million and fair value of \$2.8 million that have been downgraded to a substandard regulatory

classification due to a downgrade of the security's credit quality rating by various rating agencies. 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 portfolios. At September 30, 2015, the Company held twenty privately-issued CMO and ABS securities with an aggregate carrying value of \$2.6 million and fair value of \$3.7 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.

	At September 30, 2016		At September 30, 2015					
	30-89 Days	90 Days or More	30-89 Days	90 Days or More				
(Dollars in thousands)	Number of Loans	Principal Balance of Loans	Number of Loans	Principal Balance of Loans	Number of Loans	Principal Balance of Loans	Number of Loans	Principal Balance of Loans
Residential real estate	38	\$ 2,830	18	\$ 1,324	73	\$ 4,969	27	\$ 1,886
Commercial real estate	3	363	1	116	6	1,232	3	144
Multi-family	–	–	–	–	1	500	–	–
Construction	–	–	–	–	–	–	–	–
Land and land development	–	–	1	238	1	250	–	–
Commercial business	3	39	3	33	4	15	4	362
Consumer	8	77	3	40	16	93	4	32
Total	52	\$ 3,309	26	\$ 1,751	101	\$ 7,059	38	\$ 2,424

	At September 30, 2014			
	30-89 Days	90 Days or More		
(Dollars in thousands)	Number of Loans	Principal Balance of Loans	Number of Loans	Principal Balance of Loans
Residential real estate	77	\$ 6,093	38	\$ 2,081
Commercial real estate	3	185	1	60
Multi-family	1	295	–	–
Construction	–	–	–	–
Land and land development	2	210	–	–
Commercial business	2	256	2	110
Consumer	19	117	8	74
Total	104	\$ 7,156	49	\$ 2,325

**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 nonaccrual 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 to estimate specific and general losses in the loan portfolio. There was no unallocated allowance for loan losses at September 30, 2016, 2015, 2014, 2013 and 2012.

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

(Dollars in thousands)	At September 30, 2016			2015			2014			% of Loans in Category to Total Loans
	Amount	% of	% of	Amount	% of	% of	Amount	% of		
		Allowance to Total Allowance	Loans in Category to Total Loans		Allowance to Total Allowance	Loans in Category to Total Loans		Allowance to Total Allowance	Loans in Category to Total Loans	
Residential real estate	\$335	4.70 %	32.65 %	\$444	6.70 %	37.59 %	\$577	9.23 %	40.94 %	
Commercial real estate	5,160	72.46	38.46	4,327	65.32	35.97	3,808	60.93	34.48	
Multi-family	109	1.53	3.38	156	2.36	4.47	146	2.34	4.77	
Construction	845	11.86	10.61	551	8.32	7.30	443	7.09	5.12	
Land and land development	295	4.14	2.04	369	5.57	2.29	302	4.83	2.53	
Commercial business	284	3.99	7.68	678	10.24	6.79	795	12.72	6.37	
Consumer	94	1.32	5.18	99	1.49	5.59	179	2.86	5.79	
Total allowance for loan losses	\$7,122	100.00 %	100.00 %	\$6,624	100.00 %	100.00 %	\$6,250	100.00 %	100.00 %	

(Dollars in thousands)	At September 30, 2013			2012		
	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
Commercial real estate	2,826	51.03	28.17	2,204	44.92	22.56
Multi-family	249	4.50	6.40	389	7.93	5.97
Construction	229	4.14	4.61	52	1.06	3.98
Land and land development	299	5.40	2.73	2	0.04	3.08
Commercial business	907	16.38	7.56	1,084	22.10	9.04
Consumer	248	4.47	6.43	267	5.44	7.65



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

Total allowance for loan losses	\$5,538	100.00	%	100.00	%	\$4,906	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 banking regulators, in reviewing our loan portfolio, will not require us to increase our allowance for loan losses. The banking regulators 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.

(Dollars in thousands)	Year Ended September 30,				
	2016	2015	2014	2013	2012
Allowance for loan losses at beginning of period	\$6,624	\$6,250	\$5,538	\$4,906	\$4,672
Provision for loan losses	637	859	1,246	1,858	1,532
Charge offs:					
Residential real estate	207	283	278	284	510
Commercial real estate	–	40	224	11	543
Multi-family	–	–	–	–	85
Construction	–	–	–	–	–
Land and land development	–	–	–	–	–
Commercial business	10	126	234	1,013	33
Consumer	108	144	136	111	304
Total charge-offs	325	593	872	1,419	1,475
Recoveries:					
Residential real estate	115	41	28	65	109
Commercial real estate	–	–	219	25	–
Multi-family	–	–	–	–	–
Land and land development	–	–	–	–	–
Construction	–	–	–	–	–
Commercial business	1	1	–	41	2
Consumer	70	66	91	62	66
Total recoveries	186	108	338	193	177
Net charge-offs	139	485	534	1,226	1,298
Allowance for loan losses at end of period	\$7,122	\$6,624	\$6,250	\$5,538	\$4,906
Allowance for loan losses to nonperforming loans	182.76%	150.37%	145.96%	61.15%	84.12%
Allowance for loan losses to total loans outstanding at the end of the period	1.30	1.37	1.40	1.32	1.23
Net charge-offs to average loans outstanding during the period	0.03	0.11	0.12	0.30	0.35

***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.

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 interest rate risk management 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, 2016 and 2015 financial information.

Immediate Change in the Level of Interest Rates	At September 30, 2016		At September 30, 2015		
	One Year Horizon Dollar Change	One Year Horizon Percent Change	One Year Horizon Dollar Change	One Year Horizon Percent Change	
	(Dollars in thousands)				
300bp	\$274	1.07 %	\$ 868	3.55 %	
200bp	219	0.85	581	2.38	
100bp	165	0.65	283	1.16	
Static	-	-	-	-	
(100)bp	(668)	(2.61 )	(580 )	(2.37 )	

At September 30, 2016, our simulated exposure to an increase in interest rates shows that an immediate and sustained increase in rates of 1.00% will increase our net interest income by \$165,000 or 0.65% over a one year horizon compared to a flat interest rate scenario. Furthermore, rate increases of 2.00% and 3.00% would cause net interest income to increase by 0.85% and 1.07%, respectively. Conversely, an immediate and sustained decrease in rates of 1.00% will decrease our net interest income by \$668,000, or 2.61%, over a one year horizon compared to a flat interest rate scenario.

The Company also has longer term interest rate risk exposure, which may not be appropriately measured by Net Interest Income at Risk modeling, and therefore uses an Economic Value of Equity ("EVE") interest rate sensitivity analysis in order to evaluate the impact of its interest rate risk on earnings and capital. This is measured by computing the changes in net EVE for its cash flows from assets, liabilities and off-balance sheet items in the event of a range of assumed changes in market interest rates. EVE modeling involves discounting present values of all cash flows for on and off balance sheet items under different interest rate scenarios and provides no effect given to any steps that management might take to counter the effect of the interest rate movements. The discounted present value of all cash flows represents the Company's EVE and is equal to the market value of assets minus the market value of liabilities,

with adjustments made for off-balance sheet items. The amount of base case EVE and its sensitivity to shifts in interest rates provide a measure of the longer term re-pricing and option risk in the balance sheet.

Results of our simulation modeling, which assumes an immediate and sustained parallel shift in market interest rates, project that the Company's EVE could change as follows, relative to our base case scenario, based on September 30, 2016 and 2015 financial information.

Immediate Change in the Level of Interest Rates	At September 30, 2016						
	Economic Value of Equity			Economic Value of Equity as a			
	Dollar Amount	Dollar Change	Percent Change	Percent of Present Value of Assets EVE Ratio	Change		
	(Dollars in thousands)						
300bp	\$122,285	\$(1,520 )	(1.23 )%	16.86	%	148	bp
200bp	127,900	4,095	3.31	16.94		156	bp
100bp	129,094	5,289	4.27	16.50		112	bp
Static	123,805	-	-	15.38		-	bp
(100)bp	108,223	(15,582)	(12.59 )	13.29		(209 )	bp

Immediate Change in the Level of Interest Rates	At September 30, 2015						
	Economic Value of Equity			Economic Value of Equity as a			
	Dollar Amount	Dollar Change	Percent Change	Percent of Present Value of Assets EVE Ratio	Change		
	(Dollars in thousands)						
300bp	\$115,083	\$(3,895 )	(3.27 )%	17.12	%	117	bp
200bp	121,443	2,465	2.07	17.35		140	bp
100bp	124,613	5,635	4.74	17.16		121	bp
Static	118,978	-	-	15.95		-	bp
(100)bp	107,037	(11,941)	(10.04 )	14.44		(151 )	bp

The previous table indicates that at September 30, 2016, the Company would expect a decrease in its EVE in the event of a sudden and sustained 300 basis point increase and/or 100 basis point decrease in prevailing interest rates. The expected decrease in the Company's EVE given a larger increase in rates is primarily attributable to the relatively high percentage of fixed-rate loans in the Company's loan portfolio, which at September 30, 2016 comprised approximately 40.4% of the loan portfolio.

The models are driven by expected behavior in various interest rate scenarios and many factors besides market interest rates affect the Company's net interest income and EVE. For this reason, we model many different combinations of interest rates and balance sheet assumptions to understand its overall sensitivity to market interest rate changes. Therefore, as with any method of measuring interest rate risk, certain shortcomings are inherent in the method of analysis presented in the foregoing tables and it is recognized that the model outputs are not guarantees of actual results. For example, although certain assets and liabilities may have similar maturities or periods to repricing, they may react in different degrees to changes in market interest rates. Also, the interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types may lag behind changes in market rates. Additionally, certain assets, such as adjustable-rate mortgage loans, have features that

restrict changes in interest rates on a short-term basis and over the life of the asset. Further, in the event of a change in interest rates, expected rates of prepayments on loans and early withdrawals from time deposits could deviate significantly from those assumed in calculating the table.

***Liquidity Management.*** Liquidity is the ability to meet current and future short-term financial obligations. Our primary sources of funds consist of deposit inflows, loan repayments, maturities and sales of investment securities and borrowings from the FHLB. While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit flows and mortgage prepayments are greatly influenced by general interest rates, economic conditions and competition.

The Bank regularly adjusts its investments in liquid assets based upon our assessment of (1) expected loan demand, (2) expected deposit flows, (3) yields available on interest-earning deposits and securities and (4) the objectives of our asset/liability management policy.

The Bank's most liquid assets are cash and cash equivalents and interest-bearing deposits. The levels of these assets depend on our operating, financing, lending and investing activities during any given period. At September 30, 2016, cash and cash equivalents totaled \$29.3 million. Securities classified as trading and available-for-sale, amounting to \$9.3 million and \$174.5 million, respectively, at September 30, 2016, provide additional sources of liquidity. At September 30, 2016, we had the ability to borrow a total of approximately \$130.5 million from the FHLB, of which \$121.6 million was borrowed and outstanding. See Note 13 of the Notes to Consolidated Financial Statements beginning on page F-1 of this annual report for additional information regarding FHLB borrowings. In addition, we had the ability to borrow the lesser of \$10 million or 25% of the Bank's equity capital, excluding reserves, using a federal funds purchased line of credit facility with another financial institution at September 30, 2016. We also had a second federal funds line of credit facility with another financial institution from which we had the ability to borrow the lesser of \$15 million. The Bank had no outstanding federal funds purchased under either facility at September 30, 2016. See Note 11 of the Notes to Consolidated Financial Statements beginning on page F-1 of this annual report for additional information regarding federal funds purchased borrowings.

At September 30, 2016, the Bank had \$131.6 million in commitments to extend credit outstanding. See Note 19 of the Notes to Consolidated Financial Statements beginning on page F-1 of this annual report for additional information regarding commitments to extend credit. Time deposits due within one year of September 30, 2016 totaled \$115.3 million, or 55.1% of time deposits. We believe the large percentage of time deposits that mature within one year reflects customers' hesitancy to invest their funds for long periods due to the recent low interest rate environment and local competitive pressure. If these maturing time deposits do not remain with us, we will be required to seek other sources of funds, including other certificates of deposit and borrowings. Depending on market conditions, we may be required to pay higher rates on such deposits or other borrowings than we currently pay on the time deposits due on or before September 30, 2017. We believe, however, based on past experience that a significant portion of our time deposits will remain with us. We have the ability to attract and retain deposits by adjusting the interest rates offered.

The Company is a separate legal entity from the Bank and must provide for its own liquidity to pay its operating expenses and other financial obligations, to pay any dividends and to repurchase any of its outstanding common stock. The Company's primary source of income is dividends received from the Bank. The amount of dividends that the Bank may declare and pay to the Company in any calendar year, without the receipt of prior approval from banking regulators, cannot exceed net income for that year to date plus retained net income (as defined) for the preceding two calendar years. At September 30, 2016, the Company had liquid assets of \$849,000 on a stand-alone, unconsolidated basis.

The following tables present certain of our contractual obligations as of September 30, 2016.



(In thousands)	Total	Payments due by period			
		Less than One to One Year	Three Years	Three to Five Years	More Than Five Years
Deferred director fee agreements	\$ 1,212	\$ 28	\$ 54	\$ 9	\$ 1,121
Deferred compensation agreements	3	3	–	–	–
Operating lease obligations	1,224	196	292	201	535
Repurchase agreements	1,345	1,345	–	–	–
FHLB borrowings	121,633	36,633	10,000	35,000	40,000
Total	\$ 125,417	\$ 38,205	\$ 10,346	\$ 35,210	\$ 41,656

Our primary investing activities are the origination of loans and the purchase of securities. Our primary financing activities consist of activity in deposit accounts and FHLB borrowings. Deposit flows are affected by the overall level of interest rates, the interest rates and products offered by us and our local competitors and other factors. We generally manage the pricing of our deposits to be competitive. Occasionally, we offer promotional rates on certain deposit products to attract deposits.

**Capital Management.** The Bank is subject to various regulatory capital requirements administered by the federal banking agencies, including a risk-based capital measure. The risk-based capital guidelines include both a definition of capital and a framework for calculating risk-weighted assets by assigning balance sheet assets and off-balance sheet items to broad risk categories. At September 30, 2016, the Bank exceeded all of its regulatory capital requirements. The Bank is considered “well capitalized” under regulatory guidelines. See “*Item 1. Business — Regulation and Supervision — Regulation of Federal Savings Associations — Capital Requirement,*” and Note 27 of the Notes to Consolidated Financial Statements beginning on page F-1 of this annual report.

**Off-Balance Sheet Arrangements.** In the normal course of operations, we engage in a variety of financial transactions that, in accordance with generally accepted accounting principles, are not recorded in our financial statements. These transactions involve, to varying degrees, elements of credit, interest rate and liquidity risk. Such transactions are used primarily to manage customers’ requests for funding and take the form of loan commitments and lines of credit. For information about our loan commitments and unused lines of credit, see Note 19 of the Notes to Consolidated Financial Statements beginning on page F-1 of this annual report.

For the year ended September 30, 2016, we did not engage in any off-balance sheet transactions reasonably likely to have a material effect on our financial condition, results of operations or cash flows.

### **Impact of Recent Accounting Pronouncements**

For a discussion of the impact of recent accounting pronouncements, see Note 1 of the Notes to Consolidated Financial Statements beginning on page F-1 of this annual report.

### **Effect of Inflation and Changing Prices**

The consolidated financial statements and related financial data presented in this annual report have been prepared according to accounting principles generally accepted in the United States, which require the measurement of financial position and operating results in terms of historical dollars without considering the change in the relative purchasing power of money over time due to inflation. The primary impact of inflation on our operations is reflected in increased operating costs. Unlike most industrial companies, virtually all the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates generally have a more significant impact on a financial institution’s performance than do general levels of inflation. Interest rates do not necessarily move in the same direction or to the same extent as the prices of goods and services.

**Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The information required by this item is incorporated herein by reference to Part II, “*Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operation.*”

**Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

Information required by this item is included herein beginning on page F-1.

**Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

## Item 9A. CONTROLS AND PROCEDURES

### (a) Disclosure Controls and Procedures

The Company's management, including the Company's principal executive officer and principal financial officer, have evaluated the effectiveness of the Company's "disclosure controls and procedures," as such term is defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended, (the "Exchange Act"). Based upon their evaluation, the principal executive officer and principal financial officer concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective for the purpose of ensuring that the information required to be disclosed in the reports that the Company files or submits under the Exchange Act with the Securities and Exchange Commission (the "SEC") (1) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (2) is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

### (b) Internal Control over Financial Reporting

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. The internal control process has been designed under our supervision to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external reporting purposes in accordance with accounting principles generally accepted in the United States of America.

Management conducted an assessment of the effectiveness of the Company's internal control over financial reporting as of September 30, 2016, utilizing the framework established in 2013 Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management has determined that the Company's internal control over financial reporting as of September 30, 2016 is effective.

Our internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that accurately and fairly reflect, in reasonable detail, transactions and dispositions of assets; and provide reasonable assurances that: (1) transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States; (2) receipts and expenditures are being made only in accordance with authorizations of management and the directors of the Company; and (3) unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the Company's financial statements are prevented or timely detected.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to rules of the SEC that permit the Company to provide only management's report in this annual report.

(c) Changes to Internal Control over Financial Reporting

There were no changes in the Company's internal control over financial reporting during the three months ended September 30, 2016 that have materially affected, or are reasonable likely to materially affect, the Company's internal control over financial reporting.

**Item 9B. OTHER INFORMATION**

None.

### **PART III**

#### **Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The information relating to the directors and officers of the Company, information regarding compliance with Section 16(a) of the Exchange Act and information regarding the audit committee and audit committee financial expert is incorporated herein by reference to the sections captioned “Item 1 – Election of Directors,” “Section 16(a) Beneficial Ownership Reporting Compliance,” and “Audit Committee” in the Company’s Proxy Statement for the 2017 Annual Meeting of Stockholders (the “Proxy Statement”).

