First Savings Financial Group Inc
Form 10-Q
February 14, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2012

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 incorporation or organization)	(I.R.S. Employer 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 x No ¨

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

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

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

Non-accelerated Filer ¨ Smaller Reporting Company x

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

The number of shares outstanding of the registrant's common stock as of January 31, 2013 was 2,317,815.

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, 2012	September 30, 2012
ASSETS		
Cash and due from banks	$ 10,574	$ 27,569
Interest-bearing deposits with banks	11,121	11,222
Total cash and cash equivalents	21,695	38,791
Trading account securities, at fair value	3,431	3,562
Securities available for sale, at fair value	174,536	152,543
Securities held to maturity	7,714	7,848
Loans held for sale	348	643
Loans, net	392,866	389,067
Federal Home Loan Bank stock, at cost	5,400	5,400
Real estate development and construction	5,572	4,538
Premises and equipment	11,111	10,907
Foreclosed real estate	1,549	1,481
Accrued interest receivable:		
Loans	1,261	1,358
Securities	1,381	1,054
Cash surrender value of life insurance	12,624	8,548
Goodwill	7,936	7,936
Core deposit intangibles	2,327	2,413
Other assets	2,883	2,824
Total Assets	$ 652,634	$ 638,913
LIABILITIES		
Deposits:		
Noninterest-bearing	$ 47,485	$ 50,502
Interest-bearing	444,388	443,732
Total deposits	491,873	494,234
Repurchase agreements	1,330	1,329
Borrowings from Federal Home Loan Bank	68,044	53,062
Other long-term debt	3,246	2,132

Accrued interest payable	220	236
Advance payments by borrowers for taxes and insurance	449	622
Accrued expenses and other liabilities	3,970	4,372
Total Liabilities	569,132	555,987
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 17,120 shares; aggregate liquidation preference of $17,120	-	-
Common stock of $.01 par value per share		
Authorized 20,000,000 shares; issued 2,542,042 shares	25	25
Additional paid-in capital - preferred	17,120	17,120
Additional paid-in capital - common	25,137	24,901
Retained earnings - substantially restricted	40,013	39,917
Accumulated other comprehensive income	5,798	5,609
Unearned ESOP shares	(980)	(1,198)
Unearned stock compensation	(617)	(682)
Less treasury stock, at cost - 224,227 shares (212,361 shares at September 30, 2012)	(2,994)	(2,766)
Total Stockholders' Equity	83,502	82,926
Total Liabilities and Stockholders' Equity	$ 652,634	$ 638,913

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)	2012	2011
INTEREST INCOME		
Loans, including fees	$5,261	$5,173
Securities:		
Taxable	1,046	881
Tax-exempt	393	272
Dividend income	56	30
Interest-bearing deposits with banks	4	4
Total interest income	6,760	6,360
INTEREST EXPENSE		
Deposits	799	911
Repurchase agreements	2	60
Borrowings from Federal Home Loan Bank	294	271
Total interest expense	1,095	1,242
Net interest income	5,665	5,118
Provision for loan losses	452	319
Net interest income after provision for loan losses	5,213	4,799
NONINTEREST INCOME		
Service charges on deposit accounts	338	301
Net gain on sales of available for sale securities	1	-
Net gain on trading account securities	102	-
Unrealized loss on derivative contract	-	(8)
Net gain on sales of loans	107	34
Increase in cash surrender value of life insurance	78	77
Commission income	78	59
Real estate lease income	45	-
Other income	251	209
Total noninterest income	1,000	672
NONINTEREST EXPENSE		
Compensation and benefits	2,816	2,084

Occupancy and equipment	485	498
Data processing	310	301
Advertising	105	279
Professional fees	230	182
FDIC insurance premiums	114	85
Net loss on foreclosed real estate	66	27
Other operating expenses	693	779
Total noninterest expense	4,819	4,235
Income before income taxes	1,394	1,236
Income tax expense	378	326
Net Income	$1,016	$910
Preferred stock dividends declared	43	43
Net Income Available to Common Shareholders	$973	$867
Net income per common share:		
Basic	$0.45	$0.40
Diluted	$0.43	$0.39
Weighted average common shares outstanding:		
Basic	2,155,999	2,154,339
Diluted	2,237,367	2,211,424
Dividends per common share	$0.40	$-

See notes to consolidated financial statements.

PART I - FINANCIAL INFORMATION

FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	Three Months Ended December 31,	
(In thousands)	2012	2011
Net Income	$1,016	$910
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX		
Unrealized gains on securities available for sale:		
Unrealized holding gains (losses) arising during the period	288	(521)
Income tax expense (benefit)	(98)	207
Net of tax amount	190	(314)
Less: reclassification adjustment for realized gains included in net income	(1)	-
Income tax expense	-	-
Net of tax amount	(1)	-
Other Comprehensive Income (Loss)	189	(314)
Comprehensive Income	$1,205	$596

See notes to consolidated financial statements.

PART I - FINANCIAL INFORMATION

FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

(Unaudited)

(In thousands, except share and per share data)	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Unearned Stock Compensation and ESOP	Treasury Stock	Total
Balances at October 1, 2011	$ -	$ 25	$ 41,729	$ 35,801	$ 3,354	$ (2,285)	$ (2,023)	76,601
Net income	-	-	-	910	-	-	-	910
Change in unrealized gain on securities available for sale, net of reclassification adjustments and tax effect	-	-	-	-	(314)	-	-	(314)
Preferred stock dividends	-	-	-	(43)	-	-	-	(43)
Stock compensation expense	-	-	37	-	-	65	-	102
Shares released by ESOP trust	-	-	24	-	-	36	-	60
Purchase of 5,602 treasury shares	-	-	-	-	-	-	(92)	(92)
Balances at December 31, 2011	$ -	$ 25	$ 41,790	$ 36,668	$ 3,040	$ (2,184)	$ (2,115)	$ 77,224
Balances at October 1, 2012	$ -	$ 25	$ 42,021	$ 39,917	$ 5,609	$ (1,880)	$ (2,766)	$ 82,926
Net income	-	-	-	1,016	-	-	-	1,016
Change in unrealized gain on securities available for sale, net of reclassification adjustments and tax effect	-	-	-	-	189	-	-	189
Preferred stock dividends	-	-	-	(43)	-	-	-	(43)
Common stock dividends ($0.40 per share)	-	-	-	(930)	-	-	-	(930)
Stock compensation expense	-	-	38	-	-	65	-	103
Shares released by ESOP trust	-	-	198	53	-	218	-	469

Purchase of 11,866 treasury shares	-	-	-	-	-	-	(228)	(228)
Balances at December 31, 2012	$-	$25	$42,257	$40,013	$5,798	$(1,597)	$(2,994)	$83,502

See notes to consolidated financial statements.

