First Savings Financial Group Inc
Form 10-K
December 29, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended September 30, 2015

OR

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

For the transition period from _____________ to _____________

Commission File Number: **1-34155**

FIRST SAVINGS FINANCIAL GROUP, INC.

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

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

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

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

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

Large Accelerated Filer ¨	Accelerated Filer ¨
Non-accelerated Filer ¨	Smaller Reporting Company x

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

The aggregate market value of the voting and non-voting common equity held by nonaffiliates was $54.0 million, based upon the closing price of $28.95 per share as quoted on the NASDAQ Stock Market as of the last business day of the registrant's most recently completed second fiscal quarter ended March 31, 2015.

The number of shares outstanding of the registrant's common stock as of December 11, 2015 was 2,196,220.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the 2015 Annual Meeting of Stockholders are incorporated by reference in Part III of this Form 10-K.

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

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

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

PART I

Item 1. BUSINESS

General

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

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

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

First Savings Bank operates as a community-oriented financial institution offering traditional financial services to consumers and businesses in its primary market area. We attract deposits from the general public and use those funds to originate primarily residential and commercial mortgage loans. We also originate commercial business loans, residential and commercial construction loans, multi-family loans, land and land development loans, and consumer loans. We conduct our lending and deposit activities primarily with individuals and small businesses in our primary market area, except as otherwise discussed herein.

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

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

Market Area

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

Competition

We face significant competition for the attraction of deposits and origination of loans. Our most direct competition for deposits has historically come from the several financial institutions operating in our primary market area and from other financial service companies such as securities and mortgage brokerage firms, credit unions and insurance companies. We also face competition for investors' funds from money market funds, mutual funds and other corporate and government securities. At June 30, 2015, which is the most recent date for which data is available from the Federal Deposit Insurance Corporation ("FDIC"), we held approximately 12.84%, 2.98%, 32.63%, 80.96% and 10.81% of the FDIC-insured deposits in Clark, Floyd, Harrison, Crawford and Washington Counties, Indiana, respectively. This data does not reflect deposits held by credit unions with which we also compete. In addition, banks owned by large national and regional holding companies and other community-based banks also operate in our primary market area. Some of these institutions are larger than us and, therefore, may have greater resources.

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

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

Lending Activities

Consistent with the Bank’s conversion to an Indiana-chartered commercial bank in December 2014, the Bank is continuing the process of transforming the composition of its balance sheet from that of a traditional thrift institution to that of a commercial bank. We intend to continue to emphasize residential lending, primarily secured by owner-occupied properties, but also to continue concentrating on ways to expand our consumer/retail banking capabilities and our commercial banking services with a focus on serving small businesses and emphasizing relationship banking in our primary market area.

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

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

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

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

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

We generally do not make conventional loans with loan-to-value ratios exceeding 80%, including that for non-owner occupied residential real estate loans whose loan-to-value ratios generally may not exceed 75%, or 65% where the borrower has more than five non-owner occupied loans outstanding. Non-owner occupied loans originated before 2005, however, were generally originated with loan-to-value ratios up to 80%. Loans with loan-to-value ratios in excess of 80% generally require private mortgage insurance. However, the total balance of residential mortgage loans secured by one-to-four family residential properties with loan-to-value ratios exceeding 90% amounted to $13.0 million, of which some do not have private mortgage insurance or government guaranty. We generally require all properties securing mortgage loans to be appraised by a board-approved independent appraiser. We also generally require title insurance on all first mortgage loans with principal balances of $250,000 or more. Borrowers must obtain hazard insurance, and flood insurance is required for all loans located in flood hazard areas.

At September 30, 2015, our largest one- to four-family residential loan had an outstanding balance of $1.4 million. This loan, which was originated in February 2014 and is secured by a multiple new-construction, non-owner occupied properties, was performing in accordance with its original terms at September 30, 2015.

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

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

During 2013, we began a commercial real estate lending program that is focused on loans to high net worth individuals that are secured by low loan-to-value, single-tenant commercial properties that are leased to investment grade national-brand retailers, the borrowers and collateral properties for which are out of our primary market area. This program is designed to diversify the Company’s geographic and credit risk profile given the geographic dispersion of the loans and collateral, and the investment grade credit of the national-brand lessees. The terms of the loans are generally consistent with the aforementioned terms of in-market commercial real estate loans; however, these cannot exceed 70% loan-to-value and loan maturities cannot exceed the expiration of the underlying leases. In addition, the Company has established guidelines with respect to concentrations by state, lessee and industry of lessees as a percent of the overall loan portfolio, and as a percent of capital. The average size of these loans originated was $1.1 million and the portfolio balance was $59.6 million at September 30, 2015. Our largest such loan, which was originated in August 2014 and secured by a single-tenant commercial retail building, had an outstanding balance of $2.5 million at September 30, 2015 and was performing in accordance with its original terms at September 30, 2015.

