

First Savings Financial Group Inc
Form 10-Q
February 14, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2010

OR

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

For the transition period from _____ to _____

Commission File No. 1-34155

First Savings Financial Group, Inc.
(Exact name of registrant as specified in its charter)

Indiana 37-1567871
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification Number)

501 East Lewis & Clark Parkway, Indiana 47129
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code 1-812-283-0724
Not applicable
(Former name, former address and former fiscal year, if changed
since last report)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting

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company” in Rule 12b-2 of the Exchange Act.

(Check one): Large Accelerated Filer Accelerated Filer
 Non-accelerated Filer Smaller Reporting Company

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

The number of shares outstanding of the registrant’s common stock as of January 31, 2011 was 2,368,945.

FIRST SAVINGS FINANCIAL GROUP, INC.

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

(In thousands, except share and per share data)	December 31, 2010	September 30, 2010
ASSETS		
Cash and due from banks	\$ 8,412	\$ 10,184
Interest-bearing deposits with banks	3,065	1,094
Total cash and cash equivalents	11,477	11,278
Securities available for sale, at fair value	120,139	109,976
Securities held to maturity	3,586	3,929
Loans held for sale	1,539	1,884
Loans, net	339,094	343,615
Federal Home Loan Bank stock, at cost	4,049	4,170
Premises and equipment	9,929	9,492
Foreclosed real estate	1,793	1,331
Accrued interest receivable:		
Loans	1,514	1,646
Securities	916	746
Cash surrender value of life insurance	8,313	8,234
Goodwill	5,940	5,940
Core deposit intangible	2,374	2,447
Other assets	4,434	3,754
Total Assets	\$ 515,097	\$ 508,442
LIABILITIES		
Deposits:		
Noninterest-bearing	\$ 30,883	\$ 28,853
Interest-bearing	343,141	337,308
Total deposits	374,024	366,161
Repurchase agreements	16,716	16,821
Borrowings from Federal Home Loan Bank	67,784	67,159
Accrued interest payable	415	427
Advance payments by borrowers for taxes and insurance	148	252
Accrued expenses and other liabilities	1,859	2,471
Total Liabilities	460,946	453,291
STOCKHOLDERS' EQUITY		
Preferred stock of \$.01 par value per share Authorized 1,000,000 shares; none issued	-	-
Common stock of \$.01 par value per share Authorized 20,000,000 shares; issued 2,542,042 shares	25	25

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Additional paid-in capital	24,394	24,310
Retained earnings - substantially restricted	32,987	31,889
Accumulated other comprehensive income	1,328	2,959
Unearned ESOP shares	(1,452)	(1,501)
Unearned stock compensation	(1,137)	(1,202)
Less treasury stock, at cost - 173,097 shares (127,102 shares at September 30, 2010)	(1,994)	(1,329)
Total Stockholders' Equity	54,151	55,151
Total Liabilities and Stockholders' Equity	\$ 515,097	\$ 508,442

See notes to consolidated financial statements.

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

	Three Months Ended December 31,	
(In thousands, except share and per share data)	2010	2009
INTEREST INCOME		
Loans, including fees	\$ 5,254	\$ 5,667
Securities:		
Taxable	1,046	767
Tax-exempt	169	138
Dividend income	28	17
Interest-bearing deposits with banks	3	6
Total interest income	6,500	6,595
INTEREST EXPENSE		
Deposits	1,061	1,346
Repurchase agreements	80	91
Borrowings from Federal Home Loan Bank	282	230
Total interest expense	1,423	1,667
Net interest income	5,077	4,928
Provision for loan losses	352	358
Net interest income after provision for loan losses	4,725	4,570
NONINTEREST INCOME		
Service charges on deposit accounts	361	411
Net gain on sales of securities available for sale	68	-
Unrealized gain on derivative contract	45	61
Net gain on sales of mortgage loans	106	9
Increase in cash surrender value of life insurance	80	57
Commission income	33	28
Other income	161	159
Total noninterest income	854	725
NONINTEREST EXPENSE		
Compensation and benefits	2,200	2,122
Occupancy and equipment	445	532
Data processing	285	236
Advertising	92	93
Professional fees	120	114
FDIC insurance premiums	134	150
Net loss on foreclosed real estate	42	22
Other operating expenses	720	696
Total noninterest expense	4,038	3,965