The Company has adopted a code of ethics and business conduct which applies to all of the Company’s and the Bank’s directors, officers and employees. A copy of the code of ethics and business conduct is available to stockholders on the Investor Relations portion of the Bank’s website at [www.fsbbank.net](http://www.fsbbank.net).

#### **Item 11. EXECUTIVE COMPENSATION**

The information regarding executive compensation is incorporated herein by reference to the sections captioned “Director Compensation” and “Executive Compensation” in the Proxy Statement.

#### **Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

(a) Security Ownership of Certain Beneficial Owners

Information required by this item is incorporated herein by reference to the section captioned “Stock Ownership” in the Proxy Statement.

(b) Security Ownership of Management

Information required by this item is incorporated herein by reference to the section captioned “Stock Ownership” in the Proxy Statement.

(c)

Changes in Control

Management of the Company knows of no arrangements, including any pledge by any person of securities of the Company, the operation of which may at a subsequent date result in a change in control of the registrant.

**Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The information relating to certain relationships and related transactions and director independence is incorporated herein by reference to the sections captioned “Transactions with Related Persons” and “Director Independence” in the Proxy Statement.

**Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

The information relating to the principal accountant fees and expenses is incorporated herein by reference to the section captioned “Ratification of the Independent Registered Public Accounting Firm” in the Proxy Statement.

**PART IV**

**Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

(1) The financial statements required in response to this item are incorporated by reference from Item 8 of this Annual Report on Form 10-K.

(2) All financial statement schedules are omitted because they are not required or applicable, or the required information is shown in the consolidated financial statements or the notes thereto.

(3) Exhibits

No.	Description
3.1	Articles of Incorporation of First Savings Financial Group, Inc. (1)
3.2	Articles of Amendment to the Articles of Incorporation for the Series A Preferred Stock (2)
3.3	Bylaws of First Savings Financial Group, Inc. (1)
4.0	Specimen Stock Certificate of First Savings Financial Group, Inc. (1)
10.1	Amended and Restated Employment Agreement by and among First Savings Financial Group, Inc., First Savings Bank and Larry W. Myers, dated October 7, 2009* (3)
10.2	Amended and Restated Employment Agreement by and among First Savings Financial Group, Inc., First Savings Bank and John P. Lawson, Jr., dated October 7, 2009* (3)
10.3	Amended and Restated Employment Agreement by and among First Savings Financial Group, Inc., First Savings Bank and Anthony A. Schoen, dated October 7, 2009* (3)
10.4	Amended and Restated Employment Agreement by and among First Savings Financial Group, Inc., First Savings Bank and Samuel E. Eckart, dated October 7, 2009* (3)
10.5	First Savings Bank, F.S.B. Employee Severance Compensation Plan* (4)
10.6	First Savings Bank, F.S.B. Supplemental Executive Retirement Plan* (4)
10.7	Securities Purchase Agreement, dated August 11, 2011, between the Company and the Secretary of the Treasury with respect to the Series A Preferred Stock (2)
10.8	Amended and Restated Director Deferred Compensation Agreement* (1)
21.0	Subsidiaries of the Registrant
23.0	Consent of Monroe Shine & Co., Inc.
31.1	Rule 13a-14(a)/15d-14(a) Certificate of Chief Executive Officer
31.2	Rule 13a-14(a)/15d-14(a) Certificate of Chief Financial Officer
32.0	Section 1350 Certificate of Chief Executive Officer and Chief Financial Officer
101.0	The following materials from the Company's Annual Report on Form 10-K for the year ended September 30, 2016, formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statement of Changes in Stockholders' Equity, (iv) the Consolidated Statements of Cash Flows and (v) the Notes to the Consolidated Financial Statements.



\*Management contract or compensatory plan, contract or arrangement

- (1) Incorporated herein by reference to the exhibits to the Company's Registration Statement on Form S-1 (File No. 333-151636), as amended, initially filed with the Securities and Exchange Commission on June 13, 2008.
- (2) Incorporated by reference to the exhibits to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on August 17, 2011.
- (3) Incorporated herein by reference to the exhibits to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on October 8, 2009.
- (4) Incorporated herein by reference to the exhibits to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on October 10, 2008.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

FIRST SAVINGS FINANCIAL GROUP, INC.

Date: December 29, 2016 By: /s/ Larry W. Myers  
 Larry W. Myers  
 President, Chief Executive Officer and Director

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Name	Title	Date
/s/ Larry W. Myers Larry W. Myers	President, Chief Executive Officer and Director (principal executive officer)	December 29, 2016
/s/ Anthony A. Schoen Anthony A. Schoen	Chief Financial Officer (principal accounting and financial officer)	December 29, 2016
/s/ John P. Lawson, Jr. John P. Lawson, Jr.	Chief Operating Officer and Director	December 29, 2016
/s/ Samuel E. Eckart Samuel E. Eckart	Executive Vice President and Director	December 29, 2016
/s/ Cecile A. Blau Cecile A. Blau	Director	December 29, 2016
/s/ Gerald Wayne Clapp, Jr. Gerald Wayne Clapp, Jr.	Director	December 29, 2016
/s/ Michael F. Ludden Michael F. Ludden	Director	December 29, 2016

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

/s/ Douglas A. York  
Douglas A. York

Director

December 29, 2016

/s/ Vaughn K. Timberlake  
Vaughn K. Timberlake

Director

December 29, 2016

/s/ Frank N. Czeschin      Director December 29, 2016  
Frank N. Czeschin

/s/ John E. Colin          Director December 29, 2016  
John E. Colin

/s/ Pamela Bennett-Martin   Director December 29, 2016  
Pamela Bennett-Martin

**FIRST SAVINGS FINANCIAL GROUP, INC.**

**CLARKSVILLE, INDIANA**

**CONSOLIDATED FINANCIAL STATEMENTS**

**YEARS ENDED**

**SEPTEMBER 30, 2016 AND 2015**

**FIRST SAVINGS FINANCIAL GROUP, INC.**

**CONTENTS**

	<b>Page</b>
<u>Report of Independent Registered Public Accounting Firm</u>	<b>F-2</b>
<u>CONSOLIDATED BALANCE SHEETS</u>	<b>F-3</b>
<u>CONSOLIDATED STATEMENTS OF INCOME</u>	<b>F-4</b>
<u>CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME</u>	<b>F-5</b>
<u>CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY</u>	<b>F-6</b>
<u>CONSOLIDATED STATEMENTS OF CASH FLOWS</u>	<b>F-7</b>
<u>NOTES TO CONSOLIDATED FINANCIAL STATEMENTS</u>	<b>F-8</b>

F-1

**Report of Independent Registered Public Accounting Firm**

Board of Directors and Shareholders

**First Savings Financial Group, Inc.**

Clarksville, Indiana

We have audited the accompanying consolidated balance sheets of **First Savings Financial Group, Inc.** as of September 30, 2016 and 2015, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for the years then ended. The Company's management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of **First Savings Financial Group, Inc.** as of September 30, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

New Albany, Indiana

December 29, 2016

Monroe Shine & Co., Inc. " Certified Public Accountants and Business Consultants

F-2



**FIRST SAVINGS FINANCIAL GROUP, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
**SEPTEMBER 30, 2016 AND 2015**

(In thousands, except share and per share data)	2016	2015
<b>ASSETS</b>		
Cash and due from banks	\$11,449	\$9,884
Interest-bearing deposits with banks	17,893	15,110
Total cash and cash equivalents	29,342	24,994
Interest-bearing time deposits	3,100	3,100
Trading account securities, at fair value	9,255	9,044
Securities available for sale, at fair value	174,493	178,328
Securities held to maturity (fair value of \$3,654 in 2016 and \$5,191 in 2015)	3,166	4,620
Loans held for sale (\$5,835 at fair value in 2015)	5,471	6,803
Loans, net of allowance for loan losses of \$7,122 in 2016 and \$6,624 in 2015	518,611	457,112
Federal Reserve Bank and Federal Home Loan Bank stock, at cost	6,936	6,720
Real estate development and construction	-	7,079
Premises and equipment	11,674	13,838
Other real estate owned, held for sale	519	618
Accrued interest receivable:		
Loans	1,451	1,259
Securities	1,355	1,396
Cash surrender value of life insurance	18,214	17,766
Goodwill	7,936	7,936
Core deposit intangibles	1,037	1,381
Other assets	3,956	7,952
<b>Total Assets</b>	<b>\$796,516</b>	<b>\$749,946</b>
<b>LIABILITIES</b>		
Deposits:		
Noninterest-bearing	\$79,859	\$71,184
Interest-bearing	499,608	462,113
Total deposits	579,467	533,297
Repurchase agreements	1,345	1,342
Borrowings from Federal Home Loan Bank	121,633	104,867
Other long-term debt	-	4,632
Accrued interest payable	195	186
Advance payments by borrowers for taxes and insurance	1,014	883
Accrued expenses and other liabilities	6,282	10,382
<b>Total Liabilities</b>	<b>709,936</b>	<b>655,589</b>

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	59,499	52,760
Accumulated other comprehensive income	5,944	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	86,580	94,357
Total Liabilities and Stockholders' Equity	\$796,516	\$749,946

See notes to consolidated financial statements.

**FIRST SAVINGS FINANCIAL GROUP, INC.  
CONSOLIDATED STATEMENTS OF INCOME  
YEARS ENDED SEPTEMBER 30, 2016 AND 2015**

(In thousands, except share and per share data)	2016	2015
<b>INTEREST INCOME</b>		
Loans, including fees	\$22,876	\$21,439
Securities:		
Taxable	3,826	4,111
Tax-exempt	2,335	2,086
Dividend income	310	303
Interest-bearing deposits with banks	109	48
Total interest income	29,456	27,987
<b>INTEREST EXPENSE</b>		
Deposits	2,490	2,427
Federal funds purchased	1	-
Repurchase agreements	3	3
Borrowings from Federal Home Loan Bank	1,512	1,172
Loans payable	161	176
Total interest expense	4,167	3,778
Net interest income	25,289	24,209
Provision for loan losses	637	859
Net interest income after provision for loan losses	24,652	23,350
<b>NONINTEREST INCOME</b>		
Service charges on deposit accounts	1,221	1,326
Net gain on trading account securities	748	440
Net gain on sales of loans	1,145	411
Net unrealized gain on loans held for sale	-	413
Increase in cash surrender value of life insurance	448	479
Gain on life insurance	-	831
Commission income	369	373
Real estate lease income	489	628
Net gain on sale of premises and equipment	168	-
Net gain on sale of real estate development	1,862	-
Loss on tax credit investment	(4,236)	-
Other income	1,158	1,075
Total noninterest income	3,372	5,976
<b>NONINTEREST EXPENSE</b>		
Compensation and benefits	12,858	11,809
Occupancy and equipment	2,698	2,622

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

Data processing	1,587	1,390
Advertising	545	530
Professional fees	1,259	1,172
FDIC insurance premiums	502	460
Net loss on other real estate owned	28	1
Other operating expenses	2,958	3,015
Total noninterest expense	22,435	20,999
Income before income taxes	5,589	8,327
Income tax expense (benefit)	(2,322 )	1,576
Net Income	\$7,911	\$6,751
Preferred stock dividends declared	62	171
Net Income Available to Common Shareholders	\$7,849	\$6,580
Net income per common share:		
Basic	\$3.57	\$3.07
Diluted	\$3.41	\$2.93
Weighted average common shares outstanding:		
Basic	2,200,258	2,140,632
Diluted	2,303,628	2,247,966
Dividends per common share	\$0.51	\$0.47

See notes to consolidated financial statements.

**FIRST SAVINGS FINANCIAL GROUP, INC.  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
YEARS ENDED SEPTEMBER 30, 2016 AND 2015**

(In thousands)	2016	2015
Net Income	\$7,911	\$6,751
<b>OTHER COMPREHENSIVE INCOME, NET OF TAX</b>		
Unrealized gains on securities available for sale:		
Unrealized holding gains arising during the period	2,631	549
Income tax expense	(897 )	(192 )
Net of tax amount	1,734	357
Other Comprehensive Income	1,734	357
Comprehensive Income	\$9,645	\$7,108

See notes to consolidated financial statements.

**FIRST SAVINGS FINANCIAL GROUP, INC.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**YEARS ENDED SEPTEMBER 30, 2016 AND 2015**

(In thousands, except share and per share data)	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Unearned Compensation and ESOP	Treasury Stock	Total
Balances at October 1, 2014	\$-	\$25	\$43,199	\$47,175	\$3,853	\$(699)	\$(6,473)	\$87,080
Net income	-	-	-	6,751	-	-	-	6,751
Other comprehensive income	-	-	-	-	357	-	-	357
Preferred stock dividends	-	-	-	(171 )	-	-	-	(171 )
Common stock dividends (\$0.47 per share)	-	-	-	(995 )	-	-	-	(995 )
Stock compensation expense	-	-	243	-	-	162	-	405
Shares released by ESOP trust	-	-	563	-	-	340	-	903
Stock options exercises - 20,972 shares	-	-	(89 )	-	-	-	367	278
Purchase of 9,274 treasury shares	-	-	-	-	-	-	(251 )	(251 )
Balances at September 30, 2015	\$-	\$25	\$43,916	\$52,760	\$4,210	\$(197)	\$(6,357)	\$94,357
Net income	-	-	-	7,911	-	-	-	7,911
Other comprehensive income	-	-	-	-	1,734	-	-	1,734
Preferred stock dividends	-	-	-	(62 )	-	-	-	(62 )
Common stock dividends (\$0.51 per share)	-	-	-	(1,110 )	-	-	-	(1,110 )
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 )

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

Balances at September 30, 2016	\$-	\$25	\$27,182	\$59,499	\$5,944	\$-	\$(6,070)	\$86,580
--------------------------------	-----	------	----------	----------	---------	-----	-----------	----------

See notes to consolidated financial statements.

F-6

**FIRST SAVINGS FINANCIAL GROUP, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**YEARS ENDED SEPTEMBER 30, 2016 AND 2015**

(In thousands)	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$7,911	\$6,751
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	637	859
Depreciation and amortization	1,461	1,452
Amortization of premiums and accretion of discounts on securities, net	553	679
Increase in trading account securities	(211 )	(3,725 )
Loans originated for sale	(27,572)	(16,980 )
Proceeds on sales of loans	28,797	11,324
Net gain on sales of loans	(1,145 )	(411 )
Net unrealized gain on loans held for sale	-	(413 )
Net realized and unrealized gain on other real estate owned	(49 )	(1 )
Gain on life insurance	-	(831 )
Increase in cash surrender value of life insurance	(448 )	(479 )
Net gain on sale of premises, equipment and real estate development	(2,030 )	-
Loss on tax credit investment	4,236	-
Deferred income taxes	(2,431 )	(36 )
ESOP and stock compensation expense	628	1,108
Increase in accrued interest receivable	(151 )	(144 )
Increase in accrued interest payable	9	11
Change in other assets and liabilities, net	(1,001 )	273
Net Cash Provided By (Used In) Operating Activities	9,194	(563 )
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investment in interest-bearing time deposits	(245 )	(1,600 )
Proceeds from maturities of interest-bearing time deposit maturities	245	-
Purchase of securities available for sale	(15,659)	(23,669 )
Proceeds from maturities of securities available for sale	6,725	11,227
Proceeds from maturities of securities held to maturity	1,381	666
Principal collected on securities	14,894	18,814
Net increase in loans	(52,550)	(24,519 )
Purchase of Federal Reserve Bank stock	-	(945 )
Purchase of Federal Home Loan Bank stock	(216 )	(533 )
Proceeds from redemption of Federal Home Loan Bank stock	-	1,275
Proceeds from life insurance	1,564	425
Investment in historic tax credit entity	(3,285 )	(417 )
Proceeds from sale of other real estate owned	472	809
Investment in real estate development and construction	(35 )	(73 )
Purchase of premises and equipment	(318 )	(475 )
Proceeds from sale of premises, equipment and real estate development	1,866	-



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

Net Cash Used In Investing Activities	(45,161)	(19,015 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net increase in deposits	46,170	103
Net increase in repurchase agreements	3	4
Increase in Federal Home Loan Bank line of credit	6,766	5,319
Proceeds from Federal Home Loan Bank advances	35,000	300,000
Repayment of Federal Home Loan Bank advances	(25,000)	(280,000)
Repayment of other long-term debt	(4,632 )	(180 )
Net increase in advance payments by borrowers for taxes and insurance	131	135
Redemption of preferred stock	(17,120)	-
Proceeds from exercise of stock options	169	159
Purchase of treasury stock	-	(132 )
Dividends paid on preferred stock	(62 )	(171 )
Dividends paid on common stock	(1,110 )	(995 )
Net Cash Provided By Financing Activities	40,315	24,242
 Net Increase in Cash and Cash Equivalents	 4,348	 4,664
 Cash and cash equivalents at beginning of period	 24,994	 20,330
 Cash and Cash Equivalents at End of Period	 \$29,342	 \$24,994

See notes to consolidated financial statements.

**FIRST SAVINGS FINANCIAL GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2016 AND 2015**

**(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Operations**

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 residential mortgage, commercial mortgage, construction, commercial business and consumer loans, and to a lesser extent, to invest in mortgage-backed securities and other securities. The Bank has three-wholly owned subsidiaries: First Savings Investments, Inc., a Nevada corporation that manages a securities portfolio, FFCC, Inc. (“FFCC”), which is an Indiana corporation that participates in commercial real estate development and leasing, and Southern Indiana Financial Corporation, which is currently inactive.

In accordance with the Plan of Complete Liquidation adopted by FFCC’s board of directors and approval by the Bank as its sole shareholder on December 21, 2016, FFCC will voluntarily dissolve and completely liquidate effective December 31, 2016. As a result of the liquidation, FFCC will distribute its net assets to the Bank on December 31, 2016.

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.