At September 30, 2015, our largest commercial real estate loan had an outstanding balance of $5.6 million. This loan, which was originated in July 2015 and is secured by multiple single-tenant commercial retail buildings, was performing in accordance with its original terms at September 30, 2015.

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

We also originate speculative construction loans to builders who have not identified a buyer or lessee for the completed property at the time of origination. At September 30, 2015, we had approved commitments for speculative construction loans of $8.9 million, of which $5.1 million was outstanding. We require a maximum loan-to-value ratio of 80% for speculative construction loans. At September 30, 2015, our largest construction loan relationship was for a commitment of $5.6 million, of which $381,000 was outstanding. This loan, which was originated in May 2015 and is secured by a childcare facility that is leased by a foundation associated with a major Indiana-based university, was performing in accordance with its original terms at September 30, 2015.

Land and Land Development Loans. On a limited basis, we originate loans to developers for the purpose of developing vacant land in our primary market area, typically for residential subdivisions. Land development loans are generally interest-only loans for a term of 18 to 24 months. We generally require a maximum loan-to-value ratio of 75% of the appraisal market value upon completion of the project. We generally do not require any cash equity from the borrower if there is sufficient indicated equity in the collateral property. Development plats and cost verification documents are required from borrowers before approving and closing the loan. Our loan officers are required to personally visit the proposed development site and the sites of competing developments. We also originate loans to individuals secured by undeveloped land held for investment purposes. At September 30, 2015, our largest land development loan had an outstanding balance of $1.2 million. This loan, which was originated in January 2015, was performing in accordance with its original terms at September 30, 2015.

Multi-Family Real Estate Loans. We offer multi-family mortgage loans that are generally secured by properties in our primary market area. Multi-family loans are secured by first mortgages and generally are originated with a maximum loan-to-value ratio of 80% and generally require specified debt service coverage ratios depending on the characteristics of the project. Rates and other terms on such loans generally depend on our assessment of the credit risk after considering such factors as the borrower’s financial condition and credit history, loan-to-value ratio, debt service coverage ratio and other factors. At September 30, 2015, our largest multi-family mortgage loan had an outstanding balance of $2.1 million. This loan, which was originated in August 2010, was performing in accordance with its original terms at September 30, 2015.

Consumer Loans. Although we offer a variety of consumer loans, our consumer loan portfolio consists primarily of home equity loans, both fixed-rate amortizing term loans with terms up to 15 years and adjustable rate lines of credit with interest rates equal to a margin above the prime lending rate. We also offer auto and truck loans, personal loans and small boat loans. Consumer loans typically have shorter maturities and higher interest rates than traditional one-to four-family lending. We typically do not make home equity loans with loan-to-value ratios exceeding 90%, including any first mortgage loan balance. The procedures for underwriting consumer loans include an assessment of the applicant's payment history on other debts and ability to meet existing obligations and payments on the proposed loan. Although the applicant's creditworthiness is a primary consideration, the underwriting process also includes a comparison of the value of the collateral, if any, to the proposed loan amount. At September 30, 2015, our largest consumer loan was a home equity line of credit with a commitment of $300,000, of which $263,000 was outstanding. This loan, which was originated in December 2004 and is secured by a first mortgage on a personal residence, was performing in accordance with its original terms at September 30, 2015.

Commercial Business Loans. We typically offer commercial business loans to small businesses located in our primary market area. Commercial business loans are generally secured by equipment and general business assets. Key loan terms and covenants vary depending on the collateral, the borrower's financial condition, credit history and other relevant factors, and personal guarantees are typically required as part of the loan commitment. At September 30, 2015, our largest commercial business loan was for a commitment of $7.0 million, of which $4.7 million was outstanding. This loan, which was originated in July 2008 and most recently renewed in April 2015 and is secured by contract assignments and accounts receivable, was performing in accordance with its original terms at September 30, 2015.

Loan Underwriting Risks

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

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

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

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

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

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

Loan Originations, Sales and Purchases. Loan originations come from a number of sources. The primary sources of loan originations are existing customers, walk-in traffic, advertising, and referrals from customers and centers of influence, such as real estate agents, attorneys, accountants and other professionals.

We have not historically sold whole loans, other than long-term fixed-rate residential mortgage loans that we originate, which we generally sell in the secondary market. We have not historically purchased whole loans; however, we acquired four brokered whole loans during the year ended September 30, 2012. The loans were purchased at an average of 0.90% of their principal balance and are secured by multi-family and retail shopping centers located in Indiana. At September 30, 2015, three of these loans remained outstanding with a total principal balance of $4.2 million and were performing in accordance with their original terms.