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PART I - FINANCIAL INFORMATION

FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)	Three Months Ended December 31, 2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$1,016	$910
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	452	319
Depreciation and amortization	266	268
Amortization of premiums and accretion of discounts on securities, net	169	119
Decrease in trading account securities	131	-
Loans originated for sale	(4,100)	(1,905)
Proceeds on sales of loans	4,502	1,687
Net gain on sales of loans	(107)	(34)
Net realized and unrealized (gain) loss on foreclosed real estate	49	(13)
Net gain on sales of available for sale securities	(1)	-
Unrealized loss on derivative contract	-	8
Increase in cash surrender value of life insurance	(78)	(77)
Deferred income taxes	(620)	196
ESOP and stock compensation expense	495	163
Increase in accrued interest receivable	(230)	(350)
Decrease in accrued interest payable	(16)	(86)
Change in other assets and liabilities, net	101	(307)
Net Cash Provided By Operating Activities	2,029	898
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of securities available for sale	(35,014)	(23,873)
Proceeds from sales of securities available for sale	801	-
Proceeds from maturities of securities available for sale	7,475	7,618
Proceeds from maturities of securities held to maturity	20	-
Principal collected on securities	5,016	4,886
Net increase in loans	(4,367)	(1,841)
Purchase of Federal Home Loan Bank stock	-	(500)
Investment in cash surrender value of life insurance	(4,000)	-
Proceeds from sale of foreclosed real estate	-	80
Investment in real estate development and construction	(1,046)	(3,178)
Purchase of premises and equipment	(372)	(217)

Net Cash Used In Investing Activities	(31,487)	(17,025)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net decrease in deposits	(2,361)	(18,005)
Net increase (decrease) in repurchase agreements	1	(15,080)
Increase in Federal Home Loan Bank line of credit	-	3,669
Proceeds from Federal Home Loan Bank advances	15,000	35,000
Repayment of Federal Home Loan Bank advances	(18)	-
Proceeds from other long-term debt	1,114	-
Net decrease in advance payments by borrowers for taxes and insurance	(173)	(127)
Purchase of treasury stock	(228)	(92)
Dividends paid on preferred stock	(43)	(115)
Dividends paid on common stock	(930)	-
Net Cash Provided By Financing Activities	12,362	5,250
Net Decrease in Cash and Cash Equivalents	(17,096)	(10,877)
Cash and cash equivalents at beginning of period	38,791	27,203
Cash and Cash Equivalents at End of Period	$21,695	$16,326

See notes to consolidated financial statements.

FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1.Presentation of Interim Information

First Savings Financial Group, Inc. (the "Company") is the thrift holding company of First Savings Bank, F.S.B. (the "Bank"), a wholly-owned subsidiary. The Bank is a federally-chartered savings bank which 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., which is an Indiana corporation that participates in commercial real estate development and leasing, and Southern Indiana Financial Corporation, 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, 2012, the results of operations for the three-month periods ended December 31, 2012 and 2011, and the cash flows for the three-month periods ended December 31, 2012 and 2011. 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 accounting principles generally accepted in the United States of America ("GAAP") for interim financial statements, conform to general practices within the banking industry and are presented as permitted by the instructions to Form 10-Q. Accordingly, they do not contain certain information included in the Company's audited consolidated financial statements and related notes for the year ended September 30, 2012 included in the Company's Annual Report on Form 10-K.

The unaudited consolidated financial statements include the accounts of the Company and its subsidiaries. All material intercompany balances and transactions have been eliminated in consolidation. Certain prior period amounts have been reclassified to conform with the current period presentation.

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FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

2. Acquisition of Branches

On July 6, 2012, the Company acquired the Indiana branch offices of Elizabethtown, Kentucky-based First Federal Savings Bank of Elizabethtown, Inc. ("First Federal"), pursuant to an Agreement to Purchase Assets and Assume Liabilities dated February 8, 2012 (the "Agreement"). Pursuant to the terms of the Agreement, the Company assumed certain deposit and other liabilities and purchased certain performing loans, real estate and other assets associated with the four First Federal banking offices. The transaction was accounted for using the purchase method of accounting.

The offices are located in Corydon, Elizabeth, Georgetown and Lanesville, Indiana. The Company has consolidated the operations of the acquired Corydon and Georgetown offices with its existing Corydon and Georgetown offices because of their close proximities. The acquisition expanded the Company's presence in Harrison and Floyd Counties, Indiana, and the Company expects to benefit from growth in this market area as well as from expansion of the banking services provided to the existing customers of First Federal.

3. Investment Securities

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

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

Trading Account Securities

On May 31, 2012, the Company invested 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 December 31, 2012 and September 30, 2012, trading account securities recorded at fair value totaled $3.4 million and $3.6 million, respectively, comprised of investment grade municipal bonds. During the three months ended December 31, 2012, the Company reported net gains on trading account securities of $102,000, including net realized gains on the sale of securities of $110,000 and net unrealized losses on securities still held as of the balance sheet date of $8,000.

FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Securities Available for Sale and Held to Maturity

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
December 31, 2012:				
Securities available for sale:				
Agency bonds and notes	$18,289	$ 105	$ 13	$18,381
Agency mortgage-backed	45,241	1,199	29	46,411
Agency CMO	28,215	275	66	28,424
Privately-issued CMO	4,193	755	-	4,948
Privately-issued ABS	5,898	2,125	43	7,980
Municipal obligations	63,427	4,936	37	68,326
Subtotal – debt securities	165,263	9,395	188	174,470
Equity securities	-	66	-	66
Total securities available for sale	$165,263	$ 9,461	$ 188	$174,536
Securities held to maturity:				
Agency mortgage-backed	$1,230	$ 91	$ -	$1,321
Municipal obligations	6,484	388	-	6,872
Total securities held to maturity	$7,714	$ 479	$ -	$8,193

FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
September 30, 2012:				
Securities available for sale:				
Agency bonds and notes	$15,940	$ 124	$ -	$16,064
Agency mortgage-backed	42,255	1,165	-	43,420
Agency CMO	17,186	358	3	17,541
Privately-issued CMO	4,283	1,006	-	5,289
Privately-issued ABS	5,797	1,481	51	7,227
Municipal	58,135	4,838	40	62,933
Subtotal – debt securities	143,596	8,972	94	152,474
Equity securities	-	69	-	69
Total securities available for sale	$143,596	$ 9,041	$ 94	$152,543
Securities held to maturity:				
Agency mortgage-backed	$1,342	$ 118	$ -	$1,460
Municipal obligations	6,506	348	-	6,854
Total securities held to maturity	$7,848	$ 466	$ -	$8,314

The amortized cost and fair value of investment securities as of December 31, 2012 by contractual maturity are shown below. Expected maturities of mortgage-backed securities, CMO and ABS may differ from contractual maturities because the mortgages underlying the obligations may be prepaid without penalty.