**Basis of Consolidation and Reclassifications**

The consolidated financial statements include the accounts of the Company and its subsidiaries and have been prepared in accordance with accounting principles generally accepted in the United States of America and conform to general practices within the banking industry. Intercompany balances and transactions have been eliminated. Certain prior year amounts have been reclassified to conform to the current year presentation. The reclassifications had no effect on net income or stockholders' equity.

### **Statements of Cash Flows**

For purposes of the statements of cash flows, the Company has defined cash and cash equivalents as cash on hand, amounts due from banks (including cash items in process of clearing), interest-bearing deposits with other banks having an original maturity of 90 days or less and money market funds.

### **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses and the valuation of real estate and other assets acquired in connection with foreclosures or in satisfaction of loans. In connection with the determination of the allowances for loan losses and other real estate owned, management obtains independent appraisals for significant properties.

**FIRST SAVINGS FINANCIAL GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**SEPTEMBER 30, 2016 AND 2015**

(1 - continued)

Use of Estimates - continued

A majority of the Bank's loan portfolio consists of single-family residential and commercial real estate loans to customers in the southern Indiana and Louisville, Kentucky metropolitan area. Accordingly, the ultimate collectability of a substantial portion of the Bank's loan portfolio and the recovery of the carrying amount of other real estate owned are susceptible to changes in local market conditions.

While management uses available information to recognize losses on loans and other real estate owned, further reductions in the carrying amounts of loans and other real estate owned may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the estimated losses on loans and other real estate owned. Such agencies may require the Bank to recognize additional losses based on their judgments about information available to them at the time of their examination. Because of these factors, it is reasonably possible the estimated losses on loans and other real estate owned may change materially in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

**Investment Securities**

*Trading Account Securities:* Securities purchased with the intention of recognizing short-term profits or which are actively bought and sold are classified as trading account securities and reported at fair value. The net realized and unrealized gains and losses on trading account securities are reported in other noninterest income. Realized gains and losses on trading account securities are determined using the specific identification method.

*Securities Available for Sale:* Securities available for sale consist primarily of municipal obligations, mortgage-backed securities and collateralized mortgage obligations ("CMOs"), and are stated at fair value. The Company holds municipal

bonds issued by municipal governments within the U.S.; mortgage-backed securities and CMOs issued by the Government National Mortgage Association (“GNMA”), a U.S. government agency, and the Federal National Mortgage Association (“FNMA”) and the Federal Home Loan Mortgage Corporation (“FHLMC”), government-sponsored enterprises; debt securities issued by government-sponsored enterprises; and privately-issued CMOs and asset-backed securities (“ABSs”). 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. Mortgage-backed securities represent participating interests in pools of long-term first mortgage loans originated and serviced by issuers of the securities. CMOs and ABSs are complex mortgage-backed securities that restructure the cash flows and risks of the underlying mortgage collateral.

Amortization of premiums and accretion of discounts are recognized in interest income using methods approximating the interest method over the period to maturity, adjusted for anticipated prepayments. Unrealized gains and losses, net of tax, on securities available for sale are included in other comprehensive income and the accumulated unrealized holding gains and losses are reported as a separate component of equity until realized. Realized gains and losses on the sale of securities available for sale are determined using the specific identification method and are included in other noninterest income and, when applicable, are reported as a reclassification adjustment, net of tax, in other comprehensive income.

*Securities Held to Maturity:* Debt securities for which the Company has the positive intent and ability to hold to maturity are reported at cost, adjusted for amortization of premiums and accretion of discounts that are recognized in interest income using methods approximating the interest method over the period to maturity, adjusted for anticipated prepayments. The Company classifies certain mortgage-backed securities and municipal obligations as held to maturity.

**FIRST SAVINGS FINANCIAL GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**SEPTEMBER 30, 2016 AND 2015**

(1 - continued)

Investment Securities - continued

Declines in the fair value of individual available for sale and held to maturity securities below their amortized cost that are other than temporary result in write-downs of the individual securities to their fair value. The related write-downs are included in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than amortized 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 for a period of time sufficient to allow for any anticipated recovery in fair value.

Investments in non-marketable equity securities such as Federal Reserve Bank (“FRB”) and Federal Home Loan Bank of Indianapolis (“FHLB”) stock are carried at cost and are classified as restricted securities. Impairment testing on these investments is based on applicable accounting guidance and the cost basis is reduced when impairment is deemed to be other-than-temporary.

**Loans Held for Sale**

Residential mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or market value. Aggregate market value is determined based on the quoted prices under a “best efforts” sales agreement with a third party. Net unrealized losses are recognized through a valuation allowance by charges to income. Realized gains on sales of residential mortgage loans are determined using the specific identification method and are included in noninterest income. Residential mortgage loans are sold with servicing released.

Commitments to originate residential mortgage loans held for sale are considered derivative financial instruments to be accounted for at fair value. The Bank’s residential mortgage loan commitments subject to derivative accounting are fixed rate mortgage loan commitments at market rates when initiated. At September 30, 2016, the Bank had

commitments to originate \$124,000 of fixed-rate mortgage loans intended for sale in the secondary market after the loans are closed. Fair value is estimated based on fees that would be charged on commitments with similar terms.

The Bank originates loans to customers under the SBA 7(a) and other programs that generally provide for SBA guarantees of 75% to 90% of each loan. The Bank intends to sell the guaranteed portion of the SBA loans. The guaranteed portion of the SBA loans was classified as loans held for sale at September 30, 2016 and 2015. At September 30, 2016, SBA loans held for sale totaling \$5.1 million were carried at the lower of aggregate cost or fair value. At September 30, 2015, SBA loans held for sale were recorded in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 825, *Financial Instruments*, at fair value. The fair value of SBA loans held for sale included the servicing value of the loans as well as any accrued interest at September 30, 2015. There were \$5.8 million of SBA loans held for sale at September 30, 2015 recorded at fair value. Realized gains and losses on sales of SBA loans held for sale are determined using the allocation of participating interests sold and retained and are included in noninterest income. Direct loan origination costs and fees related to SBA loans held for sale are deferred upon origination and are recognized as an adjustment to the gain or loss on the date of sale. SBA loans held for sale are sold on a servicing retained basis.

**FIRST SAVINGS FINANCIAL GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**SEPTEMBER 30, 2016 AND 2015**

(1 - continued)

**Transfers of Financial Assets**

The Company accounts for transfers and servicing of financial assets in accordance with FASB ASC 860, *Transfers and Servicing*. Transfers of financial assets are accounted for as sales only when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right (free from conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Transfers of a portion of a loan must meet the criteria of a participating interest. If it does not meet the criteria of a participating interest, the transfer must be accounted for as a secured borrowing. In order to meet the criteria for a participating interest, all cash flows from the loan must be divided proportionately, the rights of each loan holder must have the same priority, and the loan holders must have no recourse to the transferor other than standard representations and warranties and no loan holder has the right to pledge or exchange the entire loan.

The Company sells financial assets in the normal course of business, the majority of which are related to the SBA-guaranteed portion of loans, as well as residential mortgage loan sales through established programs, commercial loan sales through participation agreements, and other individual or portfolio loan and securities sales. In accordance with accounting guidance for asset transfers, the Company considers any ongoing involvement with transferred assets in determining whether the assets can be derecognized from the balance sheet. With the exception of servicing and certain performance-based guarantees, the Company's continuing involvement with financial assets sold is minimal and generally limited to market customary representation and warranty clauses.

When the Company sells financial assets, it may retain servicing rights and/or other interests in the financial assets. The gain or loss on sale depends on the previous carrying amount of the transferred financial assets, the servicing right recognized, and the consideration received and any liabilities incurred in exchange for the transferred assets. Upon transfer, any servicing assets and other interests held by the Company are carried at the lower of cost or fair value.



## **Loans and Allowance for Loan Losses**

### *Loans Held for Investment*

Loans are stated at unpaid principal balances, less net deferred loan fees and the allowance for loan losses. The Company grants real estate mortgage, commercial business and consumer loans. A substantial portion of the loan portfolio is represented by residential and commercial mortgage loans to customers in the southern Indiana and Louisville, Kentucky metropolitan area. The ability of the Company's customers to honor their contracts is dependent upon the real estate and general economic conditions in this area.

Loan origination and commitment fees, as well as certain direct costs of underwriting and closing loans, are deferred and amortized as a yield adjustment to interest income over the lives of the related loans using the interest method. Amortization of deferred loan fees is discontinued when a loan is placed on nonaccrual status.

F-11

**FIRST SAVINGS FINANCIAL GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**SEPTEMBER 30, 2016 AND 2015**

(1 - continued)

**Loans and Allowance for Loan Losses - continued**

*Nonaccrual Loans*

The recognition of income on a loan is discontinued and previously accrued interest is reversed when interest or principal payments become 90 days past due unless, in the opinion of management, the outstanding interest remains collectible. Past due status is determined based on contractual terms. Generally, by applying the cash receipts method, interest income on nonaccrual loans is subsequently recognized only as received until the loan is returned to accrual status. The cash receipts method is used when the likelihood of further loss on the loan is remote. Otherwise, the Company applies the cost recovery method and applies all payments as a reduction of the unpaid principal balance until the loan qualifies for return to accrual status. Interest income on impaired loans is recognized using the cost recovery method, unless the likelihood of further loss is considered remote.

A loan is restored to accrual status when all principal and interest payments are brought current and the borrower has demonstrated the ability to make future payments of principal and interest as scheduled, which generally requires that the borrower demonstrate a period of performance of at least six consecutive months.

*Loan Charge-Offs*

For portfolio segments other than consumer loans, the Company's practice is to charge-off any loan or portion of a loan when the loan is determined by management to be uncollectible due to the borrower's failure to meet repayment terms, the borrower's deteriorating or deteriorated financial condition, depreciation of the underlying collateral, the loan's classification as a loss by regulatory examiners, or for other reasons. A partial charge-off is recorded on a loan when the uncollectibility of a portion of the loan has been confirmed, such as when a loan is discharged in bankruptcy, the collateral is liquidated, a loan is restructured at a reduced principal balance, or other identifiable events that lead

management to determine the full principal balance of the loan will not be repaid. A specific reserve is recognized as a component of the allowance for estimated losses on loans individually evaluated for impairment. Partial charge-offs on nonperforming and impaired loans are included in the Company's historical loss experience used to estimate the general component of the allowance for loan losses as discussed below. Specific reserves are not considered charge-offs in management's analysis of the allowance for loan losses because they are estimates and the outcome of the loan relationship is undetermined.

During the year ended September 30, 2016, the Company did not recognize any partial charge-offs. At September 30, 2016, the Company had one outstanding loan with a recorded investment of \$220,000 on which partial charge-offs totaling \$107,000 had been recorded. During the year ended September 30, 2015, the Company recognized partial charge-offs on loans totaling \$117,000. At September 30, 2015, the Company had four outstanding loans with an aggregate recorded investment of \$549,000 on which partial charge-offs totaling \$225,000 had been recorded.

Consumer loans not secured by real estate are typically charged off at 90 days past due, or earlier if deemed uncollectible, unless the loans are in the process of collection. Overdrafts are charged off after 45 days past due. Charge-offs are typically recorded on loans secured by real estate when the property is foreclosed upon when the carrying value of the loan exceeds the property's fair value less the estimated costs to sell.

**FIRST SAVINGS FINANCIAL GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**SEPTEMBER 30, 2016 AND 2015**

(1 - continued)

**Loans and Allowance for Loan Losses - continued**

*Allowance for Loan Losses*

The allowance for loan losses reflects management's judgment of probable loan losses inherent in the loan portfolio at the balance sheet date. Additions to the allowance for loan losses are made by the provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The Company uses a disciplined process and methodology to evaluate the allowance for loan losses on at least a quarterly basis that is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of specific and general components. The specific component relates to loans that are individually evaluated for impairment or loans otherwise classified as doubtful or substandard. For such loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan.

The general component covers non-classified loans and classified loans that are found, upon individual evaluation, to be not impaired. Such loans are pooled by segment and losses are modeled using annualized historical loss experience adjusted for qualitative factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Company over the most recent 36-month period. This actual loss experience is then adjusted for qualitative factors that are reviewed on a quarterly basis based on the risks present for each portfolio

segment. Management considers changes and trends in the following qualitative loss factors: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in the volume and term of new loan originations; national and local economic trends and conditions; changes in lending policies, procedures and practices; changes in the experience and ability of lending management and other staff; changes in the quality and depth of the internal loan review process; trends in collateral valuation in the Company's lending area; and other factors as determined by management. Each qualitative factor is evaluated and a qualitative factor adjustment is applied to the actual historical loss factors in determining the adjusted loss factors used in management's allowance for loan losses adequacy calculation.

Management exercises significant judgment in evaluating the relevant historical loss experience and the qualitative factors. Management also monitors the differences between estimated and actual incurred loan losses for loans considered impaired in order to evaluate the effectiveness of the estimation process and make any changes in the methodology as necessary.

The following portfolio segments are considered in the allowance for loan loss analysis: residential real estate, commercial real estate, multi-family residential real estate, construction, land and land development, commercial business and consumer.

Residential real estate loans primarily consist of loans to individuals for the purchase or refinance of their primary residence, with a small portion of the segment secured by non-owner-occupied residential investment properties. The risks associated with residential real estate loans are closely correlated to the local housing market and general economic conditions, as repayment of the loans is primarily dependent on the borrower's or tenant's personal cash flow and employment status.

**FIRST SAVINGS FINANCIAL GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**SEPTEMBER 30, 2016 AND 2015**

(1 - continued)

**Loans and Allowance for Loan Losses - continued**

Commercial real estate loans are comprised of loans secured by various types of collateral including office buildings, warehouses, retail space and mixed use buildings located in the Company's primary lending area and in other states. Risks related to commercial real estate lending are related to the market value of the property taken as collateral, the underlying cash flows and general economic conditions. Repayment of these loans is generally dependent on the ability of the borrower to attract tenants at lease rates that provide for adequate debt service and can be impacted by general economic conditions, which impact vacancy rates. The Company generally obtains loan guarantees from financially capable parties for commercial real estate loans.

Multi-family residential real estate loans primarily consist of loans secured by apartment buildings and other multi-tenant developments generally located in the Company's primary lending area. Repayment of these loans is primarily dependent on the borrower's ability to attract tenants and collect rents that provide for adequate debt service. The risks associated with these loans are closely correlated to the local housing market and general economic conditions.

The Company's construction loan portfolio consists of single-family residential properties, multi-family properties and commercial projects, and includes both owner-occupied and speculative investment properties. Risks inherent in construction lending are related to the market value of the property held as collateral, the cost and timing of constructing or improving a property, the borrower's ability to use funds generated by a project to service a loan until a project is completed, movements in interest rates and the real estate market during the construction phase, and the ability of the borrower to obtain permanent financing.

Land and land development loans primarily consist of loans secured by farmland and vacant land held for long-term investment or development. The risks associated with land and land development loans are related to the market value of the property taken as collateral and the underlying cash flows for loans secured by farmland, and general economic conditions.

Commercial business loans include lines of credit to businesses, term loans and letters of credit secured by business assets such as equipment, accounts receivable, inventory, or other assets excluding real estate and are generally made to finance capital expenditures or fund operations. Commercial loans contain risks related to the value of the collateral securing the loan and the repayment is primarily dependent upon the financial success and viability of the borrower. As with commercial real estate loans, the Company generally obtains loan guarantees from financially capable parties for commercial business loans.

Consumer loans consist primarily of home equity lines of credit and other loans secured by junior liens on the borrower's personal residence, home improvement loans, automobile and truck loans, boat loans, mobile home loans, loans secured by savings deposits and other personal loans. The risks associated with these loans are related to the local housing market and local economic conditions including the unemployment level.

There were no significant changes to the Company's accounting policies or methodology used to estimate the allowance for loan losses during the years ended September 30, 2016 and 2015.

**FIRST SAVINGS FINANCIAL GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**SEPTEMBER 30, 2016 AND 2015**

(1 - continued)

**Loans and Allowance for Loan Losses – continued**

*Impaired Loans*

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Values for collateral dependent loans are generally based on appraisals obtained from independent licensed real estate appraisers, with adjustments applied for estimated costs to sell the property, costs to complete unfinished or repair damaged property and other known defects. New appraisals are generally obtained for all significant properties when a loan is identified as impaired. Generally, a property is considered significant if the value of the property is estimated to exceed \$250,000. Subsequent appraisals are obtained as needed or if management believes there has been a significant change in the market value of a collateral property securing an impaired loan. In instances where it is not deemed necessary to obtain a new appraisal, management would base its impairment and allowance for loan loss analysis on the original appraisal with adjustments for current conditions based on management's assessment of market factors and management's inspection of the property.

*Troubled Debt Restructurings*



The 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 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.

F-15

**FIRST SAVINGS FINANCIAL GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**SEPTEMBER 30, 2016 AND 2015**

(1 - continued)

**Loans and Allowance for Loan Losses – continued**

A TDR can involve loans remaining on nonaccrual, moving to nonaccrual or continuing on accrual status, depending on the individual facts and circumstances of the borrower. Generally, a nonaccrual loan that is restructured in a TDR remains on nonaccrual status for a period of at least six months following the restructuring in order to ensure that the borrower performs in accordance with the restructured terms, including consistent and timely payments of at least six consecutive months according to the restructured terms.

**Real Estate Development and Construction**

Real estate that is developed and on which buildings are constructed for the purpose of leasing or sale to third parties by the Company is stated at cost, including interest capitalized during the construction period, less accumulated depreciation. The Company uses the straight line method of computing depreciation at rates adequate to amortize the cost of the applicable assets over their estimated useful lives. Maintenance and repairs are expensed as incurred. The cost and related accumulated depreciation of assets sold, or otherwise disposed of, are removed from the related accounts and any gain or loss is included in earnings.

**Premises and Equipment**

Premises and equipment are stated at cost, less accumulated depreciation. The Company uses the straight line method of computing depreciation at rates adequate to amortize the cost of the applicable assets over their estimated useful lives. Maintenance and repairs are expensed as incurred. The cost and related accumulated depreciation of assets sold, or otherwise disposed of, are removed from the related accounts and any gain or loss is included in earnings.