While we generally do not sell participation interests in loans originated by us or purchase participation interests in loans originated by other financial institutions in order to supplement our lending portfolio, we may sell or purchase participation interests in loans from time to time depending on various factors. At September 30, 2015, $19.9 million of loans included sold participation interests of $12.2 million, for a net position of $7.7 million outstanding in our portfolio. At September 30, 2015, acquired participation interests of loans from four lending relationships totaled $5.0 million and our largest purchased participation interest with a single borrower was $2.1 million. This loan, which was originated in June 2011 and is secured by a local county hospital facility, was performing in accordance with its original terms at September 30, 2015.

Beginning in April 2015, the Bank hired a management team, business development officers (loan officers), underwriters and supporting staff that are seasoned and experienced in U.S. Small Business Administration ("SBA") lending in order to enhance the Company's proficiency in SBA 7(a) program loan originations and sales. The Bank intends to continue hiring additional business development officers and appropriate supporting staff during the fiscal year ending September 30, 2016 in order to grow this program, the borrowers and collateral for which are out of our primary market area. The primary purpose of the program is to originate SBA 7(a) program loans and sell the amounts guaranteed by the SBA in the secondary market. The program is also designed to diversify the Company's geographic and interest rate risk profile with respect to the retained unguaranteed amounts given the geographic dispersion of the loans and collateral, and their floating rate structure. The Company originated $5.7 million of these loans during 2015, of which $5.3 million was outstanding and included in loans held for sale with a fair value of $5.8 million at September 30, 2015 on the balance sheet of the Consolidated Financial Statements beginning on page F-1 of this annual report. See Note 22 of the Notes to Consolidated Financial Statements beginning of page F-1 of this annual report for additional information regarding the fair value election for SBA loans held for sale at September 30, 2015.

Our decision to sell or purchase loans is based on prevailing market interest rate conditions, interest rate management, regulatory lending restrictions and liquidity needs.

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

Loans to One Borrower. The maximum amount that we may lend to one borrower and the borrower's related entities is limited, by regulation, to generally 15% of our stated capital and reserves. At September 30, 2015, our regulatory limit on loans to one borrower was $10.4 million. At that date, our largest lending relationship was for a commitment of $8.0 million, of which $5.6 million was outstanding, and was performing according to its original terms at that date. This loan relationship is secured by various commercial real estate properties and land intended for future development.

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

Investment Activities

We have legal authority to invest in various types of liquid assets, including U.S. Treasury obligations, securities of various U.S. government agencies and sponsored enterprises, securities of various state and municipal governments, mortgage-backed securities, collateralized mortgage obligations and certificates of deposit of federally insured institutions. Within certain regulatory limits, we also may invest a portion of our assets in other permissible securities. As a member of the Federal Reserve System and Federal Home Loan Bank System, in particular a member of the Federal Home Loan Bank of Indianapolis ("FHLB"), First Savings Bank is also are required to acquire and hold shares of capital stock in the Federal Reserve Bank and FHLB.

At September 30, 2015, our investment portfolio consisted primarily of U.S. government agency and sponsored enterprises securities, mortgage backed securities and collateralized mortgage obligations issued by U.S. government agencies and sponsored enterprises, municipal bonds, privately-issued collateralized mortgage obligations and asset-backed securities, and a pass-through asset-backed security guaranteed by the SBA. We have invested $10.0 million in a managed brokerage account that invests in small and medium lot, investment grade municipal bonds and these securities are classified as trading account securities. The brokerage account is managed by an investment advisory firm registered with the U.S. Securities and Exchange Commission. At September 30, 2015, trading account securities recorded at fair value totaled $9.0 million.

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

Deposit Activities and Other Sources of Funds

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

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

Borrowings. We use advances from the FHLB to supplement our investable funds. First Savings Bank is a member of the Federal Home Loan Bank System, which consists of 12 regional Federal Home Loan Banks. The Federal Home Loan Bank System functions as a central reserve bank providing credit for member financial institutions. First Savings Bank, as a member of the FHLB, is required to acquire and hold shares of capital stock in the FHLB and is authorized to apply for advances on the security of such stock and certain of our mortgage loans and other assets (principally securities which are obligations of the U.S., U.S. government agencies or U.S. government-sponsored enterprises), provided certain standards related to creditworthiness have been met. Advances are made under several different programs, each having its own interest rate and range of maturities. Depending on the program, limitations on the amount of advances are based either on a fixed percentage of an institution's net worth or on the FHLB's assessment of the institution's creditworthiness. We have a federal funds purchased line of credit facility with another financial institution that is subject to continued borrower eligibility and is intended to support short-term liquidity needs. We also utilize brokered certificates of deposit and retail repurchase agreements as sources of borrowings and may use broker repurchase agreements and internet certificates of deposit from time to time, depending on our liquidity needs and pricing of these facilities versus other funding alternatives.