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)			
Due within one year	$1,160	$1,195	$529	$546
Due after one year through five years	4,995	5,048	2,404	2,501
Due after five years through ten years	15,143	15,723	2,120	2,244

Due after ten years	60,418	64,741	1,431	1,581
	81,716	86,707	6,484	6,872
Equity securities	-	66	-	-
CMO	32,408	33,372	-	-
ABS	5,898	7,980	-	-
Mortgage-backed securities	45,241	46,411	1,230	1,321
	$165,263	$174,536	$7,714	$8,193

FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Information pertaining to available for sale securities with gross unrealized losses at December 31, 2012, 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	3	$8,491	$ 13
Agency mortgage-backed	6	10,901	29
Agency CMO	4	9,442	66
Municipal obligations	8	4,196	37
Total less than twelve months	21	33,030	145
Continuous loss position more than twelve months:			
Privately-issued ABS	1	67	43
Total more than twelve months	1	67	43
Total securities available for sale	22	$33,097	$ 188

At December 31, 2012, 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 December 31, 2012 had depreciated approximately 0.56% from the Company’s amortized cost basis and are fixed and variable rate securities with a weighted-average yield of 1.73% and a weighted-average coupon rate of 3.14% at December 31, 2012.

U.S. government agency bonds and notes, mortgage-backed securities and CMOs, and municipal obligations in loss positions at December 31, 2012 had depreciated approximately 0.44% from the Company’s amortized cost basis as of December 31, 2012. All of the agency and municipal securities are issued by U.S. government agencies, U.S. government-sponsored enterprises and municipal governments, and are generally secured by first mortgage loans and municipal project revenues.

FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The Company evaluates the existence of a potential credit loss component related to the decline in fair value of the privately-issued CMO and ABS portfolios each quarter using an independent third party analysis. At December 31, 2012, the Company held nineteen privately-issued CMO and ABS securities acquired in a 2009 bank acquisition with an aggregate carrying value of $3.1 million and fair value of $4.4 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.

At December 31, 2012, the one privately-issued ABS security in a loss position had depreciated approximately 39.45% from the Company's carrying value and was collateralized by residential mortgage loans. This security had a fair value of $67,000 and an unrealized loss of $43,000 at December 31, 2012, and was 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 decline in value for this security is 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 December 31, 2012, 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 agency securities and municipal bonds relate principally to current interest rates for similar types of securities. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government, its agencies, or other governments, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition. As management has the ability to hold debt securities to maturity, or for the foreseeable future if classified as available for sale, no declines are deemed to be other-than-temporary.

During the three months ended December 31, 2012, the Company realized gross gains on sales of available for sale U.S. government agency notes of $1,000.

Certain available for sale debt securities were pledged under repurchase agreements at December 31, 2012 and 2011, and may be pledged to secure federal funds borrowings and Federal Home Loan Bank ("FHLB") borrowings.

FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

4. Loans and Allowance for Loan Losses

Loans at December 31, 2012 and September 30, 2012 consisted of the following:

	December 31, 2012	September 30, 2012
	(In thousands)	
Real estate mortgage:		
1-4 family residential	$ 188,640	$ 190,958
Commercial	94,744	90,290
Multifamily residential	24,808	23,879
Residential construction	9,200	10,748
Commercial construction	5,182	5,182
Land and land development	12,270	12,320
Commercial business loans	37,785	36,189
Consumer:		
Home equity loans	18,620	18,294
Auto loans	7,864	8,219
Other consumer loans	4,189	4,114
Gross loans	403,302	400,193
Deferred loan origination fees and costs, net	346	382
Undisbursed portion of loans in process	(5,647)	(6,602)
Allowance for loan losses	(5,135)	(4,906)
Loans, net	$ 392,866	$ 389,067

During the three-month period ended December 31, 2012, 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, 2012.

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 segment as of December 31, 2012:

	Residential Real Estate	**Commercial Real Estate**	**Multifamily**	**Construction**	**Land & Land Development**	**Commercial Business**	**Consumer**	**Total**
	(In thousands)							
Recorded Investment in Loans:								
Principal loan balance	$188,640	$ 94,744	$ 24,808	$ 8,735	$ 12,270	$ 37,785	$ 30,673	$397,655
Accrued interest receivable	652	280	60	(15)	39	153	92	1,261
Net deferred loan origination fees and costs	480	(84)	(7)	(39)	(4)	(17)	17	346
Recorded investment in loans	$189,772	$ 94,940	$ 24,861	$ 8,681	$ 12,305	$ 37,921	$ 30,782	$399,262
Recorded Investment in Loans as Evaluated for Impairment:								
Individually evaluated for impairment	$5,876	$ 1,834	$ 2,344	$ 174	$ -	$ 356	$ 342	$10,926
Collectively evaluated for impairment	183,213	92,910	22,517	8,507	12,305	37,565	30,405	387,422
Acquired with deteriorated credit quality	683	196	-	-	-	-	35	914

Ending balance	$189,772	$ 94,940	$ 24,861	$ 8,681	$ 12,305	$ 37,921	$ 30,782	$399,262

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 segment as of September 30, 2012:

	Residential Real Estate	**Commercial Real Estate**	**Multifamily**	**Construction**	**Land & Land Development**	**Commercial Business**	**Consumer**	**Total**
	(In thousands)							
Recorded Investment in Loans:								
Principal loan balance	$190,958	$ 90,290	$ 23,879	$ 9,328	$ 12,320	$ 36,189	$ 30,627	$393,591
Accrued interest receivable	691	305	69	21	43	128	101	1,358
Net deferred loan origination fees and costs	502	(75)	(6)	(41)	(5)	(13)	20	382
Recorded investment in loans	$192,151	$ 90,520	$ 23,942	$ 9,308	$ 12,358	$ 36,304	$ 30,748	$395,331
Recorded Investment in Loans as Evaluated for Impairment:								
Individually evaluated for impairment	$5,210	$ 1,993	$ 2,356	$ 174	$ -	$ 80	$ 333	$10,146
Collectively evaluated for impairment	186,236	88,331	21,586	9,134	12,358	36,224	30,379	384,248
Acquired with deteriorated credit quality	705	196	-	-	-	-	36	937

Ending balance	$192,151	$90,520	$23,942	$9,308	$12,358	$36,304	$30,748	$395,331

FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

An analysis of the allowance for loan losses as of December 31, 2012 is as follows:

	Residential Real Estate	**Commercial Real Estate**	**Multifamily**	**Construction**	**Land & Land Development**	**Commercial Business**	**Consumer**	**Total**
	(In thousands)							
Ending Allowance Balance Attributable to Loans:								
Individually evaluated for impairment	$ 15	$ -	$ -	$ -	$ -	$ -	$ 8	$ 23
Collectively evaluated for impairment	836	2,135	418	61	45	1,360	257	5,112
Acquired with deteriorated credit quality	-	-	-	-	-	-	-	-
Ending balance	$ 851	$ 2,135	$ 418	$ 61	$ 45	$ 1,360	$ 265	$ 5,135

An analysis of the allowance for loan losses as of September 30, 2012 is as follows:

	Residential Real Estate	**Commercial Real Estate**	**Multifamily**	**Construction**	**Land & Land Development**	**Commercial Business**	**Consumer**	**Total**
	(In thousands)							
Ending Allowance Balance Attributable to Loans:								
Individually evaluated for impairment	$ -	$ 60	$ -	$ -	$ -	$ -	$ 14	$ 74
Collectively evaluated for impairment	908	2,144	389	52	2	1,084	253	4,832
Acquired with deteriorated credit quality	-	-	-	-	-	-	-	-
Ending balance	$ 908	$ 2,204	$ 389	$ 52	$ 2	$ 1,084	$ 267	$ 4,906

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FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

An analysis of the changes in the allowance for loan losses for the three months ended December 31, 2012 is as follows:

	Residential Real Estate	Commercial Real Estate	Multifamily	Construction	Land & Land Development	Commercial Business	Consumer	Total
	(In thousands)							
Changes in Allowance for Loan Losses:								
Beginning balance	$908	$ 2,204	$ 389	$ 52	$ 2	$ 1,084	$ 267	$4,906
Provisions	27	(83)	29	9	43	413	14	452
Charge-offs	(123)	(11)	-	-	-	(137)	(30)	(301)
Recoveries	39	25	-	-	-	-	14	78
Ending balance	$851	$ 2,135	$ 418	$ 61	$ 45	$ 1,360	$ 265	$5,135

An analysis of the changes in the allowance for loan losses for the three months ended December 31, 2011 is as follows:

	Residential Real Estate	**Commercial Real Estate**	**Multifamily**	**Construction**	**Land & Land Development**	**Commercial Business**	**Consumer**	**Total**
		(In thousands)						
Changes in Allowance for Loan Losses:								
Beginning balance	$ 833	$1,314	$ 604	$ 56	$ 53	$ 1,525	$ 287	$4,672
Provisions	274	104	(11)	-	(23)	(99)	74	319
Charge-offs	(186)	-	-	-	-	-	(127)	(313)
Recoveries	11	-	-	-	-	1	13	25
Ending balance	$ 932	$1,418	$ 593	$ 56	$ 30	$ 1,427	$ 247	$4,703

FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The following table presents impaired loans individually evaluated for impairment as of December 31, 2012 and for the three months ended December 31, 2012 and 2011. The Company did not recognize any interest income on impaired loans for the three months ended December 31, 2012 and 2011.

	At December 31, 2012			Three Months Ended December 31,	
				2012	2011
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Average Recorded Investment
	(In thousands)				
Loans with no related allowance recorded:					
Residential real estate	$3,634	$ 4,066	$ -	$ 4,246	$ 3,552
Commercial real estate	744	770	-	771	848
Multifamily	-	-	-	-	-
Construction	174	174	-	174	174
Land and land development	-	-	-	-	340
Commercial business	342	343	-	404	1
Consumer	87	90	-	103	96
	$4,981	$ 5,443	$ -	$ 5,698	$ 5,011
Loans with an allowance recorded:					
Residential real estate	$158	$ 157	$ 15	$ 158	$ 162
Commercial real estate	-	-	-	97	236
Multifamily	-	-	-	-	-
Construction	-	-	-	-	-
Land and land development	-	-	-	-	-
Commercial business	-	-	-	-	-
Consumer	100	100	8	91	80
	$258	$ 257	$ 23	$ 346	$ 478
Total:					
Residential real estate	$3,792	$ 4,223	$ 15	$ 4,404	$ 3,714
Commercial real estate	744	770	-	868	1,084
Multifamily	-	-	-	-	-

Construction	174	174	-	174	174
Land and land development	-	-	-	-	340
Commercial business	342	343	-	404	1
Consumer	187	190	8	194	176
	$5,239	$ 5,700	$ 23	$ 6,044	$ 5,489

FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The following table presents impaired loans individually evaluated for impairment as of September 30, 2012.

	Recorded Investment	Unpaid Principal Balance	Related Allowance
	(In thousands)		
Loans with no related allowance recorded:			
Residential real estate	$2,775	$ 3,161	$ -
Commercial real estate	745	772	-
Multifamily	-	-	-
Construction	174	174	-
Land and land development	-	-	-
Commercial business	66	65	-
Consumer	97	99	-
	$3,857	$ 4,271	$ -
Loans with an allowance recorded:			
Residential real estate	$-	$ -	$ -
Commercial real estate	154	146	60
Multifamily	-	-	-
Construction	-	-	-
Land and land development	-	-	-
Commercial business	-	-	-
Consumer	78	78	14
	$232	$ 224	$ 74
Total:			
Residential real estate	$2,775	$ 3,161	$ -
Commercial real estate	899	918	60
Multifamily	-	-	-
Construction	174	174	-
Land and land development	-	-	-
Commercial business	66	65	-
Consumer	175	177	14

$4,089	$ 4,495	$ 74

FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

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Nonperforming loans consists 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 December 31, 2012:

	Nonaccrual Loans	Loans 90+ Days Past Due Still Accruing	Total Nonperforming Loans
	(In thousands)		
Residential real estate	$3,792	$ 696	$ 4,488
Commercial real estate	744	-	744
Multifamily	-	-	-
Construction	174	-	174
Land and land development	-	-	-
Commercial business	342	579	921
Consumer	187	19	206
Total	$5,239	$ 1,294	$ 6,533

The following table presents the recorded investment in nonperforming loans at September 30, 2012:

	Nonaccrual Loans	Loans 90+ Days Past Due Still Accruing	Total Nonperforming Loans
	(In thousands)		
Residential real estate	$2,775	$ 1,548	$ 4,323
Commercial real estate	899	3	902
Multifamily	-	-	-
Construction	174	-	174
Land and land development	-	-	-
Commercial business	66	98	164

Consumer	175	94	269
Total	$4,089	$ 1,743	$ 5,832

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FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The following table presents the aging of the recorded investment in past due loans at December 31, 2012:

	30-59 Days Past Due	60-89 Days Past Due	90 + Days Past Due	Total Past Due	Current	Total Loans
	(In thousands)					
Residential real estate	$5,202	$ 2,980	$ 3,250	$ 11,432	$178,340	$189,772
Commercial real estate	2,312	199	676	3,187	91,753	94,940
Multifamily	600	-	-	600	24,261	24,861
Construction	-	-	-	-	8,681	8,681
Land and land development	1,551	-	-	1,551	10,754	12,305
Commercial business	81	654	622	1,357	36,564	37,921
Consumer	154	169	95	418	30,364	30,782
Total	$9,900	$ 4,002	$ 4,643	$ 18,545	$380,717	$399,262

The following table presents the aging of the recorded investment in past due loans at September 30, 2012:

	30-59 Days Past Due	60-89 Days Past Due	90 + Days Past Due	Total Past Due	Current	Total Loans
	(In thousands)					
Residential real estate	$4,636	$ 1,926	$ 3,754	$ 10,316	$181,835	$192,151
Commercial real estate	20	90	833	943	89,577	90,520
Multifamily	-	-	-	-	23,942	23,942
Construction	-	-	-	-	9,308	9,308
Land and land development	51	-	-	51	12,307	12,358
Commercial business	109	-	164	273	36,031	36,304
Consumer	286	98	174	558	30,190	30,748
Total	$5,102	$ 2,114	$ 4,925	$ 12,141	$383,190	$395,331

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FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, public information, historical payment experience, credit documentation, and current economic 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, without establishment of a specific valuation allowance or charge-off, is not warranted.

FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans. As of December 31, 2012, and based on the most recent analysis performed, the recorded investment in loans by risk category was as follows:

	Residential Real Estate (In thousands)	Commercial Real Estate	Multifamily	Construction	Land and Land Development	Commercial Business	Consumer	Total
Pass	$174,684	$ 87,677	$ 22,501	$ 8,681	$ 10,414	$ 34,730	$ 30,012	$368,699
Special Mention	3,895	2,407	315	-	350	241	126	7,334
Substandard	10,590	4,376	2,045	-	1,541	2,625	630	21,807
Doubtful	603	480	-	-	-	325	14	1,422
Loss	-	-	-	-	-	-	-	-
Total	$189,772	$ 94,940	$ 24,861	$ 8,681	$ 12,305	$ 37,921	$ 30,782	$399,262

As of September 30, 2012, and based on the most recent analysis performed, the recorded investment in loans by risk category was as follows:

	Residential Real Estate (In thousands)	Commercial Real Estate	Multifamily	Construction	Land and Land Development	Commercial Business	Consumer	Total
Pass	$175,694	$ 85,439	$ 21,268	$ 9,308	$ 11,942	$ 32,687	$ 29,993	$366,331
Special Mention	4,919	2,642	318	-	416	2,158	142	10,595
Substandard	11,130	1,805	2,356	-	-	1,459	600	17,350
Doubtful	408	634	-	-	-	-	13	1,055
Loss	-	-	-	-	-	-	-	-
Total	$192,151	$ 90,520	$ 23,942	$ 9,308	$ 12,358	$ 36,304	$ 30,748	$395,331

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FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

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

The following table summarizes the Company's recorded investment in TDRs by class of loan and accrual status at December 31, 2012 and September 30, 2012.

	Accruing	Nonaccrual	Total	Related Allowance For Loan Losses
	(In thousands)			
December 31, 2012:				
Residential real estate	$2,567	$ 323	$2,890	$ 9
Commercial real estate	1,286	-	1,286	-
Multifamily	2,344	-	2,344	-
Commercial business	14	-	14	-
Consumer	155	-	155	-

Total	$6,366	$ 323	$6,689	$ -
September 30, 2012:				
Residential real estate	$2,993	$ -	$2,993	$ -
Commercial real estate	1,290	-	1,290	-
Multifamily	2,356	-	2,356	-
Commercial business	14	-	14	-
Consumer	158	-	158	-
Total	$6,811	$ -	$6,811	$ -

FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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The following table summarizes information in regard to TDRs that were restructured during the three-month period ended December 31, 2012:

	Number of Loans	Pre-Modification Principal Balance	Post-Modification Principal Balance
	(Dollars in thousands)		
Residential real estate	1	$ 16	$ 16
Total	1	$ 16	$ 16

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

The Company had not committed to lend any additional amounts as of December 31, 2012 and September 30, 2012 to customers with outstanding loans classified as TDRs.

During the three-month period ended December 31, 2012, the Company had one TDR with a balance of $75,000 that was modified within the previous twelve months for which there was a payment default (defined as more than 90 days past due). This loan was on nonaccrual status as of December 31, 2012.

5. Real Estate Development and Construction

On March 22, 2011, the Company acquired a parcel of land in New Albany, Indiana for $2.97 million. On April 5, 2012, the Bank received approval from the Office of the Comptroller of the Currency (“OCC”) to develop the land for retail purposes through its subsidiary, FFCC. The retail development may include a future branch location. The total cost of the development is expected to be approximately $6.9 million, including the $5.6 million paid as of December

31, 2012. The development costs will be partially funded by a loan from another financial institution. The loan has maximum commitment of $5.0 million and FFCC had borrowed $3.2 million under the loan as of December 31, 2012. The development is partially completed with two tenants that have commenced occupancy as of December 31, 2012 and it is expected to be fully completed by May 31, 2013.

Development and construction period interest of $22,000 was capitalized as part of the real estate carrying value during the three months ended December 31, 2012.

FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

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6. Supplemental Disclosure for Earnings Per Share

When presented, basic earnings per share are computed by dividing income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflect the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity. Earnings per share information is presented below for the three-month periods ended December 31, 2012 and 2011.

(Dollars in thousands, except per share data)	Three Months Ended December 31, 2012	2011
Basic:		
Earnings:		
Net income	$1,016	$910
Less: Preferred stock dividends declared	(43)	(43)
Net income available to common shareholders	$973	$867
Shares:		
Weighted average common shares outstanding	2,155,999	2,154,339
Net income per common share, basic	$0.45	$0.40
Diluted:		
Earnings:		
Net income	$1,016	$910
Less: Preferred stock dividends declared	(43)	(43)
Net income available to common shareholders	$973	$867
Shares:		
Weighted average common shares outstanding	2,155,999	2,154,339
Add: Dilutive effect of outstanding options	66,438	43,000
Add: Dilutive effect of nonvested restricted stock	14,930	14,085
Weighted average shares outstanding, as adjusted	2,237,367	2,211,424

Net income per common share, diluted	$0.43	$0.39

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

FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

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(Unaudited)

7. Supplemental Disclosures of Cash Flow Information

	Three Months Ended December 31,	
	2012	2011
	(*In thousands*)	
Cash payments for:		
Interest	$ 1,284	$ 1,536
Taxes	100	-
Transfers from loans to foreclosed real estate	238	604
Proceeds from sales of foreclosed real estate financed through loans	121	62

8. Fair Value Measurements and Disclosures about Fair Value of Financial Instruments

Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("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; inputs to the valuation methodology include quoted market prices for identical or similar assets or liabilities in markets that are not active; or inputs to the valuation methodology 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. The table below presents the balances of financial assets measured at fair value on a recurring and nonrecurring basis as of December 31, 2012 and September 30, 2012. The Company had no liabilities measured at fair value as of December 31, 2012 or September 30, 2012.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