### **Other Real Estate Owned**

Other real estate owned includes formally foreclosed property and former banking facilities held for sale. At the time of foreclosure, foreclosed real estate is recorded at its fair value less estimated costs to sell, which becomes the property's new cost basis. Any write-downs based on the property's fair value at the date of acquisition are charged to the allowance for loan losses. After foreclosure or the decision to classify property as held for sale, valuations are periodically performed by management and property held for sale is carried at the lower of the new cost basis or fair value less cost to sell. Costs incurred in maintaining other real estate owned and subsequent impairment adjustments to the carrying amount of a property, if any, are included in noninterest expense.

### **Cash Surrender Value of Life Insurance**

The Bank has purchased life insurance policies on certain directors, officers and key employees to help offset costs associated with the Bank's compensation and benefit programs. The Bank is the owner and is a joint or sole beneficiary of the policies. Bank-owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement. Income from the increase in cash surrender value of the policies and income from the recognition of death benefits is reported in noninterest income.

**FIRST SAVINGS FINANCIAL GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**SEPTEMBER 30, 2016 AND 2015**

(1 - continued)

**Goodwill and Other Intangibles**

Goodwill recognized in a business combination represents the excess of the cost of the acquired entity over the net of the amounts assigned to assets acquired and liabilities assumed. Goodwill is carried at its implied fair value and is evaluated for possible impairment at least annually or more frequently upon the occurrence of an event or change in circumstances that would more likely than not reduce the fair value of the reporting unit below its carrying amount. Such circumstances could include, but are not limited to: (1) a significant adverse change in legal factors or in business climate, (2) unanticipated competition, or (3) an adverse action or assessment by a regulator. If the carrying amount of the goodwill exceeds its implied fair value, an impairment loss is recognized in earnings equal to that excess amount. The loss recognized cannot exceed the carrying amount of goodwill. After a goodwill impairment loss is recognized, the adjusted carrying amount of goodwill is its new accounting basis.

Other intangible assets consist of acquired core deposit intangibles. Core deposit intangibles are amortized over the estimated economic lives of the acquired core deposits. The carrying amount of core deposit intangibles and the remaining estimated economic life are evaluated annually or whenever events or circumstances indicate the carrying amount may not be recoverable or the remaining period of amortization requires revision. After an impairment loss is recognized, the adjusted carrying amount of the intangible asset is its new accounting basis.

**Securities Lending and Financing Arrangements**

Securities purchased under agreements to resell (reverse repurchase agreements) and securities sold under agreements to repurchase (repurchase agreements) are treated as collateralized lending and borrowing transactions, respectively, and are carried at the amounts at which the securities were initially acquired or sold.

**Benefit Plans**

The Bank provides a contributory defined contribution plan available to all eligible employees. The Company also established a leveraged employee stock ownership plan (“ESOP”) on October 6, 2008 that includes substantially all employees. The Company accounts for the ESOP in accordance with FASB ASC 718-40, *Employee Stock Ownership Plans*. Dividends declared on allocated shares are recorded as a reduction of retained earnings and paid to the participants’ accounts or used for additional debt service on the ESOP loan. Dividends declared on unallocated shares are not considered dividends for financial reporting purposes and are used for additional debt service on the ESOP loan. As shares are committed to be released for allocation to participants’ accounts, compensation expense is recognized based on the average fair value of the shares and the shares become available for earnings per share calculations.

### **Stock Based Compensation**

The Company has adopted the fair value based method of accounting for stock-based compensation prescribed in FASB ASC 718-20, *Compensation – Stock Compensation*, for its stock plan.

**FIRST SAVINGS FINANCIAL GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**SEPTEMBER 30, 2016 AND 2015**

(1 - continued)

**Income Taxes**

When income tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while other positions are subject to some degree of uncertainty regarding the merits of the position taken or the amount of the position that would be sustained. The Company recognizes the benefits of a tax position in the consolidated financial statements of the period during which, based on all available evidence, management believes it is more-likely-than-not (more than 50 percent probable) that the tax position would be sustained upon examination. Income tax positions that meet the more-likely-than-not threshold are measured as the largest amount of income tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with the income tax positions claimed on income tax returns that exceeds the amount measured as described above is reflected as a liability for unrecognized income tax benefits in the consolidated balance sheets, along with any associated interest and penalties that would be payable to the taxing authorities, if there were an examination. Interest and penalties associated with unrecognized income tax benefits are classified as additional income taxes in the consolidated statements of income.

Income taxes are provided for the tax effects of the transactions reported in the financial statements and consist of taxes currently due plus deferred income taxes. Income tax reporting and financial statement reporting rules differ in many respects. As a result, there will often be a difference between the carrying amount of an asset or liability as presented in the accompanying consolidated balance sheets and the amount that would be recognized as the tax basis of the same asset or liability computed based on the effects of tax positions recognized, as described in the preceding paragraph. These differences are referred to as temporary differences because they are expected to reverse in future years. Deferred income tax assets are recognized for temporary differences where their future reversal will result in future tax benefits. Deferred income tax assets are also recognized for the future tax benefits expected to be realized from net operating loss or tax credit carryforwards. Deferred income tax liabilities are recognized for temporary differences where their future reversal will result in the payment of future income taxes. Deferred income tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred income tax assets will not be realized. Deferred tax assets and liabilities are reflected at income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

### **Advertising Costs**

Advertising costs are charged to operations when incurred.

### **Comprehensive Income**

Comprehensive income consists of reported net income and other comprehensive income. Other comprehensive income refers to revenue, expenses, gains and losses that are recorded as an element of equity but are excluded from reported net income. Other comprehensive income includes changes in the unrealized gains and losses on securities available for sale. Amounts reclassified out of unrealized gains or losses on securities available for sale included in accumulated other comprehensive income or loss are included in the net gain on sale of securities line item in the consolidated statements of income, if applicable.

### **Loss Contingencies**

Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated.

F-18

**FIRST SAVINGS FINANCIAL GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**SEPTEMBER 30, 2016 AND 2015**

(1 - continued)

Recent Accounting Pronouncements

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

In May 2014, the FASB issued Accounting Standards Update (“ASU”) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The update provides a five-step revenue recognition model for all revenue arising from contracts with customer and affects all entities that enter into contracts to provide goods or services to their customers (unless the contracts are included in the scope of other standards). The guidance requires an entity to recognize the revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. For public entities, the guidance was originally effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. However, with the issuance of ASU No. 2015-14 in August 2015, the FASB deferred the effective date of ASU No. 2014-09 by one year for all entities, making the amendments effective for public entities for annual reporting periods beginning after December 15, 2017, including interim periods within those reporting periods. Companies have the option to apply ASU No. 2014-09 as of the original effective date. Management is evaluating the new guidance, but does not expect the adoption of this guidance to have a material impact on the Company’s consolidated financial position or results of operations.

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments – Overall (Subtopic 825-10) – Recognition and Measurement of Financial Assets and Financial Liabilities*. The guidance addresses certain aspects of recognition, measurement, presentation and disclosure of financial instruments. In particular, the guidance revises an entity’s accounting related to (1) the classification and measurement of investments in equity securities and (2) the presentation of certain fair value changes for financial liabilities measured at fair value. The guidance also amends certain disclosure requirements associated with fair value of financial instruments. For public business entities, the guidance is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Entities should apply the amendments by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. The adoption of this update is not expected to have a material impact on the Company’s consolidated financial position or results of operations.



In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The guidance supersedes existing guidance on accounting for leases with the main difference being that operating leases are to be recorded in the statement of financial position as right-of-use assets and lease liabilities, initially measured at the present value of the lease payments. For operating leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election not to recognize lease assets and liabilities. For public business entities, the guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application of the guidance is permitted. In transition, entities are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. Management is evaluating the new guidance, but does not expect the adoption of this guidance to have a material impact on the Company's consolidated financial position or results of operations.

F-19

**FIRST SAVINGS FINANCIAL GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**SEPTEMBER 30, 2016 AND 2015**

(1 - continued)

Recent Accounting Pronouncements – continued

In March 2016, the FASB issued ASU No. 2016-09, *Compensation – Stock Compensation (Topic 718) – Improvements to Employee Share-Based Payment Accounting*. The guidance is intended to simplify several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. For public business entities, the guidance is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted. The adoption of this update is not expected to have a material impact on the Company's consolidated financial position or results of operations.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326)*. The update replaces the incurred loss methodology for recognizing credit losses under current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Under the new guidance, an entity will measure all expected credit losses for financial instruments held at the reporting date based on historical experience, current conditions and reasonable and supportable forecasts. The expected loss model will apply to loans and leases, unfunded lending commitments, held-to-maturity debt securities and other debt instruments measured at amortized cost. The impairment model for available-for-sale debt securities will require the recognition of credit losses through a valuation allowance when fair value is less than amortized cost, regardless of whether the impairment is considered to be other-than-temporary. For the Company, the amendments in the update are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted as of fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is currently assessing the impact the guidance will have upon adoption.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230) – Classification of Certain Cash Receipts and Cash Payments*. The update addresses eight specific cash flow issues with the objective of reducing diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The amendments in the update are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted,

including adoption in an interim period. If an entity adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period, and all amendments must be adopted in the same period. The adoption of this update is not expected to have a material impact on the Company's consolidated financial position or results of operations.

**(2) RESTRICTION ON CASH AND DUE FROM BANKS**

The Bank is required to maintain reserve balances on hand and with the Federal Reserve Bank which are unavailable for investment but are interest-bearing. The average amount of those reserve balances was approximately \$10.3 million and \$8.4 million for the years ended September 30, 2016 and 2015, respectively.

F-20

**FIRST SAVINGS FINANCIAL GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED****SEPTEMBER 30, 2016 AND 2015****(3) INVESTMENT SECURITIES**

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. Trading account securities recorded at fair value totaled \$9.3 million and \$9.0 million as of September 30, 2016 and 2015, respectively. During the year ended September 30, 2016, the Company reported net gains on trading account securities of \$748,000, including net realized gains on the sale of securities of \$795,000 partially offset by net unrealized losses on securities still held as of the balance sheet date of \$47,000. During the year ended September 30, 2015, the Company reported net gains on trading account securities of \$440,000, including net realized gains on the sale of securities of \$394,000 and net unrealized gains on securities still held as of the balance sheet date of \$46,000.

*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:

(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2016:				
Securities available for sale:				
Agency bonds and notes	\$ 1,024	\$ 8	\$ -	\$ 1,032
Agency mortgage-backed	46,376	1,029	-	47,405

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

Agency CMO	16,053	108	66	16,095
Privately-issued CMO	2,359	293	-	2,652
Privately-issued ABS	3,675	864	7	4,532
SBA certificates	1,220	7	-	1,227
Municipal bonds	94,567	7,002	19	101,550
Total securities available for sale	\$ 165,274	\$ 9,311	\$ 92	\$ 174,493

Securities held to maturity:

Agency mortgage-backed	\$ 260	\$ 23	\$ -	\$ 283
Municipal bonds	2,906	465	-	3,371
Total securities held to maturity	\$ 3,166	\$ 488	\$ -	\$ 3,654

F-21

**FIRST SAVINGS FINANCIAL GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED****SEPTEMBER 30, 2016 AND 2015**

(3 – continued)

(In thousands)	Amortized Cost	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 available for sale and held to maturity debt securities as of September 30, 2016 by contractual maturity are shown below. Expected maturities of mortgage and other asset-backed securities may differ from contractual maturities because the mortgages and other assets underlying the obligations may be prepaid without penalty.

(In thousands)	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due within one year	\$ 2,229	\$ 2,252	\$ 208	\$ 241
Due after one year through five years	8,427	8,919	962	1,112
Due after five years through ten years	19,365	21,267	1,171	1,367
Due after ten years	65,570	70,144	565	651

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

	95,591	102,582	2,906	3,371
CMO	18,412	18,747	-	-
ABS	3,675	4,532	-	-
SBA certificates	1,220	1,227	-	-
Mortgage-backed securities	46,376	47,405	260	283
	\$165,274	\$174,493	\$3,166	\$3,654

F-22

**FIRST SAVINGS FINANCIAL GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED****SEPTEMBER 30, 2016 AND 2015**

(3 – continued)

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

(Dollars in thousands)	Number of Investment Positions	Fair Value	<b>Gross Unrealized Losses</b>
Securities available for sale:			
Continuous loss position less than twelve months: Agency CMO	3	\$3,946	\$ 12
Privately-issued ABS	2	66	7
Municipal bonds	4	2,147	19
Total less than twelve months	9	6,159	38
Continuous loss position more than twelve months: Agency CMO	2	4,683	54
Total more than twelve months	2	4,683	54
Total securities available for sale	11	\$10,842	\$ 92

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

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



The total available for sale debt securities in loss positions at September 30, 2016, which consisted of U.S. government agency CMOs, privately-issued ABS and municipal bonds, had depreciated approximately 0.78% from the Company's amortized cost basis and are fixed and variable rate securities with a weighted-average yield of 1.87% and a weighted-average coupon rate of 2.96% at September 30, 2016. All of the agency and municipal securities are issued by U.S. government-sponsored enterprises and municipal governments, and are generally secured by first mortgage loans and municipal project revenues.

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 September 30, 2016, the Company held seventeen privately-issued CMO and ABS securities acquired in a 2009 bank acquisition with an aggregate carrying value of \$2.0 million and fair value of \$2.8 million that have been downgraded to a substandard regulatory classification due to a downgrade of the security's credit quality rating by various rating agencies.

F-23

**FIRST SAVINGS FINANCIAL GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**SEPTEMBER 30, 2016 AND 2015**

(3 – continued)

At September 30, 2016, the two privately-issued ABSs in loss positions had depreciated approximately 9.59% from the Company's carrying value and include securities collateralized by residential mortgage loans and residential home equity lines of credit. These two securities had an aggregate fair value of \$66,000 and an aggregate unrealized loss of \$7,000 at September 30, 2016 and were rated below investment grade by a nationally recognized statistical rating organization ("NRSRO"). Based on the independent third party analysis of the expected cash flows, management has determined that the declines in value for these securities are temporary and, as a result, no other-than-temporary impairment has been recognized on the privately-issued CMO and ABS portfolios. While the Company did not recognize a credit-related impairment loss at September 30, 2016, additional deterioration in market and economic conditions may have an adverse impact on the credit quality in the future and therefore, require a credit-related impairment charge.

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

During the years ended September 30, 2016 and 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 during the years ended September 30, 2016 and 2015, and may be pledged to secure federal funds borrowings (see Notes 11, 12 and 13).

**FIRST SAVINGS FINANCIAL GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED****SEPTEMBER 30, 2016 AND 2015****(4) LOANS AND ALLOWANCE FOR LOAN LOSSES**

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

(In thousands)	2016	2015
Real estate mortgage:		
1-4 family residential	\$ 178,364	\$ 181,873
Commercial	217,378	172,995
Multifamily residential	18,431	21,647
Residential construction	24,275	19,723
Commercial construction	33,685	15,548
Land and land development	11,137	11,061
Commercial business	41,967	32,574
Consumer:		
Home equity	21,370	19,423
Auto	4,858	5,452
Other consumer	2,102	2,159
Gross loans	553,567	482,455
Undisbursed portion of construction loans	(27,623 )	(18,599 )
Principal loan balance	525,944	463,856
Deferred loan origination fees and costs, net	(211 )	(120 )
Allowance for loan losses	(7,122 )	(6,624 )
Loans, net	\$518,611	\$457,112

Residential mortgage loans serviced for the benefit of others amounted to \$32,000 and \$74,000 at September 30, 2016 and 2015, respectively.

At September 30, 2016, the recorded investment in residential mortgage loans secured by one-to-four family residential properties with loan-to-value ratios exceeding 90% amounted to \$13.7 million, of which some do not have private mortgage insurance or government guaranty.

The Bank has entered into loan transactions with certain directors, officers and their affiliates (related parties). In the opinion of management, such indebtedness was incurred in the ordinary course of business on substantially the same terms as those prevailing at the time for comparable transactions with other persons and does not involve more than normal risk of collectability or present other unfavorable features.