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Income before income taxes	1,541	1,330
Income tax expense	457	438
Net Income	\$ 1,084	\$ 892

OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX

Unrealized gain (loss) on securities:		
Unrealized holding gains (losses) arising during the period	(1,586)	202
Less: reclassification adjustment	(45)	-
Other comprehensive income (loss)	(1,631)	202
Comprehensive Income (Loss)	\$ (547)	\$ 1,094
Net Income per common share, basic	\$ 0.50	\$ 0.38
Net Income per common share, diluted	\$ 0.50	\$ 0.38
Dividends per common share	\$ -	\$ 0.08

See notes to consolidated financial statements.

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

(In thousands)	Three Months Ended December 31,	
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 1,084	\$ 892
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	352	358
Depreciation and amortization	212	292
Amortization of premiums and accretion of discounts on securities, net	(50)	(33)
Mortgage loans originated for sale	(6,448)	(1,035)
Proceeds on sale of mortgage loans	6,899	841
Gain on sale of mortgage loans	(106)	(9)
Net realized and unrealized (gain) loss on foreclosed real estate	8	(62)
Net gain on sales of securities available for sale	(68)	-
Unrealized gain on derivative contract	(45)	(61)
Increase in cash surrender value of life insurance	(80)	(57)
Deferred income taxes	221	(2,263)
ESOP and stock compensation expense	195	189
(Increase) decrease in accrued interest receivable	(38)	47
Increase (decrease) in accrued interest payable	(12)	9
Change in other assets and liabilities, net	(543)	49
Net Cash Provided By (Used In) Operating Activities	1,581	(843)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of securities available for sale	(20,770)	(16,668)
Proceeds from sales of securities available for sale	3,914	191
Proceeds from maturities of securities available for sale	619	8,050
Principal collected on mortgage-backed securities	3,996	3,401
Net (increase) decrease in loans	3,416	(82)
Proceeds from redemption of Federal Home Loan Bank stock	121	-
Investment in cash surrender value of life insurance	-	(1,200)
Proceeds from sale of foreclosed real estate	284	860
Purchase of premises and equipment	(576)	(95)
Net Cash Used In Investing Activities	(8,996)	(5,543)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits	7,863	9,155
Net decrease in federal funds purchased	-	(1,180)
Net decrease in repurchase agreements	(105)	(104)
Increase (decrease) in Federal Home Loan Bank line of credit	(331)	1,148
Proceeds from Federal Home Loan Bank advances	25,000	39,439
Repayment of Federal Home Loan Bank advances	(24,044)	(36,993)
Net decrease in advance payments by borrowers for taxes and insurance	(104)	(191)

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Purchase of treasury stock	(665)	(1,329)
Net Cash Provided By Financing Activities	7,614	9,945
Net Increase in Cash and Cash Equivalents	199	3,559
Cash and cash equivalents at beginning of period	11,278	10,404
Cash and Cash Equivalents at End of Period	\$ 11,477	\$ 13,963

See notes to consolidated financial statements.

FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Presentation of Interim Information

First Savings Financial Group, Inc. (“Company”), an Indiana corporation, was incorporated in May 2008 to serve as the holding company for First Savings Bank, F.S.B. (“Bank”), a federally-chartered savings bank. On October 6, 2008, in accordance with a Plan of Conversion adopted by its board of directors and approved by its members, the Bank converted from a mutual savings bank to a stock savings bank and became the wholly-owned subsidiary of the Company. 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”.

The Bank has three-wholly owned subsidiaries: First Savings Investments, Inc., a Nevada corporation that manages a securities portfolio, Southern Indiana Financial Corporation, which sells non-deposit investment products, and FFCC, Inc., which is currently inactive.