	Carrying Value			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
December 31, 2012:				
Assets Measured - Recurring Basis:				
Trading account securities	$-	$3,431	$-	$3,431
Securities available for sale:				
Agency bonds and notes	$-	$18,381	$-	$18,381
Agency mortgage-backed	-	46,411	-	46,411
Agency CMO	-	28,424	-	28,424
Privately-issued CMO	-	4,948	-	4,948
Privately-issued ABS	-	7,980		7,980
Municipal	-	68,326	-	68,326
Equity securities	66	-	-	66
Total securities available for sale	$66	$174,470	$-	$174,536
Interest rate cap contract	$-	$11	$-	$11
Assets Measured - Nonrecurring Basis:				
Impaired loans:				
Residential real estate	$-	$-	$3,777	$3,777
Commercial real estate	-	-	744	744
Construction	-	-	174	174
Commercial business	-	-	342	342
Consumer	-	-	179	179
Total impaired loans	$-	$-	$5,216	$5,216
Loans held for sale	$-	$348	$-	$348
Foreclosed real estate:				
Residential real estate	$-	$-	$555	$555
Commercial real estate	-	-	231	231
Multifamily	-	-	357	357
Land and land development	-	-	406	406
Total foreclosed real estate	$-	$-	$1,549	$1,549

FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

	Carrying Value			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
September 30, 2012:				
Assets Measured - Recurring Basis:				
Trading account securities	$-	$3,562	$-	$3,562
Securities available for sale:				
Agency bonds and notes	$-	$16,064	$-	$16,064
Agency mortgage-backed	-	43,420	-	43,420
Agency CMO	-	17,541	-	17,541
Privately-issued CMO	-	5,289	-	5,289
Privately-issued ABS	-	7,227	-	7,227
Municipal	-	62,933	-	62,933
Equity securities	69	-	-	69
Total securities available for sale	$69	$152,474	$-	$152,543
Interest rate cap contract	$-	$11	$-	$11
Assets Measured - Nonrecurring Basis:				
Impaired loans:				
Residential real estate	$-	$-	$2,775	$2,775
Commercial real estate	-	-	839	839
Construction	-	-	174	174
Commercial business	-	-	66	66
Consumer	-	-	161	161
Total impaired loans	$-	$-	$4,015	$4,015
Loans held for sale	$-	$643	$-	$643
Foreclosed real estate:				
Residential real estate	$-	$-	$487	$487
Commercial real estate	-	-	231	231
Multifamily	-	-	357	357
Land and land development	-	-	406	406
Total foreclosed real estate	$-	$-	$1,481	$1,481

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.

FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

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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. There have been no changes in the valuation techniques and related inputs used for assets measured at fair value during the three-month periods ended December 31, 2012 and 2011.

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. 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.

Derivative Financial Instruments. Derivative financial instruments consist of an interest rate cap contract. As such, significant fair value inputs can generally be verified by counterparties and do not involve significant management judgments (Level 2 inputs).

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. 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 December 31, 2012, 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%. The Company did not recognize any provision for loan losses for the three months ended December 31, 2012 and 2011 for impaired loans.

Loans Held for Sale. Loans held for sale are carried at the lower of cost or market value. The portfolio comprised of residential real estate loans and fair value is based on specific prices of underlying contracts for sales to investors. These measurements are carried at Level 2.

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

Foreclosed real estate held for sale 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 December 31, 2012, the significant unobservable inputs used in the fair value measurement of foreclosed real estate held for sale included a discount from appraised value ranging from 0.0% to 15.0% and estimated costs to sell the property ranging from 0.0% to 6.0%. The Company recognized charges of $47,000 to write down foreclosed real estate held for sale to fair value for the three months ended December 31, 2012. The Company did not recognize any charges to write down foreclosed real estate held for sale to fair value for the three months ended December 31, 2011.

Transfers Between Categories. There were no transfers into or out of the Company's Level 3 financial assets for the three-month periods ended December 31, 2012 and 2011. In addition, there were no transfers into or out of Levels 1 and 2 of the fair value hierarchy during the three-month periods ended December 31, 2012 and 2011.

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GAAP requires disclosure of fair value information about financial instruments for interim reporting periods, whether or not recognized in the consolidated balance sheet. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instruments. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company. The carrying amounts and estimated fair values of the Company's financial instruments are as follows:

	Carrying	Fair Value Measurements Using:		
December 31, 2012:	Amount	Level 1	Level 2	Level 3
		(In thousands)		
Financial assets:				
Cash and due from banks	$10,574	$10,574	$-	$-
Interest-bearing deposits with banks	11,121	11,121	-	-
Trading account securities	3,431	-	3,431	-
Securities available for sale	174,536	66	174,470	-
Securities held to maturity	7,714	-	8,193	-
Loans, net	392,866	-	-	400,454
Loans held for sale	348	-	348	-
Federal Home Loan Bank stock	5,400	-	5,400	-
Accrued interest receivable	2,642	-	2,642	-
Financial liabilities:				
Deposits	491,873	-	-	488,814
Short-term repurchase agreements	1,330	-	1,330	-
Borrowings from Federal Home Loan Bank	68,044	-	66,529	-
Other long-term debt	3,246	-	3,246	-
Accrued interest payable	220	-	220	-
Advance payments by borrowers for taxes and insurance	449	-	449	-
Derivative financial instruments included in other assets:				
Interest rate cap	11	-	11	-

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September 30, 2012:	Carrying Amount	Fair Value Measurements Using: Level 1	Level 2	Level 3
	(In thousands)			
Financial assets:				
Cash and due from banks	$27,569	$27,569	$-	$-
Interest-bearing deposits with banks	11,222	11,222	-	-
Trading account securities	3,562	-	3,562	-
Securities available for sale	152,543	69	152,474	-
Securities held to maturity	7,848	-	8,314	-
Loans, net	389,067	-	-	388,790
Loans held for sale	643	-	643	-
Federal Home Loan Bank stock	5,400	-	5,400	-
Accrued interest receivable	2,412	-	2,412	-
Financial liabilities:				
Deposits	494,234	-	-	492,161
Short-term repurchase agreements	1,329	-	1,329	-
Borrowings from Federal Home Loan Bank	53,062	-	53,752	-
Other long-term debt	2,132	-	2,132	-
Accrued interest payable	236	-	236	-
Advance payments by borrowers for taxes and insurance	622	-	622	-
Derivative financial instruments included in other assets:				
Interest rate cap	11	-	11	-

The carrying amounts in the preceding tables are included in the consolidated balance sheets under the applicable captions. 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 that value:

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Cash and Cash Equivalents

For cash and short-term instruments, including cash and due from banks and interest-bearing deposits with banks, the carrying amount is a reasonable estimate of fair value.

Debt and Equity Securities

For marketable equity securities, the fair values are based on quoted market prices. For debt securities, 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 FHLB stock, a restricted equity security, the carrying amount is a reasonable estimate of fair value because it 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, as previously described. 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 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.

Derivative Financial Instruments

For derivative financial instruments, the fair values generally represent an estimate of the amount the Company would receive or pay upon termination of the agreement at the reporting date, taking into account the current interest rates, and exclusive of any accrued interest.