The following is a summary of activity for related party loans for the years ended September 30, 2016 and 2015:

(In thousands)	2016	2015
Beginning balance	\$ 11,076	\$ 6,306
New loans and advances	1,945	1,950
Repayments	(2,307 )	(2,018 )
Reclassifications due to officer and director changes	(68 )	4,838
Ending balance	\$ 10,646	\$ 11,076

F-25

**FIRST SAVINGS FINANCIAL GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED****SEPTEMBER 30, 2016 AND 2015**

(4 – continued)

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

	<b>Residential Real Estate</b>	<b>Commercial Real Estate</b>	<b>Multifamily</b>	<b>Construction</b>	<b>Land &amp; Land Development</b>	<b>Commercial Business</b>	<b>Consumer</b>	<b>Total</b>
	<i>(In thousands)</i>							
Recorded Investment in Loans:								
Principal loan balance	\$178,364	\$217,378	\$18,431	\$30,337	\$11,137	\$41,967	\$28,330	\$525,944
Accrued interest receivable	505	592	38	95	23	143	55	1,451
Net deferred loan origination fees and costs	158	(254 )	(17 )	(126 )	4	37	(13 )	(211 )
Recorded investment in loans	\$179,027	\$217,716	\$18,452	\$30,306	\$11,164	\$42,147	\$28,372	\$527,184
Recorded Investment in Loans as Evaluated for Impairment:								
Individually evaluated for impairment	\$4,152	\$6,298	\$-	\$-	\$241	\$231	\$249	\$11,171
Collectively evaluated for	174,543	211,418	18,452	30,306	10,923	41,916	28,096	515,654

impairment

Acquired with deteriorated credit quality	332	-	-	-	-	-	27	359
Recorded investment in loans	\$179,027	\$217,716	\$18,452	\$30,306	\$11,164	\$42,147	\$28,372	\$527,184

F-26

**FIRST SAVINGS FINANCIAL GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED****SEPTEMBER 30, 2016 AND 2015**

(4 – continued)

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

	<b>Residential Real Estate</b>	<b>Commercial Real Estate</b>	<b>Multifamily</b>	<b>Construction</b>	<b>Land &amp; Land Development</b>	<b>Commercial Business</b>	<b>Consumer</b>	<b>Total</b>
	<i>(In thousands)</i>							
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	177,873	166,114	21,673	16,632	11,099	32,419	26,767	452,577

impairment

Acquired with deteriorated credit quality	444	-	-	-	-	-	30	474
Recorded investment in loans	\$182,708	\$173,155	\$21,673	\$16,632	\$11,099	\$32,641	\$27,087	\$464,995

F-27



**FIRST SAVINGS FINANCIAL GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED****SEPTEMBER 30, 2016 AND 2015**

(4 – continued)

An analysis of the allowance for loan losses as of and for the year ended September 30, 2016 is as follows:

	<b>Residential Real Estate</b>	<b>Commercial Real Estate</b>	<b>Multifamily</b>	<b>Construction</b>	<b>Land &amp; Development</b>	<b>Commercial Business</b>	<b>Consumer</b>	<b>Total</b>
	<i>(In thousands)</i>							
Changes in Allowance for Loan Losses:								
Beginning balance	\$444	\$ 4,327	\$ 156	\$ 551	\$ 369	\$ 678	\$ 99	\$6,624
Provisions	(17 )	833	(47 )	294	(74 )	(385 )	33	637
Charge-offs	(207)	-	-	-	-	(10 )	(108 )	(325 )
Recoveries	115	-	-	-	-	1	70	186
Ending balance	\$335	\$ 5,160	\$ 109	\$ 845	\$ 295	\$ 284	\$ 94	\$7,122
Ending Allowance Balance Attributable to Loans:								
Individually evaluated for impairment	\$43	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5	\$48
Collectively evaluated for impairment	292	5,160	109	845	295	284	89	7,074
Acquired with deteriorated credit quality	-	-	-	-	-	-	-	-
Ending balance	\$335	\$ 5,160	\$ 109	\$ 845	\$ 295	\$ 284	\$ 94	\$7,122

**FIRST SAVINGS FINANCIAL GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED****SEPTEMBER 30, 2016 AND 2015**

(4 – continued)

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

	Residential Real Estate (In thousands)	Commercial Real Estate	Multifamily	Construction	Land & Development	Commercial Business	Consumer	Total
<b>Changes in Allowance for Loan Losses:</b>								
Beginning balance	\$577	\$ 3,808	\$ 146	\$ 443	\$ 302	\$ 795	\$ 179	\$6,250
Provisions	109	559	10	108	67	8	(2 )	859
Charge-offs	(283)	(40 )	-	-	-	(126 )	(144 )	(593 )
Recoveries	41	-	-	-	-	1	66	108
Ending balance	\$444	\$ 4,327	\$ 156	\$ 551	\$ 369	\$ 678	\$ 99	\$6,624
<b>Ending Allowance Balance</b>								
<b>Attributable to Loans:</b>								
Individually evaluated for impairment	\$9	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5	\$14
Collectively evaluated for impairment	435	4,327	156	551	369	678	94	6,610
Acquired with deteriorated credit quality	-	-	-	-	-	-	-	-
Ending balance	\$444	\$ 4,327	\$ 156	\$ 551	\$ 369	\$ 678	\$ 99	\$6,624

**FIRST SAVINGS FINANCIAL GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED****SEPTEMBER 30, 2016 AND 2015**

(4 – continued)

The following table presents impaired loans individually evaluated for impairment as of and for the year ended September 30, 2016. The Company did not recognize any interest income on impaired loans using the cash receipts method of accounting for the year ended September 30, 2016.

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
	(In thousands)				
Loans with no related allowance recorded:					
Residential real estate	\$3,891	\$4,171	\$ -	\$ 5,044	\$ 144
Commercial real estate	6,298	6,394	-	6,595	197
Multifamily	-	-	-	-	-
Construction	-	-	-	-	-
Land and land development	241	238	-	18	-
Commercial business	231	224	-	281	5
Consumer	175	175	-	198	5
	\$10,836	\$11,202	\$ -	\$ 12,136	\$ 351
Loans with an allowance recorded:					
Residential real estate	\$451	\$450	\$ 43	\$ 86	\$ -
Commercial real estate	-	-	-	-	-
Multifamily	-	-	-	-	-
Construction	-	-	-	-	-
Land and land development	-	-	-	-	-
Commercial business	-	-	-	-	-
Consumer	74	74	5	79	-
	\$525	\$524	\$ 48	\$ 165	\$ -
Total:					
Residential real estate	\$4,342	\$4,621	\$ 43	\$ 5,130	\$ 144

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

Commercial real estate	6,298	6,394	-	6,595	197
Multifamily	-	-	-	-	-
Construction	-	-	-	-	-
Land and land development	241	238	-	18	-
Commercial business	231	224	-	281	5
Consumer	249	249	5	277	5
	\$11,361	\$ 11,726	\$ 48	\$ 12,301	\$ 351

F-30

**FIRST SAVINGS FINANCIAL GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED****SEPTEMBER 30, 2016 AND 2015**

(4 – continued)

The following table presents impaired loans individually evaluated for impairment as of and for the year ended September 30, 2015. The Company recognized \$5,000 of interest income on impaired commercial real estate loans using the cash receipts method of accounting for the year ended September 30, 2015.

	<b>Recorded Investment</b>	<b>Unpaid Principal Balance</b>	<b>Related Allowance</b>	<b>Average Recorded Investment</b>	<b>Interest Income Recognized</b>
	<i>(In thousands)</i>				
Loans with no related allowance recorded:					
Residential real estate	\$4,681	\$ 5,245	\$ -	\$ 5,590	\$ 143
Commercial real estate	7,041	7,079	-	6,136	223
Multifamily	-	-	-	-	-
Construction	-	-	-	-	-
Land and land development	-	-	-	-	-
Commercial business	222	282	-	255	1
Consumer	210	214	-	238	6
	\$12,154	\$ 12,820	\$ -	\$ 12,219	\$ 373
Loans with an allowance recorded:					
Residential real estate	\$9	\$ 9	\$ 9	\$ 115	\$ -
Commercial real estate	-	-	-	9	-
Multifamily	-	-	-	-	-
Construction	-	-	-	-	-
Land and land development	-	-	-	-	-
Commercial business	-	-	-	4	-
Consumer	80	80	5	90	-
	\$89	\$ 89	\$ 14	\$ 218	\$ -
Total:					
Residential real estate	\$4,690	\$ 5,254	\$ 9	\$ 5,705	\$ 143

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

Commercial real estate	7,041	7,079	-	6,145	223
Multifamily	-	-	-	-	-
Construction	-	-	-	-	-
Land and land development	-	-	-	-	-
Commercial business	222	282	-	259	1
Consumer	290	294	5	328	6
	\$12,243	\$ 12,909	\$ 14	\$ 12,437	\$ 373

F-31

**FIRST SAVINGS FINANCIAL GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED****SEPTEMBER 30, 2016 AND 2015**

(4 – continued)

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 September 30, 2016 and 2015:

	At September 30, 2016			At September 30, 2015		
	Nonaccrual Loans	Loans 90+ Days Past Due Still Accruing	Total Nonperforming Loans	Nonaccrual Loans	Loans 90+ Days Past Due Still Accruing	Total Nonperforming Loans
	(In thousands)					
Residential real estate	\$1,752	\$ 22	\$ 1,774	\$1,923	\$ 155	\$ 2,078
Commercial real estate	1,606	-	1,606	1,855	-	1,855
Multifamily	-	-	-	-	-	-
Construction	-	-	-	-	-	-
Land and land development	241	-	241	-	-	-
Commercial business	136	-	136	210	94	304
Consumer	140	-	140	165	3	168
<b>Total</b>	<b>\$3,875</b>	<b>\$ 22</b>	<b>\$ 3,897</b>	<b>\$4,153</b>	<b>\$ 252</b>	<b>\$ 4,405</b>

F-32

**FIRST SAVINGS FINANCIAL GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED****SEPTEMBER 30, 2016 AND 2015**

(4 – continued)

The following table presents the aging of the recorded investment in past due loans at September 30, 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	\$2,019	\$ 860	\$ 1,070	\$ 3,949	\$175,078	\$179,027
Commercial real estate	367	-	94	461	217,255	217,716
Multifamily	-	-	-	-	18,452	18,452
Construction	-	-	-	-	30,306	30,306
Land and land development	-	-	241	241	10,923	11,164
Commercial business	40	-	42	82	42,065	42,147
Consumer	76	1	40	117	28,255	28,372
Total	\$2,502	\$ 861	\$ 1,487	\$ 4,850	\$522,334	\$527,184

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



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

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

F-33

**FIRST SAVINGS FINANCIAL GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**SEPTEMBER 30, 2016 AND 2015**

(4 – continued)

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

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

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

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

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

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans. The following table presents the recorded investment in loans by risk category as of the date indicated:

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

	Residential Real Estate	Commercial Real Estate	Multifamily	Construction	Land and Land Development	Commercial Business	Consumer	Total
	(In thousands)							
September 30, 2016:								
Pass	\$ 173,477	\$ 211,247	\$ 18,452	\$ 30,206	\$ 10,924	\$ 41,986	\$ 28,197	\$ 514,489
Special Mention	459	-	-	100	-	25	-	584
Substandard	5,002	6,469	-	-	240	136	160	12,007
Doubtful	89	-	-	-	-	-	15	104
Loss	-	-	-	-	-	-	-	-
Total	\$ 179,027	\$ 217,716	\$ 18,452	\$ 30,306	\$ 11,164	\$ 42,147	\$ 28,372	\$ 527,184
September 30, 2015:								
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	-	-	-	-	-	-	-	-
Total	\$ 182,708	\$ 173,155	\$ 21,673	\$ 16,632	\$ 11,099	\$ 32,641	\$ 27,087	\$ 464,995

F-34

**FIRST SAVINGS FINANCIAL GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED****SEPTEMBER 30, 2016 AND 2015**

(4 – continued)

*Troubled Debt Restructurings*

The following table summarizes the Company's TDRs by accrual status at September 30, 2016 and 2015. There was no specific reserve included in the allowance for loan losses related to TDRs at September 30, 2016 and 2015.

	Accruing	Nonaccrual	Total
	(In thousands)		
September 30, 2016:			
Residential real estate	\$2,590	\$ -	\$2,590
Commercial real estate	4,692	1,512	6,204
Commercial business	95	120	215
Consumer	109	-	109
Total	\$7,486	\$ 1,632	\$9,118
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

The following table summarizes information in regard to TDRs that were restructured during the years ended September 30, 2016 and 2015.

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

	Pre- Modification Principal Balance	Post- Modification Principal Balance
--	--	---

(Dollars in thousands)

September 30, 2016:

Residential real estate	5 \$ 181	\$ 247
Commercial real estate	1 94	131
Commercial business	3 186	216
Total	9 \$ 461	\$ 594

September 30, 2015:

Residential real estate	2 \$ 165	\$ 172
Commercial real estate	1 1,523	1,523
Consumer	1 3	3
Total	4 \$ 1,691	\$ 1,698

F-35

**FIRST SAVINGS FINANCIAL GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**SEPTEMBER 30, 2016 AND 2015**

(4 – continued)

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

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

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

During the years ended September 30, 2016 and 2015, the Company did not have any TDRs that were modified within the previous twelve months for which there was a payment default (defined as more than 90 days past due or in the process of foreclosure).

*Loan Servicing Rights*

The Company originates loans to commercial customers under the SBA 7(a) and other programs. During the year ended September 30, 2016, the Company began selling the guaranteed portion of the SBA loans with servicing retained. Loan servicing rights on originated SBA 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 September 30, 2016 approximated its carrying value. A valuation model employed by an independent third party calculates the present value of future cash flows and is used to estimate fair value at the date of sale and on a quarterly basis for impairment analysis purposes. Management periodically compares the valuation model inputs and results to published industry data in order to validate the model results and assumptions. Key assumptions used to estimate the fair value of the loan servicing rights include the discount rate, ranging from 8.54% to 14.46% with a weighted average rate of 12.27%, and prepayment speed assumptions, ranging from 4.25% to 8.71% with a weighted average rate of 6.75%. 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 SBA loans serviced for others was \$13.6 million at September 30, 2016. Contractually specified late fees and ancillary fees earned on SBA loans of \$37,000 for the year ended September 30, 2016, are included in interest income on loans in the consolidated statement of income. Net servicing costs (contractually specified servicing fees offset by direct servicing expenses) related to SBA loans of \$59,000 are included in other noninterest income in the consolidated statement of income for the year ended September 30, 2016.

**FIRST SAVINGS FINANCIAL GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**SEPTEMBER 30, 2016 AND 2015**

(4 – continued)

An analysis of loan servicing rights for the year ended September 30, 2016 is as follows:

*(In thousands)*

Balance, beginning of period	\$-
Servicing rights capitalized	345
Amortization	(35 )
Change in valuation allowance	-
Balance, end of period	\$310

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

**(5) REAL ESTATE DEVELOPMENT AND CONSTRUCTION**

The Company developed a parcel of land in New Albany, Indiana for retail purposes through the Bank's subsidiary, FFCC. The total cost of the development was \$7.6 million, and the development costs were partially funded by a loan from another financial institution (see Note 14). On August 12, 2016, the Bank and FFCC executed a purchase and sale agreement for the sale of the development and property owned by the Bank to an unaffiliated third party. The sale closed on September 29, 2016. The net sales proceeds were \$10.8 million, \$8.8 million of which was allocated to the development owned by FFCC and \$2.0 million of which was allocated to property owned by the Bank. The sale of the development resulted in a gain of \$1.9 million recognized in noninterest income in the accompanying consolidated statements of income.

Real estate development and construction consisted of the following at September 30, 2015:



(In thousands)

Land and land improvements	\$4,159
Office buildings	3,321
Furniture, fixtures and equipment	74
	7,554
Less accumulated depreciation	475
Total	\$7,079

Depreciation expense of \$198,000 and \$196,000 was recognized for real estate development and construction for the years ended September 30, 2016 and 2015, respectively.

F-37

**FIRST SAVINGS FINANCIAL GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**SEPTEMBER 30, 2016 AND 2015**

**(6) INVESTMENT IN HISTORIC TAX CREDIT ENTITY**

On October 15, 2014, the Bank entered into an agreement to participate in the rehabilitation of a certified historic structure located in Louisville, Kentucky with a regional commercial developer. As part of the agreement, the Bank committed to invest \$4.2 million into a limited liability company organized in the state of Kentucky by the commercial developer, for which it received a 99% equity interest in the entity and will receive an allocation of 99% of the operating profit and losses and any historic tax credits generated by the entity. The tax credits expected to be allocated to the Bank include federal rehabilitation investment credits totaling \$4.7 million available under Internal Revenue Code Section 47. The Bank's total investment in the entity will be \$4.2 million, or 90% of the anticipated credits to be received by the entity. At September 30, 2016, the Bank had made all of its required investments to the entity except for \$118,000, which is due when the project is fully completed and the final certificate of occupancy is received.

The Bank's investment in the historic tax credit entity is accounted for using the equity method of accounting. Certificates of occupancy for substantially all of the project were received in 2016, which resulted in the recognition of \$4.7 million in historic tax credits. As a result of the recognition of the historic tax credits, the Company also recognized a \$4.2 million loss on its investment in the historic tax credit entity in order to reduce the amount of the investment to its estimated current fair value as of September 30, 2016. The net impact of the recognition of the historic tax credits and the impairment loss, including the tax impact and other accrual adjustments, was a \$332,000 increase in net income for the year ended September 30, 2016.

At September 30, 2016, the Bank's remaining unfunded capital contribution commitment of \$118,000 is included in other liabilities in the accompanying consolidated balance sheet. At September 30, 2015, the Bank's investment of \$4.2 million was included in other assets and its unfunded capital contribution commitment of \$3.3 million was included in other liabilities in the accompanying consolidated balance sheet.

The historic tax credit entity's assets, liabilities and members' equity totaled \$4.5 million, \$112,000 and \$4.4 million, respectively, at September 30, 2016. The entity reported revenues of \$1.1 million and net income of \$244,000 for the year ended September 30, 2016. The historic tax credit entity's assets, liabilities and members' equity totaled \$953,000, \$119,000 and \$834,000, respectively, at September 30, 2015. The entity did not report any revenues or net income for the year ended September 30, 2015 as operations had not yet commenced.

**(7) PREMISES AND EQUIPMENT**

Premises and equipment consisted of the following:

(In thousands)	2016	2015
Land and land improvements	\$4,411	\$5,218
Office buildings	9,316	10,431
Leasehold improvements	61	-
Furniture, fixtures and equipment	4,681	4,293
	18,469	19,942
Less accumulated depreciation	6,795	6,104
Totals	\$11,674	\$13,838

Depreciation expense of \$919,000 and \$912,000 was recognized for premises and equipment for the years ended September 30, 2016 and 2015, respectively.

F-38

**FIRST SAVINGS FINANCIAL GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED****SEPTEMBER 30, 2016 AND 2015**

(7 – continued)

As discussed further in Note 5, the Bank sold property in conjunction with the sale of a real estate development owned by FFCC in September 2016. The Bank's property sold in the transaction consisted of a retail branch operated by the Bank and other retail space leased to a third-party tenant. In accordance with the purchase and sale agreement, the Bank executed a lease agreement with the buyer to lease back the portion of the property consisting of the retail branch. The lease has an initial term of 10 years and may be extended for up to six consecutive five-year periods. The Bank is accounting for the leaseback as an operating lease. The total gain realized on the sale of the property was \$471,000, with \$307,000 attributable to the retail branch property operated by the Bank and \$164,000 attributable to the other retail space. The gain on the other retail space has been recognized in noninterest income in the accompanying consolidated statements of income. The gain attributable to the retail branch property has been deferred and will be recognized in income in proportion to the rent charged over the term of the lease. At September 30, 2016, the remaining deferred gain of \$307,000 is included in other liabilities in the accompanying consolidated balance sheets. See Note 20 for additional information regarding the Company's operating leases.