Personnel

As of September 30, 2015, we had 148 full-time employees and 22 part-time employees, none of whom is represented by a collective bargaining unit. We believe our relationship with our employees is good.

Subsidiaries

The Company has two wholly-owned subsidiaries, First Savings Bank and First Savings Insurance Risk Management, Inc (the “Captive”). The Bank has three subsidiaries, Southern Indiana Financial Corporation and FFCC, Inc. (“FFCC”), both of which are organized as Indiana corporations, and First Savings Investments, Inc., a Nevada corporation. Southern Indiana Financial Corporation is an independent insurance agency, offering various types of annuities and life insurance policies, but is currently inactive. FFCC participates in the development and leasing of commercial real estate. First Savings Investments, Inc. holds and manages an investment securities portfolio. The Captive, an insurance subsidiary of the Company formed during the fourth fiscal quarter of 2014, is a Nevada corporation that provides property and casualty insurance to the Company, the Bank and the Bank’s active subsidiaries. In addition, the Captive provides reinsurance to eight other third-party insurance captives for which insurance may not be currently available or economically feasible in the insurance marketplace.

REGULATION AND SUPERVISION

General

First Savings Bank converted its charter from a federal savings bank to an Indiana commercial bank on December 19, 2014. First Savings Bank, as an Indiana commercial bank, is subject to extensive regulation, examination and supervision by the Indiana Department of Financial Institutions ("INDFI"). As a member bank of the Federal Reserve System, First Savings Bank's primary federal regulator is the Federal Reserve Board ("FRB"). First Savings Bank is also a member of the Federal Home Loan Bank System and its deposit accounts are insured up to applicable limits by the Deposit Insurance Fund of the FDIC. First Savings Bank must file reports with its regulatory agencies concerning its activities and financial condition in addition to obtaining regulatory approvals before entering into certain transactions such as mergers with, or acquisitions of, other financial institutions. There are periodic examinations by the INDFI and FRB to evaluate First Savings Bank's safety and soundness and compliance with various regulatory requirements. This regulatory structure is intended primarily for the protection of the Deposit Insurance Fund and depositors. The regulatory structure also gives the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to the classification of assets and the establishment of an adequate allowance for loan losses for regulatory purposes. Any change in such policies, whether by the INDFI, FRB, or Congress, could have a material adverse impact on First Savings Financial Group and First Savings Bank and their operations.

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

Regulation of First Savings Bank

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

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

Loans to One Borrower. Indiana law establishes limits on a bank's loans to one borrower. Generally, subject to certain exceptions, an Indiana bank may not make a loan or extend credit to a single or related group of borrowers in excess of 15% of its unimpaired capital and surplus. An additional amount may be lent, equal to 10% of unimpaired capital and surplus, if secured by specified readily-marketable collateral. These limits are similar to those applicable to First Savings Bank under its previous federal savings bank charter.

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

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

In determining the amount of risk-weighted assets for purposes of calculating risk-based capital ratios, assets, including certain off-balance sheet assets (e.g., recourse obligations, direct credit substitutes, residual interests) are multiplied by a risk weight factor assigned by the regulations based on the risks believed inherent in the type of asset. Higher levels of capital are required for asset categories believed to present greater risk. For example, a risk weight of 0% is assigned to cash and U.S. government securities, a risk weight of 50% is generally assigned to prudently underwritten first lien one to four- family residential mortgages, a risk weight of 100% is assigned to commercial and consumer loans, a risk weight of 150% is assigned to certain past due loans and a risk weight of between 0% to 600% is assigned to permissible equity interests, depending on certain specified factors.

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

The FRB has authority to establish individual minimum capital requirements in appropriate cases upon a determination that an institution's capital level is or may become inadequate in light of the particular risks or circumstances.

As of September 30, 2015, First Savings Bank met all applicable capital adequacy requirements.