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9. Employee Stock Ownership Plan

On October 6, 2008, the Company established a leveraged employee stock ownership plan ("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 three-month periods ended December 31, 2012 and 2011 amounted to $393,000 and $60,000, respectively. Company common stock held by the ESOP trust at December 31, 2012 was as follows:

Allocated shares	105,340
Unearned shares	98,023
Total ESOP shares	203,363
Fair value of unearned shares	$1,910,468

10. Stock Based Compensation Plans

The Company's 2010 Equity Incentive Plan ("Plan"), which the Company's shareholders approved in February 2010, provides 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 Plan may not exceed 355,885 shares. The Company may grant both non-statutory and statutory (i.e., incentive) stock options that may not have a term 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 Plan may be granted either alone, in addition to, or in tandem with any other award granted under the Plan. The terms of the Plan include a provision whereby all unearned options and shares become immediately exercisable and fully vested upon a change in control.

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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 later 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 restricted stock vests ratably over a five-year period from the grant date. 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 both the three-month periods ended December 31, 2012 and 2011 amounted to $65,000. A summary of the Company’s nonvested restricted shares activity under the Plan as of December 31, 2012 and changes during the three-month period then ended is presented below.

	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested at October 1, 2012	58,850	$ 13.25
Granted	-	-
Vested	-	-
Forfeited	-	-
Nonvested at December 31, 2012	58,850	$ 13.25

At December 31, 2012, there was $617,000 of total unrecognized compensation expense related to nonvested restricted shares. The compensation expense is expected to be recognized over the remaining vesting period of 2.4 years.

In May 2010, the Company awarded 177,549 incentive and 76,655 non-statutory stock options to directors, officers and key employees. The options granted vest 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 is measured based on the fair market value of the options at the grant date and is recognized ratably over the period during which the shares are earned (the vesting period). The weighted average fair value at the grant date for options granted in 2010 was $3.09, as determined at the date of grant using the Binomial option pricing model.

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A summary of stock option activity under the Plan as of December 31, 2012, and changes during the three-month period then ended is presented below.

	Number of Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
	(Dollars in thousands, except per share data)			
Outstanding at October 1, 2012	245,232	$ 13.25		
Granted	-	-		
Exercised	-	-		
Forfeited or expired	-	-		
Outstanding at December 31, 2012	245,232	$ 13.25	7.4	$ 1,530
Exercisable at December 31, 2012	98,095	$ 13.25	7.4	$ 612

The Company recognized compensation expense related to stock options of $38,000 for both the three-month periods ended December 31, 2012 and 2011. At December 31, 2012, there was $360,000 of unrecognized compensation expense related to nonvested stock options, which will be recognized over the remaining vesting period of 2.4 years.

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11. 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 the 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.

Holders of the Series A Preferred Stock are 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, can fluctuate on a quarterly basis during the first ten quarters during which the Series A Preferred Stock is outstanding and may be adjusted 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 has not increased relative to the Baseline, at the beginning of the tenth calendar quarter, the Company will be 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 will be 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 will increase to nine 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 sixth dividend period ended December 31, 2012 was 1.0% and the weighted average dividend rate for the three-month period ended December 31, 2012 was 1.0%.

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

The Series A Preferred Stock may 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 has agreed to register the Series A Preferred Stock under certain circumstances set forth in the Purchase Agreement. The Series A Preferred Stock is not subject to any contractual restrictions on transfer.

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12. Recent Accounting Pronouncements

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

In June 2011, the FASB issued ASU No. 2011-05, *Amendments to Topic 220, Comprehensive Income*. Under the amendments in this ASU, an entity has the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. This ASU eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. The amendments in this ASU do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. The amendments in this ASU should be applied retrospectively. For public entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. Early adoption is permitted, because compliance with the amendments is already permitted. The amendments do not require any transition disclosures. The adoption of this ASU did not have any impact on the Company’s consolidated financial position or results of operations. ASU No. 2011-12 issued in December 2011 deferred the effective date of ASU No. 2011-05 related to the presentation of reclassifications of items out of accumulated other comprehensive income. All other requirements of ASU No. 2011-05 were not affected by ASU No. 2011-12.

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In December 2011, the FASB issued ASU No. 2011-11, *Balance Sheet (Topic 210)*. The update requires an entity to disclose information about offsetting and related arrangements to enable users of the financial statements to understand the effect of netting arrangements on the entity's financial position. The scope includes derivatives, sale and repurchase agreements and reverse sale and repurchase agreements, and securities borrowing and securities lending arrangements. ASU No. 2013-01 was issued in January 2013 to address implementation issues and clarify the scope of ASU No. 2011-11. The amendments in the updates are effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods, with disclosures required by the amendments provided retrospectively for all comparative periods presented. The adoption of these updates is not expected to have any material impact on the Company's consolidated financial position or results of operations.

In October 2012, the FASB issued ASU No. 2012-06, *Subsequent Accounting for an Indemnification Asset Recognized at the Acquisition Date as a Result of a Government-Assisted Acquisition of a Financial Institution*. The update indicates that when a reporting entity initially recognizes an indemnification asset as a result of a government-assisted acquisition of a financial institution and subsequently a change in the cash flows expected to be collected on the indemnification asset occurs, the reporting entity should subsequently account for the change in the measurement of the indemnification asset on the same basis as the change in the assets subject to indemnification. Any amortization of changes in value should be limited to the contractual term of the indemnification agreement (that is, the lesser of the term of the indemnification agreement and the remaining life of the indemnified assets). The amendments in the update are effective for fiscal years, and interim periods within those years, beginning on or after December 15, 2012, and should be applied prospectively to any new indemnification assets acquired after the date of adoption and to indemnification assets existing as of the date of adoption. Early adoption is permitted. The adoption of this update is not expected to have any material impact on the Company's consolidated financial position or results of operations.

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Safe Harbor Statement for Forward-Looking Statements

This report may contain forward-looking statements within the meaning of the federal securities laws. These statements are not historical facts; rather they are statements based on the Company's current expectations regarding its business strategies and their intended results and its future performance. Forward-looking statements are preceded by terms such as "expects," "believes," "anticipates," "intends" and similar expressions.

Forward-looking statements are not guarantees of future performance. Numerous risks and uncertainties could cause or contribute to the Company's actual results, performance and achievements being materially different from those expressed or implied by the forward-looking statements. Factors that may cause or contribute to these differences include, without limitation, general economic conditions, including changes in market interest rates and changes in monetary and fiscal policies of the federal government; legislative and regulatory changes; the quality and composition of the loan and investment securities portfolio; loan demand; deposit flows; competition; the ability to successfully integrate the operations of Community First; and changes in accounting principles and guidelines. Additional factors that may affect our results are discussed herein and in our Annual Report on Form 10-K for the year ended September 30, 2012 under "Part II, Item 1A. Risk Factors." These factors should be considered in evaluating the forward-looking statements and undue reliance should not be placed on such statements. Except as required by applicable law or regulation, the Company assumes no obligation and disclaims any obligation to update any forward-looking statements.

Critical Accounting Policies

During the three-month period ended December 31, 2012, there was no significant change in the Company's critical accounting policies or the application of critical accounting policies as disclosed in the Company's Annual Report on Form 10-K for the year ended September 30, 2012.