**(8) OTHER REAL ESTATE OWNED**

At September 30, 2016 and 2015, the Bank had other real estate owned held for sale of \$519,000 and \$618,000, respectively, including \$86,000 and \$100,000 in former banking facilities held for sale, respectively. During the years ended September 30, 2016 and 2015, foreclosure losses in the amount of \$172,000 and \$262,000, respectively, were charged-off to the allowance for loan losses. The losses on subsequent write downs of other real estate owned amounted to \$100,000 and \$73,000 for the years ended September 30, 2016 and 2015, respectively, and were aggregated with realized gains and losses from the sale of other real estate owned, and real estate taxes and other expenses of holding other real estate owned. Net realized gains from the sale of other real estate owned amounted to \$150,000 and \$123,000 for the years ended September 30, 2016 and 2015, respectively. Real estate taxes, other expenses of holding other real estate owned and net of income received from the operation of other real estate owned held for sale amounted to \$78,000 and \$50,000 for the years ended September 30, 2016 and 2015, respectively. The net gain or loss is reported in noninterest expense. Realized gains from the sale of other real estate owned totaling \$16,000 for the year ended September 30, 2016, were deferred because the sales were financed by the Bank and did not qualify for recognition under generally accepted accounting principles. There were no realized gains from the sale of other real estate owned deferred during the year ended September 30, 2015. At September 30, 2016 and 2015, aggregate deferred gains on the sale of other real estate owned financed by the Bank amounted to \$187,000 and \$188,000, respectively. The recorded investment in consumer mortgage loans collateralized by residential real estate property in the process of foreclosure at September 30, 2016 and 2015 was \$837,000 and \$806,000, respectively.

F-39

**FIRST SAVINGS FINANCIAL GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED****SEPTEMBER 30, 2016 AND 2015****(9) GOODWILL AND OTHER INTANGIBLES**

Goodwill and the core deposit intangibles acquired in the acquisitions of Community First Bank (“Community First”) on September 30, 2009 and the First Federal Savings Bank of Elizabethtown, Inc. (“First Federal”) branches on July 6, 2012 are evaluated for impairment at least annually or more frequently upon the occurrence of an event or when circumstances indicate that the carrying amount is greater than its fair value. No impairment of goodwill or the core deposit intangibles was recognized during 2016 or 2015.

The changes in the carrying amount of goodwill for the years ended September 30, 2016 and 2015 are summarized as follows:

(In thousands)	2016	2015
Beginning balance	\$7,936	\$7,936
Changes in goodwill	-	-
Ending balance	\$7,936	\$7,936

The following is a summary of other intangible assets subject to amortization:

(In thousands)	2016	2015
Core deposit intangible acquired in Community First acquisition	\$2,741	\$2,741
Core deposit intangible acquired in First Federal branch acquisition	566	566
Less accumulated amortization	(2,270)	(1,926)
Ending balance	\$1,037	\$1,381

Amortization expense of intangibles amounted to \$344,000 for each of the years ended September 30, 2016 and 2015. Estimated amortization expense for the core deposit intangibles for each of the ensuing five years and in the aggregate

is as follows:

Years ending September 30: (In thousands)

2017	\$ 344
2018	344
2019	148
2020	50
2021	50
2022 and thereafter	101
Total	\$ 1,037

**(10)DEPOSITS**

The aggregate amount of time deposit accounts with balances that met or exceeded the Federal Deposit Insurance Corporation (“FDIC”) insurance limit of \$250,000 was \$13.8 million and \$11.3 million at September 30, 2016 and 2015, respectively.

At September 30, 2016, scheduled maturities of time deposits were as follows:

Years ending September 30: (In thousands)

2017	\$ 115,265
2018	18,836
2019	36,508
2020	20,034
2021 and thereafter	18,536
Total	\$ 209,179

The Bank held deposits for related parties of \$5.7 million and \$5.4 million at September 30, 2016 and 2015, respectively.

**FIRST SAVINGS FINANCIAL GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED****SEPTEMBER 30, 2016 AND 2015****(11) FEDERAL FUNDS PURCHASED**

The Bank has entered into a federal funds purchased line of credit facility with another financial institution that established a line of credit not to exceed the lesser of \$10 million or 25% of the Bank's equity capital, excluding reserves. Availability under the line of credit is subject to continued borrower eligibility and expires on June 30, 2017 unless it is extended. The line of credit is intended to support short-term liquidity needs, and the agreement states that the Bank may borrow under the facility for up to seven consecutive days without pledging collateral to secure the borrowing. At September 30, 2016 and 2015, the Bank had no outstanding federal funds purchased under the facility.

The Bank has also entered into a separate federal funds purchased line of credit facility with another financial institution that established a discretionary line of credit not to exceed \$15 million. The line of credit is intended to support short-term liquidity needs. At September 30, 2016 and 2015, the Bank had no outstanding federal funds purchased under the facility.

**(12) REPURCHASE AGREEMENTS**

Repurchase agreements include retail repurchase agreements representing overnight borrowings from deposit customers.

Repurchase agreements at September 30, 2016 and 2015 are summarized as follows:

(Dollars in thousands)	2016		2015	
	Weighted Average Rate	Amount	Weighted Average Rate	Amount
Retail repurchase agreements	0.25%	\$ 1,345	0.25%	\$ 1,342



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

The debt securities underlying the retail repurchase agreements were under the control of the Bank at September 30, 2016 and 2015.

Information concerning borrowings under retail repurchase agreements as of and for the years ended September 30, 2016 and 2015 is summarized as follows:

(Dollars in thousands)	2016	2015
Weighted average interest rate during the year	0.25 %	0.25 %
Average balance during the year	\$1,343	\$1,340
Maximum month-end balance during the year	1,345	1,342

Available for sale debt securities underlying the agreements at September 30:

Amortized cost	\$1,354	\$1,502
Fair value	1,382	1,535

F-41

**FIRST SAVINGS FINANCIAL GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED****SEPTEMBER 30, 2016 AND 2015****(13) BORROWINGS FROM FEDERAL HOME LOAN BANK**

At September 30, 2016 and 2015 borrowings from the FHLB were as follows:

(Dollars in thousands)	<b>2016</b>		<b>2015</b>	
	<b>Weighted Average Rate</b>	<b>Amount</b>	<b>Weighted Average Rate</b>	<b>Amount</b>
Advances maturing in:				
2016	- %	\$-	0.59%	\$ 10,000
2017	1.10	15,000	1.10	15,000
2018	1.04	10,000	1.04	10,000
2020	1.86	25,000	1.86	25,000
2021	1.87	10,000	1.80	30,000
2022 and beyond	1.45	40,000	-	-
Total advances		100,000		90,000
Line of credit balance	0.67	21,633	0.49	14,867
Total borrowings from FHLB		\$ 121,633		\$ 104,867

The Bank entered into an Advances, Pledge and Security Agreement with the FHLB, allowing the Bank to initiate advances from the FHLB. The advances are secured under a blanket collateral agreement. At September 30, 2016, the eligible blanket collateral included residential mortgage loans with a carrying value of \$166.8 million and investment securities with a fair value of \$14.9 million.

On August 12, 2016, the Bank entered into an Overdraft Line of Credit Agreement with the FHLB which established a line of credit not to exceed \$25.0 million secured under the blanket collateral agreement. This agreement expires on August 12, 2018. At September 30, 2016, \$21.6 million was outstanding under this agreement.

On June 19, 2014, the Bank entered into a Letter of Credit Agreement with the FHLB which established a letter of credit not to exceed \$3.3 million secured under the blanket collateral agreement. This agreement was extended in June 2016, lowering the amount to \$2.9 million, and now expires on July 1, 2017. At September 30, 2016, there was no outstanding balance under this agreement.

**(14) OTHER LONG-TERM DEBT**

On July 27, 2012, FFCC entered into a loan agreement with another financial institution to finance the retail development and construction project discussed in Note 5. The loan had a maximum commitment of \$5.0 million and was for a ten-year term with a fixed interest rate of 4.0% for the first six years of the loan term, then adjusting annually thereafter to the one-year LIBOR rate plus 250 basis points. The loan provided for 12 interest only monthly payments through July 27, 2013, followed by 107 monthly payments sufficient to fully amortize the loan over a 20 year period and a balloon payment of all outstanding principal and interest at maturity on July 27, 2022. The loan was secured by a mortgage and assignment of leases and rents on the retail development property. The real estate development was sold on September 29, 2016, at which time the loan was repaid in full. The outstanding principal balance of the loan was \$4.6 million at September 30, 2015.

Interest expense of \$161,000 and \$176,000 was recognized on other long-term debt for the years ended September 30, 2016 and 2015, respectively.

**FIRST SAVINGS FINANCIAL GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**SEPTEMBER 30, 2016 AND 2015**

**(15) DEFERRED COMPENSATION PLANS**

The Bank has deferred compensation agreements with former officers who are receiving benefits under these agreements. The agreements provide for the payment of specific benefits following retirement. The balance of the accrued benefit for this plan was \$3,000 and \$39,000 at September 30, 2016 and 2015, respectively. Deferred compensation expense was \$2,000 and \$5,000 for the years ended September 30, 2016 and 2015, respectively.

The Company has a directors' deferred compensation plan whereby a director, at his or her election on an annual basis, may defer all or a portion of the director fees into an account with the Company. The Company accrues interest on the deferred obligation at an annual rate equal to the prime rate for the immediately preceding calendar quarter plus 2%, but in no event at a rate in excess of 8%. The deferral period extends until separation from service by the director. The benefits under the plan are payable in a lump sum or in monthly installments over a period of up to ten years following the separation from service; however, the agreements provide for payment of benefits in the event of disability, early retirement, termination of service or death. The balance of the accrued benefit for the director plan was \$1.2 million and \$1.0 million at September 30, 2016 and 2015, respectively. Deferred compensation expense for this plan was \$195,000 and \$164,000 for the years ended September 30, 2016 and 2015, respectively.

**(16) BENEFIT PLANS**

**Defined Contribution Plan:**

The Bank has a qualified contributory defined contribution plan available to all eligible employees. The plan allows participating employees to make tax-deferred contributions under Internal Revenue Code Section 401(k). Company contributions to the plan amounted to \$387,000 and \$378,000 for the years ended September 30, 2016 and 2015, respectively.

**Employee Stock Ownership Plan:**

On October 6, 2008, the Company established a leveraged ESOP covering substantially all employees. The ESOP trust acquired 203,363 shares of Company common stock at a cost of \$10.00 per share financed by a term loan with the Company. The employer loan and the related interest income are not recognized in the consolidated financial statements as the debt is serviced from Company contributions. Dividends payable on allocated shares are charged to retained earnings and are satisfied by the allocation of cash dividends to participant accounts or by utilizing the dividends as additional debt service on the ESOP loan. Dividends payable on unallocated shares are not considered dividends for financial reporting purposes. Shares held by the ESOP trust are allocated to participant accounts based on the ratio of the current year principal and interest payments to the total of the current year and future years' principal and interest to be paid on the employer loan. Compensation expense is recognized based on the average fair value of shares released for allocation to participant accounts during the year with a corresponding credit to stockholders' equity. Compensation expense recognized for the years ended September 30, 2016 and 2015 amounted to \$628,000 and \$851,000, respectively. The employer loan was fully repaid in December 2015 and all shares of Company stock have been allocated to participant accounts as of September 30, 2016.

**FIRST SAVINGS FINANCIAL GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED****SEPTEMBER 30, 2016 AND 2015**

(16 – continued)

Company common stock held by the ESOP trust at September 30, 2016 and 2015 was as follows:

	2016	2015
Allocated shares	172,870	164,409
Unearned shares	-	19,691
Total ESOP shares	172,870	184,100
Fair value of unearned shares	\$-	\$669,000

**(17) STOCK BASED COMPENSATION PLANS***2010 Equity Incentive Plan*

In December 2009, the Company adopted the 2010 Equity Incentive Plan (“2010 Plan”), which the Company’s shareholders approved in February 2010. The 2010 Plan provided for the award of stock options, restricted shares and performance shares. The aggregate number of shares of the Company’s common stock available for issuance under the 2010 Plan could not exceed 355,885 shares. The Company could grant both non-statutory and statutory (i.e., incentive) stock options with terms not exceeding ten years. An award of a performance share is a grant of a right to receive shares of the Company’s common stock contingent upon the achievement of specific performance criteria or other objectives set at the grant date. Awards granted under the 2010 Plan could be granted either alone, in addition to, or in tandem with any other award granted under the 2010 Plan. The terms of the 2010 Plan included a provision whereby all unearned options and shares became immediately exercisable and fully vested upon a change in control.

In April 2010, the Company funded a trust, administered by an independent trustee, which acquired 101,681 common shares in the open market at a price per share of \$13.60 for a total cost of \$1.4 million. These acquired common shares were granted to directors, officers and key employees in the form of restricted stock in May 2010 at a price per share

of \$13.25 for a total of \$1.3 million. The difference between the purchase price and grant price of the common shares issued as restricted stock, totaling \$41,000, was recognized by the Company as a reduction of additional paid in capital. The vesting period of the restricted stock was five years beginning one year after the date of grant of the awards. Compensation expense is measured based on the fair market value of the restricted stock at the grant date and is recognized ratably over the period during which the shares are earned (the vesting period). Compensation expense related to restricted stock recognized for the year ended September 30, 2015 amounted to \$162,000. The restricted stock fully vested in May 2015. Therefore, no compensation expense related to restricted stock was recognized for the year ended September 30, 2016.

There were no restricted shares granted during the years ended September 30, 2016 and 2015. The total fair value of restricted shares that vested during the year ended September 30, 2015 was \$575,000. At September 30, 2016, there was no unrecognized compensation expense related to nonvested restricted shares.

In May 2010, the Company granted 177,549 incentive and 76,655 non-statutory stock options to directors, officers and key employees. The options granted vested ratably over five years and are exercisable in whole or in part for a period up to ten years from the date of the grant. Compensation expense was measured based on the fair market value of the options at the grant date and was recognized ratably over the period during which the shares were earned (the vesting period). The fair market value of stock options granted was estimated at the date of grant using a binomial option pricing model. Expected volatilities were based on historical volatility of the Company's stock and that of peer institutions located in its geographic market area. The expected term of options granted represents the period of time that options are expected to be outstanding. The risk free rate for the expected life of the options was based on the U.S. Treasury yield curve in effect at the grant date.

**FIRST SAVINGS FINANCIAL GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED****SEPTEMBER 30, 2016 AND 2015**

(17 - continued)

The fair value of options granted under the 2010 Plan was determined using the following assumptions:

Expected dividend yield	4.53	%
Risk-free interest rate	2.82	%
Expected volatility	30.00	%
Expected life of options	7.0	years
Weighted average fair value at grant date	\$3.09	

A summary of stock option activity under the 2010 Plan as of September 30, 2016, and changes during the year then ended, is presented below.

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at beginning of year	213,260	\$ 13.25	4.6	\$4,425,000
Granted	--			
Exercised	(26,210 )	\$ 13.25		\$580,000
Forfeited or expired	-	-		
Outstanding at end of year	187,050	\$ 13.25	3.6	\$4,285,000
Exercisable at end of year	187,050	\$ 13.25	3.6	\$4,285,000

There were no stock options granted during the years ended September 30, 2016 and 2015. The Company did not recognize any compensation expense related to stock options for the year ended September 30, 2016. The Company recognized compensation expense related to stock options for the year ended September 30, 2015 of \$95,000. At



September 30, 2016, there was no unrecognized compensation expense related to nonvested stock options.

*2016 Equity Incentive Plan*

In December 2015 the Company adopted the 2016 Equity Incentive Plan (“2016 Plan”), which the Company’s shareholders approved in February 2016. The 2016 Plan provides for the award of stock options and restricted stock. The aggregate number of shares of the Company’s common stock available for issuance under the Plan may not exceed 88,000 shares, consisting of 66,000 stock options and 22,000 shares of restricted stock. In addition, the maximum number of shares of stock, in the aggregate, that may be subject to stock options granted to any one employee under the 2016 Plan is 16,500. The Company may grant both non-statutory and incentive stock options which may not have a term exceeding ten years. In the case of incentive stock options, the aggregate fair value of the stock (determined at the time the incentive stock option is granted) for which any optionee may be granted incentive options which are first exercisable during any calendar year shall not exceed \$100,000. Option prices generally may not be less than the fair market value of the underlying stock at the date of the grant. The terms of the 2016 Plan also include a provision whereby all unearned options and shares became immediately exercisable and fully vested upon a change in control.

As of September 30, 2016, no restricted shares and no stock options had been granted under the 2016 Plan. In November 2016, the Company granted 17,265 restricted shares, 42,895 incentive stock options and 8,400 non-statutory stock options to directors, officers and key employees. The restricted shares and stock options granted will vest ratably over five years and, once vested, the stock options are exercisable in whole or in part for a period up to ten years from the date of the award.