In the opinion of management, the unaudited consolidated financial statements include all adjustments considered necessary to present fairly the financial position as of December 31, 2010, and the results of operations and the cash flows for the three-month periods ended December 31, 2010 and 2009. All of these adjustments are of a normal, recurring nature. Such adjustments are the only adjustments included in the unaudited consolidated financial statements. Interim results are not necessarily indicative of results for a full year.

The accompanying unaudited consolidated financial statements and notes have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial statements and are presented as permitted by the instructions to Form 10-Q. Accordingly, they do not contain certain information included in the Company’s audited consolidated financial statements and related notes for the year ended September 30, 2010 included in the Form 10-K.

The unaudited consolidated financial statements include the accounts of the Company and its subsidiaries. All material intercompany balances and transactions have been eliminated in consolidation.

FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

2. Investment Securities

Investment securities have been classified according to management's intent. The amortized cost of securities and their fair values are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(In thousands)				
December 31, 2010:				
Securities available for sale:				
Agency bonds and notes	\$ 32,706	\$ 10	\$ 458	\$ 32,258
Agency mortgage-backed	11,809	253	66	11,996
Agency CMO	22,117	199	130	22,186
Privately-issued CMO	10,149	2,642	74	12,717
Municipal	41,152	543	801	40,894
Subtotal – debt securities	117,933	3,647	1,529	120,051
Equity securities	-	88	-	88
Total securities available for sale	\$ 117,933	\$ 3,735	\$ 1,529	\$ 120,139
Securities held to maturity:				
Agency mortgage-backed	\$ 3,283	\$ 196	\$ -	\$ 3,479
Municipal	303	2	-	305
Total securities held to maturity	\$ 3,586	\$ 198	\$ -	\$ 3,784
September 30, 2010:				
Securities available for sale:				
Agency bonds and notes	\$ 25,510	\$ 196	\$ 1	\$ 25,705
Agency mortgage-backed	13,944	226	29	14,141
Agency CMO	22,325	224	61	22,488
Privately-issued CMO	10,342	2,418	72	12,688
Municipal	33,109	1,920	152	34,877
Subtotal – debt securities	105,230	4,984	315	109,899
Equity securities	-	77	-	77
Total securities available for sale	\$ 105,230	\$ 5,061	\$ 315	\$ 109,976
Securities held to maturity:				

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Agency mortgage-backed	\$	3,625	\$	211	\$	-	\$	3,836
Municipal		304		4		-		308
Total securities held to maturity	\$	3,929	\$	215	\$	-	\$	4,144

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FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

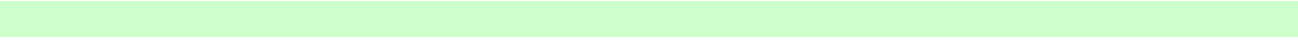
Agency bonds and notes, agency mortgage-backed securities and agency collateralized mortgage obligations (CMO) include securities issued by the Government National Mortgage Association (GNMA), a U.S. government agency, and the Federal National Mortgage Association (FNMA), the Federal Home Loan Mortgage Corporation (FHLMC) and the Federal Home Loan Bank (FHLB), which are government-sponsored enterprises. Privately-issued CMO are complex securities issued by special-purpose entities that are generally collateralized by first position residential mortgage loans and first position residential home equity loans.

The amortized cost and fair value of investment securities as of December 31, 2010 by contractual maturity are shown below. Expected maturities of mortgage-backed securities and CMO may differ from contractual maturities because the mortgages underlying the obligations may be prepaid without penalty.

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
(In thousands)				
Due within one year	\$ 1,187	\$ 1,183	\$ 303	\$ 305
Due after one year through five years	3,335	3,309	-	-
Due after five years through ten years	7,473	7,552	-	-
Due after ten years	61,863	61,108	-	-
	73,858	73,152	303	305
Equity securities	-	88	-	-
CMO	32,266	34,903	-	-
Mortgage-backed securities	11,809	11,996	3,283	3,479
	\$ 117,933	\$ 120,139	\$ 3,586	\$ 3,784

Information pertaining to securities with gross unrealized losses at December 31, 2010, aggregated by investment category and the length of time that individual securities have been in a continuous loss position, follows:

	Number of Investment Positions	Fair Value	Gross Unrealized Losses	
			(Dollars in thousands)	
Securities available for sale:				
Continuous loss position less than twelve months:				
Agency bonds and notes	14	\$ 22,548	\$	458
Agency mortgage-backed	4	5,895		66
Agency CMO	6	6,259		130
Privately-issued CMO	6	1,212		74
Municipal bonds	30	16,183		801



Total securities available for sale	60	\$	52,097	\$	1,529
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FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

At December 31, 2010, the Company did not have any securities held to maturity with an unrealized loss or securities that had been in a continuous loss position for more than twelve months. 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 Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

The total available for sale debt securities in loss positions at December 31, 2010 have depreciated approximately 2.9% from the Bank's amortized cost basis and are fixed and variable rate securities with a weighted-average yield of 4.14% and a weighted-average coupon rate of 4.24%.

U.S. government agency debt securities, including mortgage-backed securities and CMO securities, and municipal bonds in loss positions at December 31, 2010 had depreciated approximately 2.8% from the amortized cost basis. All of the U.S. government agency and municipal securities are issued by U.S. government agencies, government-sponsored enterprises and municipal governments, or are secured by first mortgage loans and municipal project revenues.

At December 31, 2010, the six privately-issued CMO securities in loss positions had depreciated approximately 5.8% from the amortized cost basis and include securities collateralized by home equity lines of credit or other mortgage-related loan products. All such investments except two securities with fair values totaling \$723,000 and unrealized losses of \$11,000 at December 31, 2010 continued to be rated by a nationally recognized statistical rating organization as investment grade assets.

The Company evaluates the existence of a potential credit loss component related to the decline in fair value of the privately-issued CMO portfolio each quarter using an independent third party analysis. At December 31, 2010, the Company held ten privately-issued CMO securities with an aggregate amortized cost of \$2.1 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 the 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 portfolio. While management does not anticipate a credit-related impairment loss at December 31, 2010, additional deterioration in market and economic conditions may have an adverse impact on the credit quality in the future.

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

During the three months ended December 31, 2010, the Company realized gross gains on sales of available for sale municipal securities of \$68,000.

FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

3. Loans and Allowance for Loan Losses

Loans at December 31, 2010 and September 30, 2010 consisted of the following:

	December 31, 2010	September 30, 2010
	(In thousands)	
Real estate mortgage:		
1-4 family residential	\$ 169,497	\$ 172,007
Multi-family residential	19,480	20,360
Commercial	56,569	53,869
Residential construction	13,986	15,867
Commercial construction	9,944	9,851
Land and land development	8,449	9,076
Commercial business loans	30,622	30,905
Consumer:		
Home equity loans	16,211	16,335
Auto loans	12,297	13,405
Other consumer loans	6,708	7,030
Gross loans	343,763	348,705
Deferred loan origination fees and costs, net	754	778
Undisbursed portion of loans in process	(1,464)	(2,057)
Allowance for loan losses	(3,959)	(3,811)
Loans, net	\$ 339,094	\$ 343,615

During the three-month period ended December 31, 2010, there was no significant change in the Company's lending activities or methodology used to estimate the allowance for loan losses as disclosed in the Company's Annual Report on Form 10-K for the year ended September 30, 2010.

FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (Unaudited)

The following table provides the components of the recorded investment in loans for each portfolio class as of December 31, 2010:

	Residential Real Estate	Commercial Real Estate	Multifamily	Construction	Land & Land Development	Commercial Business	Consumer	Total
	(In thousands)							
Principal loan balance	\$ 169,497	\$ 56,569	\$ 19,480	\$ 22,466	\$ 8,449	\$ 30,622	\$ 35,216	\$ 342,299
Accrued interest receivable	715	292	63	96	41	163	144	1,514
Net deferred loan origination fees and costs	713	(21)	(6)	39	(2)	(14)	45	754
Recorded investment in loans	\$ 170,925	\$ 56,840	\$ 19,537	\$ 22,601	\$ 8,488	\$ 30,771	\$ 35,405	\$ 344,567