Comparison of Financial Condition at December 31, 2012 and September 30, 2012

Cash and Cash Equivalents. Cash and cash equivalents decreased from $38.8 million at September 30, 2012 to $21.7 million at December 31, 2012, due primarily to a decrease in cash and due from banks of $17.0 million. The decrease in cash and cash equivalents was primarily used to fund purchases of securities available for sale.

Loans. Net loans receivable increased $3.8 million, from $389.1 million at September 30, 2012 to $392.9 million at December 31, 2012, primarily due to increases in nonresidential permanent and construction loans of $4.5 million, multi-family residential mortgage loans of $929,000 and commercial business loans of $1.6 million, which more than offset decreases in residential permanent and construction loans of $3.9 million. The decrease in residential mortgage loans is primarily due to loan payoffs that have not been replaced by new originations.

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Trading Account Securities. Trading account securities decreased by $131,000 from $3.6 million at September 30, 2012 to $3.4 million at December 31, 2012. Trading account securities are comprised of investment grade municipal bonds.

Securities Available for Sale. Securities available for sale increased $22.0 million from $152.5 million at September 30, 2012 to $174.5 million at December 31, 2012 due primarily to purchases of $35.0 million, partially offset by maturities and calls of $7.5 million, principal repayments of $4.9 million and sales of $801,000. The increase in securities available for sale, primarily in U.S. government agency and sponsored enterprises securities, including mortgage-backed securities and CMOs, and municipal bonds was primarily funded by the decrease in cash and cash equivalents.

Securities Held to Maturity. Investment securities held-to-maturity decreased $134,000 from $7.8 million at September 30, 2012 to $7.7 million at December 31, 2012 due primarily to principal repayments on mortgage-backed securities.

Cash Surrender Value of Life Insurance. Cash surrender value of life insurance increased from $8.5 million at September 30, 2012 to $12.6 million at December 31, 2012 primarily as the result of an investment in bank-owned life insurance of $4.0 million in December 2012.

Deposits. Total deposits decreased $2.3 million from $494.2 million at September 30, 2012 to $491.9 million at December 31, 2012 primarily due to decreases in noninterest-bearing demand deposit accounts of $3.0 million and certificates of deposit of $9.0 million, which more than offset increases in interest-bearing demand deposit accounts of $7.9 million, savings accounts of $731,000, and money market deposit accounts of $1.0 million during the period. The decrease in certificates of deposit occurred in various maturity classes and is primarily attributed to maturities that customers are investing in more liquid accounts given the low interest rate environment.

Borrowings. Borrowings from the FHLB increased $14.9 million from $53.1 million at September 30, 2012 to $68.0 million at December 31, 2012. Management has increased the level of FHLB advances in order to take advantage of historically low interest rates, provide short-term liquidity and provide funding for the loan portfolio growth, purchases of available for sale securities and the investment in additional bank-owned life insurance.

Stockholders' Equity. Stockholders' equity increased $576,000 from $82.9 million at September 30, 2012 to $83.5 million at December 31, 2012. Retained earnings increased $96,000 due to net income available to common shareholders of $1.0 million, partially offset by the declaration of a special cash dividend of $0.40 per share to common stockholders of record as of the close of business on November 30, 2012, which totaled $930,000 and was paid on December 31, 2012. Tangible book value (common stockholders' equity) per common share was $24.21 at December 31, 2012 as compared to $23.80 at September 30, 2012.

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Results of Operations for the Three Months Ended December 31, 2012 and 2011

Overview. The Company reported net income of $1.0 million and net income available to common shareholders of $973,000, or $0.43 per diluted share, for the quarter ended December 31, 2012 compared to net income of $910,000, or $0.39 per diluted share, for the quarter ended December 31, 2011. The annualized return on average assets, average equity and average common stockholders' equity were 0.63%, 4.88% and 6.14%, respectively, for the three-month period ended December 31, 2012.

Net Interest Income. Net interest income increased $547,000, or 10.7%, for the three months ended December 31, 2012 compared to the same period in 2011. Average interest-earnings assets increased $87.1 million and average interest-bearing liabilities increased $82.0 million when comparing the two periods. The tax-equivalent interest rate spread was 3.99% for 2012 as compared to 4.16% for 2011.

Total interest income increased $400,000, or 6.3%, when comparing the two periods due primarily to an increase in the average balance of interest-earning assets of $87.1 million from $488.8 million for 2011 to $575.9 million for 2012, which more than offset the change in interest income due to a decrease in the average tax-equivalent yield on interest-earning assets from 5.34% for 2011 to 4.86% for 2012. The average balance of loans and investment securities increased $33.7 million and $48.6 million, respectively, when comparing the two periods.

Total interest expense decreased $147,000, or 12.3%, due primarily to a decrease in the average cost of interest-bearing liabilities from 1.18% for 2011 to 0.87% for 2012, which more than offset the change in interest expense due to an increase in the average balance of interest-bearing liabilities of $82.0 million from $421.3 million for 2011 to $503.3 million for 2012. The average cost of interest-bearing liabilities decreased for 2012 primarily as a result of lower market interest rates as compared to 2011 and the repricing of certificates of deposit at lower market interest rates as they matured. The average balance of deposits increased $98.1 million while the average balance of borrowings decreased $16.1 million when comparing the two periods. The increase in the average balance of deposits is due primarily to the acquisition of the First Federal branches.

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Average Balance Sheets. The following table presents 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 for the three-month periods ended December 31, 2012 and 2011. 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%.

	Three Months Ended December 31,					
	2012			2011		
	Average Balance	Interest and Dividends	Yield/ Cost	Average Balance	Interest and Dividends	Yield/ Cost
	(Dollars in thousands)					
Assets:						
Interest-bearing deposits with banks	$7,320	$ 4	0.22 %	$3,632	$ 4	0.44 %
Loans	394,193	5,290	5.37	360,491	5,202	5.77
Investment securities	125,375	1,422	4.54	98,049	1,149	4.69
Agency mortgage-backed securities	43,562	219	2.01	22,246	146	2.63
Federal Home Loan Bank stock	5,400	56	4.15	4,427	30	2.71
Total interest-earning assets	575,850	6,991	4.86	488,845	6,531	5.34
Non-interest-earning assets	64,252			45,850		
Total assets	$640,102			$534,695		
Liabilities and equity:						
NOW accounts	$101,858	$ 98	0.38 %	$68,929	$ 95	0.55 %
Money market deposit accounts	64,534	78	0.48	41,852	81	0.77
Savings accounts	63,256	20	0.13	41,808	27	0.26
Time deposits	211,701	603	1.14	190,657	708	1.49
Total interest-bearing deposits	441,349	799	0.72	343,246	911	1.06

Borrowings (1)	61,960	296	1.91	78,086	331	1.70
Total interest-bearing liabilities	503,309	1,095	0.87	421,332	1,242	1.18
Non-interest-bearing deposits	48,015			33,940		
Other non-interest-bearing liabilities	5,485			2,945		
Total liabilities	556,809			458,217		