**FIRST SAVINGS FINANCIAL GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED****SEPTEMBER 30, 2016 AND 2015****(18) INCOME TAXES**

The Company and its subsidiaries file consolidated income tax returns. The components of consolidated income tax expense (benefit) were as follows for the years ended September 30, 2016 and 2015:

(In thousands)	2016	2015
Current	\$ 109	\$ 1,463
Tax benefit allocated to additional paid-in capital related to equity incentive plan	-	149
Deferred	(2,431)	(36 )
Income tax expense (benefit)	\$(2,322)	\$ 1,576

The reconciliation of income tax expense (benefit) with the amount which would have been provided at the federal statutory rate of 34 percent follows for the years ended September 30, 2016 and 2015:

(In thousands)	2016	2015
Provision at federal statutory rate	\$ 1,900	\$ 2,831
State income tax-net of federal tax benefit	27	93
Tax-exempt interest income	(877 )	(772 )
Bank owned life insurance	(151 )	(444 )
Captive insurance net premiums	(297 )	(313 )
Increase in deferred tax valuation allowance	1,597	-
Historic tax credit	(4,660)	-
Other	139	181
Income tax expense (benefit)	\$(2,322)	\$ 1,576

**FIRST SAVINGS FINANCIAL GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED****SEPTEMBER 30, 2016 AND 2015**

(18 - continued)

Significant components of deferred tax assets and liabilities at September 30, 2016 and 2015 are as follows:

(In thousands)	2016	2015
Deferred tax assets:		
Allowance for loan losses	\$2,745	\$2,586
Deferred compensation plans	461	412
Equity incentive plans	69	69
Other-than-temporary impairment loss on available for sale securities	14	14
Valuation allowance on other real estate owned	96	89
Interest on nonaccrual loans	193	196
Discount on unguaranteed portion of SBA loans	121	-
Loss on tax credit investment	1,597	-
Historic tax credit carryforward	2,306	-
Deferred loan fees and costs, net	80	46
Gross deferred tax assets	7,682	3,412
Valuation allowance	(1,597)	-
Net deferred tax assets	6,085	3,412
Deferred tax liabilities:		
Unrealized gain on securities available for sale	(3,232)	(2,361)
Accumulated depreciation	(825 )	(1,302)
Installment sale	(520 )	-
Loan servicing rights	(118 )	-
Acquisition purchase accounting adjustments	(507 )	(382 )
FHLB stock dividends	(130 )	(131 )
Unrealized gain on trading account securities	(13 )	(31 )
Unrealized gain on loans held for sale	-	(60 )
Other	(320 )	(285 )
Deferred tax liabilities	(5,665)	(4,552)
Net deferred tax asset (liability)	\$420	\$(1,140)

Tax laws enacted in 2013 and 2014 decrease the Indiana financial institutions tax rate beginning in 2014 and ending in 2023. Deferred taxes have been adjusted to reflect the newly enacted rates and the period in which temporary differences are expected to reverse.

In assessing the ability of the Company to realize the benefit of the deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, availability of operating loss carrybacks, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods which deferred tax assets are deductible, management believes it is more likely than not the Company will generate sufficient taxable income to realize the benefits of these deductible differences at September 30, 2016, except for a valuation allowance of \$1.6 million on the net deferred tax asset related to losses on a historic tax credit investment totaling \$4.2 million. In assessing the need for a valuation allowance for the deferred tax assets for the historic tax credit investment, the Company considered all positive and negative evidence in assessing whether the weight of available evidence supports the recognition of some or all of the deferred tax assets related to the investment. Because of the tax nature of the loss to be recognized when the investment is ultimately sold (which for tax purposes will give rise to a capital loss for the historic tax credit investment), the Company may not be able to generate capital gains in the future to be able to utilize the capital losses from the investment. Therefore, the Company's assessment of the deferred tax asset warrants the need for a valuation allowance.

**FIRST SAVINGS FINANCIAL GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**SEPTEMBER 30, 2016 AND 2015**

(18 - continued)

At September 30, 2016, the Company had a federal historic tax credit of \$2.3 million available to reduce federal income taxes in subsequent years. The carryover expires during the year ending September 30, 2036.

At September 30, 2016 and 2015, the Company had no liability for unrecognized income tax benefits and does not anticipate any increase in the liability for unrecognized tax benefits during the next twelve months. The Company believes that its income tax positions would be sustained upon examination and does not anticipate any adjustments that would result in a material change to its financial position or results of operations. The Company files consolidated U.S. federal and Indiana state income tax returns. Returns filed in these jurisdictions for tax years ended on or after September 30, 2012 are subject to examination by the relevant taxing authorities. Each entity included in the consolidated federal and state income tax returns filed by the Company are charged or given credit for the applicable tax as though separate returns were filed.

Retained earnings of the Bank at September 30, 2016 and 2015 include approximately \$4.6 million for which no deferred federal income tax liability has been recognized. This amount represents an allocation of income to bad debt deductions as of September 30, 1988 for tax purposes only. Reduction of such allocated amounts for purposes other than tax bad debt losses, including redemption of bank stock, excess dividends or loss of "bank" status, would create income for tax purposes only, subject to the then-current corporate income tax rate. The unrecorded deferred income tax liability on these amounts was approximately \$1.5 million at September 30, 2016 and 2015.

**(19) COMMITMENTS AND CONTINGENT LIABILITIES**

In the normal course of business, there are outstanding various commitments and contingent liabilities, such as commitments to extend credit and legal claims, which are not reflected in the accompanying consolidated financial statements.

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

Commitments under outstanding standby letters of credit totaled \$3.7 million and \$3.9 million at September 30, 2016 and 2015, respectively.

The following is a summary of the commitments to extend credit at September 30, 2016 and 2015:

<i>(In thousands)</i>	2016	2015
Loan commitments:		
Fixed rate	\$7,189	\$5,935
Adjustable rate	45,526	13,047
Guarantees of third-party revolving credit	86	87
Undisbursed portion of home equity lines of credit	24,418	21,403
Undisbursed portion of commercial and personal lines of credit	26,759	24,424
Undisbursed portion of construction loans in process	27,623	18,599
Total commitments to extend credit	\$ 131,601	\$ 83,495

F-48

**FIRST SAVINGS FINANCIAL GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**SEPTEMBER 30, 2016 AND 2015**

**(20) OPERATING LEASES**

The Bank rents office space and equipment under operating lease agreements that expire at different dates through September 2026. The following is a schedule by years of future minimum lease payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of September 30, 2016:

Years ending September 30: (In thousands)

2017	\$ 196
2018	173
2019	119
2020	101
2021	100
2022 and beyond	535
Total	\$ 1,224

Rent expense under operating leases for the years ended September 30, 2016 and 2015 was \$95,000 and \$56,000, respectively.

**(21) FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK**

The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the balance sheet.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instruments for commitments to extend credit and standby letters of credit is represented by the contractual notional amount of those instruments (see Note 19). The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount and type of collateral obtained, if deemed necessary by the Bank upon extension of credit, varies and is based on management's credit evaluation of the counterparty.

Standby letters of credit are conditional lending commitments issued by the Bank to guarantee the performance of a customer to a third party. Standby letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank's policy for obtaining collateral, and the nature of such collateral, is essentially the same as that involved in making commitments to extend credit.

The Bank has not been obligated to perform on any financial guarantees and has incurred no losses on its commitments in 2016 or 2015.



**FIRST SAVINGS FINANCIAL GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**SEPTEMBER 30, 2016 AND 2015**

**(22) FAIR VALUE MEASUREMENTS**

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

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

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

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

A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below. These valuation methodologies were applied to all of the Company's financial assets carried at fair value or the lower of cost or fair value.

**FIRST SAVINGS FINANCIAL GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED****SEPTEMBER 30, 2016 AND 2015**

(22 – continued)

The table below presents the balances of financial assets measured at fair value on a recurring and nonrecurring basis as of September 30, 2016. The Company had no liabilities measured at fair value as of September 30, 2016.

	Carrying Value			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
September 30, 2016:				
Assets Measured – Recurring Basis				
Trading account securities	\$-	\$9,255	\$-	\$9,255
Securities available for sale:				
Agency bonds and notes	\$-	\$1,032	\$-	\$1,032
Agency mortgage-backed	-	47,405	-	47,405
Agency CMO	-	16,095	-	16,095
Privately-issued CMO	-	2,652	-	2,652
Privately-issued ABS	-	4,532	-	4,532
SBA certificates	-	1,227	-	1,227
Municipal obligations	-	101,550	-	101,550
Total securities available for sale	\$-	\$174,493	\$-	\$174,493
Assets Measured – Nonrecurring Basis				
Impaired loans:				
Residential real estate	\$-	\$-	\$4,299	\$4,299
Commercial real estate	-	-	6,298	6,298
Land and land development	-	-	241	241
Commercial business	-	-	231	231
Consumer	-	-	244	244
Total impaired loans	\$-	\$-	\$11,313	\$11,313
Loans held for sale:				
Residential mortgage loans held for sale	\$-	\$384	\$-	\$384
SBA loans held for sale	-	5,087	-	5,087
Total loans held for sale	\$-	\$5,471	\$-	\$5,471

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

Loans servicing rights	\$-	\$-	\$310	\$310
Other real estate owned, held for sale:				
Residential real estate	\$-	\$-	\$397	\$397
Commercial real estate	-	-	122	122
Total other real estate owned	\$-	\$-	\$519	\$519

F-51

**FIRST SAVINGS FINANCIAL GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED****SEPTEMBER 30, 2016 AND 2015**

(22 – continued)

The table below presents the balances of financial assets measured at fair value on a recurring and nonrecurring basis as of September 30, 2015. The Company had no liabilities measured at fair value as of September 30, 2015.

	Carrying Value			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
September 30, 2015:				
Assets Measured – Recurring Basis				
Trading account securities	\$-	\$9,044	\$-	\$9,044
Securities available for sale:				
Agency bonds and notes	\$-	\$5,582	\$-	\$5,582
Agency mortgage-backed	-	48,278	-	48,278
Agency CMO	-	19,014	-	19,014
Privately-issued CMO	-	3,470	-	3,470
Privately-issued ABS	-	6,109	-	6,109
SBA certificates	-	1,480	-	1,480
Municipal obligations	-	94,395	-	94,395
Total securities available for sale	\$-	\$178,328	\$-	\$178,328
SBA loans held for sale	\$-	\$5,835	\$-	\$5,835
Assets Measured – Nonrecurring Basis				
Impaired loans:				
Residential real estate	\$-	\$-	\$4,681	\$4,681
Commercial real estate	-	-	7,041	7,041
Commercial business	-	-	222	222
Consumer	-	-	285	285
Total impaired loans	\$-	\$-	\$12,229	\$12,229
Residential mortgage loans held for sale	\$-	\$965	\$-	\$965
Other real estate owned, held for sale:				

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

Residential real estate	\$-	\$-	\$434	\$434
Commercial real estate	-	-	181	181
Land and land development	-	-	3	3
Total other real estate owned	\$-	\$-	\$618	\$618

F-52

**FIRST SAVINGS FINANCIAL GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**SEPTEMBER 30, 2016 AND 2015**

(22 - continued)

Fair value is based upon quoted market prices, where available. If quoted market prices are not available, fair value is based on internally-developed models or obtained from third parties that primarily use, as inputs, observable market-based parameters or a matrix pricing model that employs the Bond Market Association's standard calculations for cash flow and price/yield analysis and observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value, or the lower of cost or fair value. These adjustments may include unobservable parameters. Any such valuation adjustments have been applied consistently over time. The Company's valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While management believes the Company's valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

**Trading Account Securities and Securities Available for Sale.** Securities classified as trading and available for sale are reported at fair value on a recurring basis. These securities are classified as Level 1 of the valuation hierarchy where quoted market prices from reputable third-party brokers are available in an active market. If quoted market prices are not available, the Company obtains fair value measurements from an independent pricing service. These securities are reported using Level 2 inputs and the fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, U.S. government and agency yield curves, live trading levels, trade execution data, market consensus prepayment speeds, credit information, and the security's terms and conditions, among other factors. For securities where quoted market prices, market prices of similar securities or prices from an independent third party pricing service are not available, fair values are calculated using discounted cash flows or other market indicators and are classified within Level 3 of the fair value hierarchy. Changes in fair value of trading account securities are reported in noninterest income. Changes in fair value of securities available for sale are recorded in other comprehensive income, net of income tax effect.

**Impaired Loans.** Impaired loans are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly. The fair value of impaired loans is classified as Level 3 in the fair value hierarchy.

Impaired loans are measured at the present value of estimated future cash flows using the loan's effective interest rate or the fair value of the collateral if the loan is a collateral-dependent loan. At September 30, 2016 and 2015, all impaired loans were considered to be collateral-dependent for the purpose of determining fair value. Collateral may be real estate and/or business assets, including equipment, inventory and/or accounts receivable, and its fair value is generally determined based on real estate appraisals or other independent evaluations by qualified professionals. The appraisals are then discounted to reflect management's estimate of the fair value of the collateral given the current market conditions and the condition of the collateral. At September 30, 2016 and 2015, the significant unobservable inputs used in the fair value measurement of impaired loans included a discount from appraised value ranging from 0.0% to 15.0% and estimated costs to sell the collateral ranging from 0.0% to 6.0%. During the years ended September 30, 2016 and 2015, the Company recognized provisions for loan losses of \$43,000 and \$58,000, respectively, for impaired loans.

***Loans Held for Sale.*** Loans held for sale is comprised of residential mortgage loans and SBA loans held for sale. Residential mortgage loans held for sale are carried at the lower of cost or market value. At September 30, 2016, SBA loans held for sale were carried at the lower of cost or market value. As discussed further below, SBA loans held for sale at September 30, 2015 were reported at fair value in accordance with FASB ASC 825-10. The fair value of loans held for sale is based on specific prices of the underlying contracts for sale to investors, and is classified as Level 2 in the fair value hierarchy.

**FIRST SAVINGS FINANCIAL GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**SEPTEMBER 30, 2016 AND 2015**

(22 - continued)

***Loan Servicing Rights.*** Loan servicing rights represent the value associated with servicing SBA loans that have been sold. The fair value of loan servicing rights is determined on a quarterly basis by an independent third party valuation model using market-based discount rate and prepayment assumptions, and is classified as Level 3 in the fair value hierarchy. At September 30, 2016, the significant unobservable inputs used in the fair value measurement of loan servicing rights included discount rates ranging from 8.54% to 14.46% with a weighted average of 12.27% and prepayment speed assumptions ranging from 4.25% to 8.71% with a weighted average rate of 6.75%. Impairment of the loan servicing rights is recognized on a quarterly basis through a valuation allowance to the extent that fair value is less than the carrying amount. The Company did not recognize any impairment charges on loan servicing rights for the year ended September 30, 2016.

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

Other real estate owned is reported at fair value less estimated costs to dispose of the property. The fair values are determined by real estate appraisals which are then discounted to reflect management's estimate of the fair value of the property given current market conditions and the condition of the collateral. At September 30, 2016, the significant unobservable inputs used in the fair value measurement of other real estate owned included a discount from appraised value (including estimated costs to sell the property) ranging from 15.0% to 34.2% with a weighted average of 24.6%. At September 30, 2015, the significant unobservable inputs used in the fair value measurement of other real estate owned included a discount from appraised value (including estimated costs to sell the property) ranging from 15.0% to 56.5% with a weighted average of 23.6%. The Company recognized charges of \$100,000 and \$73,000 to write down other real estate owned to fair value for the years ended September 30, 2016 and 2015, respectively.

***Transfers Between Categories.*** There have been no changes in the valuation techniques and related inputs used for assets measured at fair value on a recurring and nonrecurring basis during the years ended September 30, 2016 and 2015. There were no transfers into or out of Level 3 financial assets or liabilities for the years ended September 30, 2016 or 2015. In addition, there were no transfers into or out of Levels 1 and 2 of the fair value hierarchy during the years ended September 30, 2016 or 2015.



***Financial Instruments Recorded using Fair Value Option.*** Under FASB ASC 825-10, the Company may elect to report most financial instruments and certain other items at fair value on an instrument-by-instrument basis, with changes in fair value reported in income. The election is made at the acquisition of an eligible financial asset or financial liability, and may not be revoked once made.

The Company elected the fair value option for SBA loans held for sale at September 30, 2015. These loans were intended for sale and the Company believed that the fair value was the best indicator of the resolution of these loans. Interest income was recorded based on the contractual terms of the loans and in accordance with the Company's policy on loans held for investment. None of these loans were 90 days or more past due, nor were any on nonaccrual status as of September 30, 2015.

At September 30, 2015, the difference between the aggregate fair value (\$5.8 million) and the aggregate unpaid principal balance (\$5.3 million) of SBA loans held for sale was \$558,000. The amount of gains included in earnings for the year ended September 30, 2015 for SBA loans held for sale totaled \$558,000, consisting of \$24,000 included in interest income on loans and \$534,000 in changes in fair value included in net unrealized gain on loans held for sale in the accompanying consolidated statements of income.

All of the SBA loans held for sale at September 30, 2015 were sold during the year ended September 30, 2016. Subsequent to September 30, 2016, the Company did not elect the fair value option on SBA loans held for sale and, as such, all loans held for sale were carried at the lower of cost or market at September 30, 2016.

**FIRST SAVINGS FINANCIAL GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED****SEPTEMBER 30, 2016 AND 2015****(23) DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS**

The following table summarizes the carrying value and estimated fair value of financial instruments and the level within the fair value hierarchy in which the fair value measurements fall at September 30, 2016 and 2015.

	Carrying Amount	Fair Value Measurements Using:		
		Level 1	Level 2	Level 3
	(In thousands)			
September 30, 2016:				
Financial assets:				
Cash and due from banks	\$ 11,449	\$ 11,449	\$ -	\$ -
Interest-bearing deposits with banks	17,893	17,893	-	-
Interest-bearing time deposits	3,100	-	3,114	-
Trading account securities	9,255	-	9,255	-
Securities available for sale	174,493	-	174,493	-
Securities held to maturity	3,166	-	3,654	-
Loans, net	518,611	-	-	522,560
Loans held for sale	5,471	-	5,471	-
FRB and FHLB stock	6,936	-	6,936	-
Accrued interest receivable	2,806	-	2,806	-
Loan servicing rights (included in other assets)	310	-	-	310
Financial liabilities:				
Deposits	579,467	-	-	581,844
Short-term repurchase agreements	1,345	-	1,345	-
Borrowings from FHLB	121,633	-	123,794	-
Accrued interest payable	195	-	195	-
Advance payments by borrowers for taxes and insurance	1,014	-	1,014	-
September 30, 2015:				
Financial assets:				
Cash and due from banks	\$ 9,884	\$ 9,884	\$ -	\$ -
Interest-bearing deposits with banks	15,110	15,110	-	-

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

Interest-bearing time deposits	3,100	-	3,099	-
Trading account securities	9,044	-	9,044	-
Securities available for sale	178,328	-	178,328	-
Securities held to maturity	4,620	-	5,191	-
Loans, net	457,112	-	-	456,331
Loans held for sale	6,803	-	6,803	-
FRB and FHLB stock	6,720	-	6,720	-
Accrued interest receivable	2,655	-	2,655	-
Investment in historic tax credit entity (included in other assets)	4,169	-	4,169	-
Financial liabilities:				
Deposits	533,297	-	-	536,121
Short-term repurchase agreements	1,342	-	1,342	-
Borrowings from FHLB	104,867	-	106,446	-
Other long-term debt	4,632	-	4,632	-
Accrued interest payable	186	-	186	-
Advance payments by borrowers for taxes and insurance	883	-	883	-

F-55

**FIRST SAVINGS FINANCIAL GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**SEPTEMBER 30, 2016 AND 2015**

(23 - continued)

The carrying amounts in the preceding table are included in the consolidated balances sheets under the applicable captions. The contract or notional amounts of the Bank's financial instruments with off-balance-sheet risk are disclosed in Note 19, and the fair value of these instruments is considered immaterial.

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate:

**Cash and Cash Equivalents**

For cash and short-term instruments, including cash and due from banks, interest-bearing deposits with banks with original maturities of 90 days or less and money market funds, the carrying amount is a reasonable estimate of fair value.

**Investments and Interest-Bearing Time Deposits**

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

**Loans**

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

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

### **Other Assets**

For equity method investments, such as the Company's investment in the historic tax credit entity, where a quoted market value is not available, the carrying amount is a reasonable estimate of fair value. However, subsequent to the recognition of the historic tax credits (as discussed in Note 6), management has determined that its investment in the historic tax credit entity has no residual value and therefore has recorded an impairment loss for the amount of the investment as of September 30, 2016.

The fair value of loan serving rights is determined by a valuation model employed by an independent third party using market-based discount rate and prepayment assumptions, as previously described.

### **Deposits**

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

### **Borrowed Funds**

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

F-56

**FIRST SAVINGS FINANCIAL GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**SEPTEMBER 30, 2016 AND 2015**

**(24) STOCKHOLDERS' EQUITY**

Liquidation Account

Upon completion of its conversion from mutual to stock form on October 6, 2008, the Bank established a liquidation account in an amount equal to its retained earnings at March 31, 2008, totaling \$29.3 million. The liquidation account is maintained for the benefit of depositors as of the March 31, 2007 eligibility record date (or the June 30, 2008 supplemental eligibility record date) who maintain their deposits in the Bank after conversion.

In the event of complete liquidation, and only in such an event, each eligible depositor is entitled to receive a liquidation distribution from the liquidation account in the proportionate amount of the then current adjusted balance for deposits held, before any liquidation distribution may be made with respect to the stockholders. Except for the repurchase of stock and payment of dividends by the Bank, the existence of the liquidation account does not restrict the use or application of retained earnings of the Bank.

**(25) PREFERRED STOCK**

On August 11, 2011, the Company entered into a Securities Purchase Agreement ("Purchase Agreement") with the United States Department of the Treasury, pursuant to which the Company issued 17,120 shares of its Senior Non-Cumulative Perpetual Preferred Stock, Series A ("Series A Preferred Stock"), having a liquidation amount per share equal to \$1,000, for a total purchase price of \$17,120,000. The Purchase Agreement was entered into, and the Series A Preferred Stock was issued, pursuant to the Small Business Lending Fund ("SBLF") program, a \$30 billion fund established under the Small Business Jobs Act of 2010, that encourages lending to small businesses by providing Tier 1 capital to qualified community banks with assets of less than \$10 billion.

Holder of the Series A Preferred Stock were entitled to receive non-cumulative dividends, payable quarterly, on each January 1, April 1, July 1 and October 1, beginning October 1, 2011. The dividend rate, as a percentage of the liquidation amount, could fluctuate on a quarterly basis during the first ten quarters during which the Series A Preferred Stock was outstanding and could adjust between 1.0% and 5.0% per annum, to reflect the amount of change

in the Bank's level of Qualified Small Business Lending ("QSBL") (as defined in the Purchase Agreement) over the baseline level calculated under the terms of the Purchase Agreement ("Baseline"). In addition to the dividend, in the event the Bank's level of QSBL did not increase relative to the Baseline, at the beginning of the tenth calendar quarter, the Company would have been subject to an additional lending incentive fee equal to 2.0% per annum. For the eleventh dividend period through the eighteenth dividend period, inclusive, and that portion of the nineteenth dividend period before, but not including, the four and one half (4½) year anniversary of the date of issuance, the dividend rate was fixed at between 1.0% and 7.0% per annum based upon the increase in QSBL as compared to the Baseline. After four and one half (4½) years from issuance, the dividend rate would have increased to 9.0%. Based upon the Bank's level of QSBL over the Baseline for purposes of calculating the dividend rate for the initial dividend period, the dividend rate for the initial dividend period ended September 30, 2011 was 4.84%. The dividend rate for the portion of the nineteenth dividend period that ended February 11, 2016 was 1.0% and the weighted average dividend rate for the years ended September 30, 2016 and 2015 was 1.0%.

The Series A Preferred Stock was non-voting, except in limited circumstances. In the event that the Company would have failed to timely make five dividend payments, whether or not consecutive, the holder of the Series A Preferred Stock would have had the right, but not the obligation, to appoint a representative as an observer on the Company's board of directors.



**FIRST SAVINGS FINANCIAL GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**SEPTEMBER 30, 2016 AND 2015**

(25 - continued)

The Series A Preferred Stock could be redeemed at any time at the Company's option, at a redemption price of one hundred percent (100%) of the liquidation amount plus accrued but unpaid dividends to the date of redemption for the current period, subject to the approval of its federal banking regulator.

The Series A Preferred Stock was issued in a private placement exempt from registration pursuant to Section 4(2) of the Securities Act of 1933, as amended. The Company agreed to register the Series A Preferred Stock under certain circumstances set forth in the Purchase Agreement. The Series A Preferred Stock was not subject to any contractual restrictions on transfer.

The Series A Preferred Stock was redeemed by the Company for the full liquidation amount of \$17,120,000 on February 11, 2016.

**(26) DIVIDEND RESTRICTION**

As an Indiana corporation, the Company is subject to Indiana law with respect to the payment of dividends. Under Indiana law, the Company may pay dividends so long as it is able to pay its debts as they become due in the usual course of business and its assets exceed the sum of its total liabilities, plus the amount that would be needed, if the Company were to be dissolved at the time of the dividend, to satisfy any rights that are preferential to the rights of the persons receiving the dividend. The ability of the Company to pay dividends depends primarily on the ability of the Bank to pay dividends to the Company.

The payment of dividends by the Bank is subject to banking regulations and applicable Indiana state law. The amount of dividends that the Bank may pay to the Company in any calendar year without prior approval from banking regulators cannot exceed net income for that year to date plus retained net income (as defined) for the preceding two calendar years. The Bank may not declare or pay a cash dividend or repurchase any of its capital stock if the effect thereof would cause the regulatory capital of the Bank to be reduced below regulatory capital requirements imposed

by banking regulators or the FDIC, or below the amount of the liquidation account established upon completion of the conversion.

**(27) REGULATORY MATTERS**

In accordance with the Plan of Charter Conversion adopted by the Bank's board of directors on May 21, 2014, the Bank operates as an Indiana-chartered commercial bank and became a member the Federal Reserve System following its conversion from a federally-chartered savings bank effective December 19, 2014. As a result of the Bank's charter conversion, the Bank is subject to supervision and regulation by the Indiana Department of Financial Institutions and the Federal Reserve Bank of St. Louis. Also as a result of the Bank's charter conversion, the Company converted to a bank holding company and simultaneously elected financial holding company status effective December 19, 2014. The Company is supervised and regulated by the Board of Governors of the Federal Reserve System through the Federal Reserve Bank of St. Louis.

The Company and Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and Bank must meet specific capital guidelines that involve quantitative measures of the Company's and Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Company's and Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

**FIRST SAVINGS FINANCIAL GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED****SEPTEMBER 30, 2016 AND 2015**

(27 - continued)

Quantitative measures established by regulation to ensure capital adequacy require the Company and Bank to maintain minimum amounts and ratios (set forth in the table below) of total, Tier 1 and common equity Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and Tier 1 capital (as defined) to average assets (as defined). Management believes that the Company and Bank met all capital adequacy requirements to which they are subject as of September 30, 2016 and 2015.

As of September 30, 2016, the most recent notification from the FRB categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier I risk-based, common equity Tier 1 risk-based and Tier I leverage ratios as set forth in the table below. There are no conditions or events since that notification that management believes have changed the Bank's category.

The Company's and Bank's actual capital amounts and ratios are also presented in the table. No amount was deducted from capital for interest-rate risk in either year.

(Dollars in thousands)	Actual		Minimum For Capital Adequacy Purposes:		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions:	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of September 30, 2016:						
Total capital (to risk-weighted assets):						
Consolidated	\$72,227	11.82 %	\$ 48,874	8.00 %	N/A	N/A
Bank	69,056	11.33	48,748	8.00	\$ 60,934	10.00 %

Tier I capital (to risk-weighted assets):

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

Consolidated	\$65,105	10.66 %	\$ 36,655	6.00 %	N/A	N/A
Bank	61,934	10.16	36,561	6.00	\$ 48,748	8.00 %
Common equity tier I capital (to risk-weighted assets):						
Consolidated	\$65,105	10.66 %	\$ 27,491	4.50 %	N/A	N/A
Bank	61,934	10.16	27,420	4.50	\$ 39,607	6.50 %
Tier I capital (to average adjusted total assets):						
Consolidated	\$65,105	8.43 %	\$ 30,881	4.00 %	N/A	N/A
Bank	61,934	8.09	30,621	4.00	\$ 38,277	5.00 %
As of September 30, 2015:						
Total capital (to risk-weighted assets):						
Consolidated	\$85,531	16.21 %	\$ 42,221	8.00 %	N/A	N/A
Bank	69,075	13.13	42,084	8.00	\$ 52,605	10.00 %
Tier I capital (to risk-weighted assets):						
Consolidated	\$78,955	14.96 %	\$ 31,666	6.00 %	N/A	N/A
Bank	62,499	11.88	31,563	6.00	\$ 42,084	8.00 %
Common equity tier I capital (to risk-weighted assets):						
Consolidated	\$78,955	14.96 %	\$ 23,749	4.50 %	N/A	N/A
Bank	62,499	11.88	23,672	4.50	\$ 34,193	6.50 %
Tier I capital (to average adjusted total assets):						
Consolidated	\$78,955	11.01 %	\$ 28,691	4.00 %	N/A	N/A
Bank	62,499	8.67	28,834	4.00	\$ 36,043	5.00 %

**FIRST SAVINGS FINANCIAL GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED****SEPTEMBER 30, 2016 AND 2015****(28) SUPPLEMENTAL DISCLOSURE FOR EARNINGS PER SHARE**

Basic earnings per common share is computed by dividing net income available to common shareholders by the weighted average number of shares of common stock outstanding during the periods presented. Diluted earnings per common share include the dilutive effect of additional potential common shares issuable under stock options, restricted stock and other potentially dilutive securities outstanding. Earnings and dividends per share are restated for stock splits and dividends through the date of issuance of the financial statements. Earnings per share information is presented below for the years ended September 30, 2016 and 2015.

(In thousands , except share and per share data)	Years Ended September 30,	
	2016	2015
Basic:		
Earnings:		
Net income	\$ 7,911	\$ 6,751
Less: Preferred stock dividends declared	(62 )	(171 )
Net income available to common shareholders	\$ 7,849	\$ 6,580
Shares:		
Weighted average common shares outstanding	2,200,258	2,140,632
Net income per common share, basic	\$ 3.57	\$ 3.07
Diluted:		
Earnings:		
Net income	\$ 7,911	\$ 6,751
Less: Preferred stock dividends declared	(62 )	(171 )
Net income available to common shareholders	\$ 7,849	\$ 6,580
Shares:		
Weighted average common shares outstanding	2,200,258	2,140,632
Add: Dilutive effect of outstanding options	103,370	101,862
Add: Dilutive effect of restricted stock	-	5,472
Weighted average common shares outstanding, as adjusted	2,303,628	2,247,966

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

Net income per common share, diluted	\$ 3.41	\$ 2.93
--------------------------------------	---------	---------

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

F-60

**FIRST SAVINGS FINANCIAL GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED****SEPTEMBER 30, 2016 AND 2015****(29) PARENT COMPANY CONDENSED FINANCIAL INFORMATION**

Condensed financial information for First Savings Financial Group, Inc. (parent company only) follows:

**Balance Sheets***(In thousands)*

	<u>As of September 30,</u>	
	2016	2015
Assets:		
Cash and due from banks	\$ 849	\$ 14,721
Other assets	662	928
Investment in subsidiaries	85,464	79,075
	\$ 86,975	\$ 94,724
Liabilities and Equity:		
Accrued expenses	\$ 395	\$ 367
Stockholders' equity	86,580	94,357
	\$ 86,975	\$ 94,724

**Statements of Income***(In thousands)*

	Years Ended September 30,	
	2016	2015
Dividend income from subsidiary	\$ 4,000	\$ 8,500
Other income	-	2
Other operating expenses	(1,027 )	(1,650 )

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

Income before income taxes and equity in undistributed net income of subsidiaries	2,973	6,852
Income tax benefit	282	414
Income before equity in undistributed net income of subsidiaries	3,255	7,266
Equity in undistributed net income of subsidiaries	4,656	(515 )
Net income	\$ 7,911	\$ 6,751

F-61



**FIRST SAVINGS FINANCIAL GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED****SEPTEMBER 30, 2016 AND 2015**

(29 - continued)

**Statements of Cash Flows***(In thousands)*

	Years Ended September 30,	
	2016	2015
Operating Activities:		
Net income	\$ 7,911	\$ 6,751
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in undistributed net income of subsidiaries	(4,656 )	515
ESOP and stock compensation expense	628	1,108
Net change in other assets and liabilities	368	67
Net cash provided by operating activities	4,251	8,441
Financing Activities:		
Redemption of preferred stock	(17,120 )	-
Exercise of stock options	169	159
Purchase of treasury stock	-	(132 )
Dividends paid	(1,172 )	(1,166 )
Net cash used in financing activities	(18,123 )	(1,139 )
Net increase (decrease) in cash and due from banks	(13,872 )	7,302
Cash and due from banks at beginning of year	14,721	7,419
Cash and due from banks at end of year	\$ 849	\$ 14,721

**(30) CONCENTRATION OF CREDIT RISK**

At September 30, 2016 and 2015, the Bank had a concentration of credit risk with correspondent banks in excess of the federal deposit insurance limit of \$7.5 million and \$5.8 million, respectively.

**(31) SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION**

(In thousands)	2016	2015
Cash payments for:		
Interest	\$4,218	\$3,890
Taxes (net of refunds received)	743	914
Non-cash investing activities:		
Transfers from loans held for sale to loans	1,319	-
Transfers from loans to other real estate owned	648	814
Proceeds from sales of other real estate owned financed through loans	299	340
Proceeds from sales of other premises, equipment and real estate development financed through loans	8,950	-

F-62

**FIRST SAVINGS FINANCIAL GROUP, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED****SEPTEMBER 30, 2016 AND 2015****(32) SELECTED QUARTERLY FINANCIAL INFORMATION  
(UNAUDITED)**

(In thousands, except per share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
September 30, 2016:				
Interest income	\$ 7,126	\$ 7,147	\$ 7,422	\$ 7,761
Interest expense	968	1,028	1,115	1,056
Net interest income	6,158	6,119	6,307	6,705
Provision for loan losses	-	125	303	209
Net interest income after provision for loan losses	6,158	5,994	6,004	6,496
Noninterest income	1,444	1,262	(2,576)	3,242
Noninterest expenses	5,892	5,232	5,590	5,721
Income (loss) before income taxes	1,710	2,024	(2,162)	4,017
Income tax expense (benefit)	467	389	(4,389)	1,211
Net income	1,243	1,635	2,227	2,806
Less: Preferred stock dividends declared	43	19	-	-
Net income available to common shareholders	\$ 1,200	\$ 1,616	\$ 2,227	\$ 2,806
Net income per common share, basic	\$ 0.55	\$ 0.73	\$ 1.01	\$ 1.27
Net income per common share, diluted	\$ 0.52	\$ 0.70	\$ 0.97	\$ 1.22
September 30, 2015:				
Interest income	\$ 7,009	\$ 6,924	\$ 6,915	\$ 7,139
Interest expense	931	952	933	962
Net interest income	6,078	5,972	5,982	6,177
Provision for loan losses	207	212	208	232
Net interest income after provision for loan losses	5,871	5,760	5,774	5,945
Noninterest income	1,111	1,078	1,937	1,850
Noninterest expenses	5,374	4,876	5,197	5,552
Income before income taxes	1,608	1,962	2,514	2,243

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

Income tax expense	408	435	318	415
Net income	1,200	1,527	2,196	1,828
Less: Preferred stock dividends declared	43	43	43	42
Net income available to common shareholders	\$ 1,157	\$ 1,484	\$ 2,153	\$ 1,786
Net income per common share, basic	\$0.55	\$0.69	\$1.00	\$0.83
Net income per common share, diluted	\$0.52	\$0.66	\$0.95	\$0.80

F-63