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

Subject to a narrow exception, receiver or conservator is required to be appointed for an institution that is “critically undercapitalized” within specified time frames. The regulations also provide that a capital restoration plan must be filed with the FRB within 45 days of the date an institution is deemed to have received notice that it is “undercapitalized,” “significantly undercapitalized” or “critically undercapitalized.” Compliance with the plan must be guaranteed by any parent holding company up to the lesser of 5% of the institution’s total assets when it was deemed to be undercapitalized or the amount necessary to achieve compliance with applicable capital requirements. In addition, numerous mandatory supervisory actions become immediately applicable to an undercapitalized institution including, but not limited to, increased monitoring by regulators and restrictions on growth, capital distributions and expansion. The FRB could also take any one of a number of discretionary supervisory actions, including the issuance of a capital directive and the replacement of senior executive officers and directors. Significantly and critically undercapitalized institutions are subject to additional mandatory and discretionary measures.

Insurance of Deposit Accounts. First Savings Bank’s deposits are insured up to applicable limits by the Deposit Insurance Fund of the FDIC. Under the FDIC’s existing risk-based assessment system, insured institutions are assigned to one of four risk categories based on supervisory evaluations, regulatory capital levels and certain other factors, with less risky institutions paying lower assessments. An institution’s assessment rate depends upon the category to which it is assigned and certain specified adjustments. On February 7, 2011, the FDIC issued final rules, effective April 1, 2011, implementing changes to the assessment process. The changes resulted from the Dodd-Frank Act’s directive to base assessments on an institution’s total assets less tangible capital instead of deposits, as had been the FDIC’s practice. The assessment rates (inclusive of adjustments) currently range from two and one half to 45 basis points of total capital less tangible assets, depending upon the particular institution’s risk category. The rate schedules will automatically adjust in the future when the Deposit Insurance Fund reaches certain milestones. No institution may pay a dividend if in default of the federal deposit insurance assessment.

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

The Dodd-Frank Act increased the minimum target Deposit Insurance Fund ratio from 1.15% of estimated insured deposits to 1.35% of estimated insured deposits. The FDIC must seek to achieve the 1.35% ratio by September 30, 2020. Insured institutions with assets of $10 billion or more are supposed to fund the increase. The Dodd-Frank Act eliminated the 1.5% maximum fund ratio, instead leaving it to the discretion of the FDIC. The FDIC has exercised that discretion by establishing a target fund ratio of 2%, which it has established as a long term goal.

The FDIC has authority to increase insurance assessments. A significant increase in insurance premiums would likely have an adverse effect on the operating expenses and results of operations of First Savings Bank. Management cannot predict what insurance assessment rates will be in the future.

Insurance of deposits may be terminated by the FDIC upon a finding that the institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FRB or FDIC. The management of First Savings Bank does not know of any practice, condition or violation that might lead to termination of deposit insurance.

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

If First Savings Bank's capital ever fell below its regulatory requirements or the FRB notified it that it was in need of increased supervision, its ability to pay dividends or otherwise make capital distributions could be restricted. In addition, the INDFI and/or FRB could prohibit a proposed capital distribution, which would otherwise be permitted by the regulation, if the regulator determined that such distribution would constitute an unsafe or unsound practice.

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

Community Reinvestment Act. All federally-insured banks have a responsibility under the Community Reinvestment Act and related regulations to help meet the credit needs of their communities, including low- and moderate-income neighborhoods. An institution's failure to satisfactorily comply with the provisions of the Community Reinvestment Act could result in denials of regulatory applications. First Savings Bank received a "satisfactory" Community Reinvestment Act rating in its most recently completed examination.

Transactions with Related Parties. Federal law limits First Savings Bank's authority to engage in transactions with "affiliates" (*e.g.*, any entity that controls or is under common control with First Savings Bank, including First Savings Financial Group and its other subsidiaries). The aggregate amount of covered transactions with any individual affiliate is limited to 10% of the capital and surplus of a bank. The aggregate amount of covered transactions with all affiliates is limited to 20% of a bank's capital and surplus. Certain transactions with affiliates are required to be secured by collateral in an amount and of a type specified by federal law. The purchase of low quality assets from affiliates is generally prohibited. Transactions with affiliates must generally be on terms and under circumstances that are at least as favorable to the institution as those prevailing at the time for comparable transactions with non-affiliated companies.

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

Enforcement. The INDFI maintains enforcement authority over First Savings Bank, including the power to issue cease and desist orders and civil money penalties and remove directors, officers or employees. The INDFI also has the power to appoint a conservator or receiver for a bank upon insolvency, imminent insolvency, unsafe or unsound condition or certain other situations. The FRB has primary federal enforcement responsibility over Federal Reserve System member state banks and has authority to bring actions against the institution and all institution-affiliated parties, including shareholders, and any attorneys, appraisers and accountants who knowingly or recklessly participate in wrongful actions likely to have an adverse effect on the bank. Formal enforcement action may range from the issuance of a capital directive or cease and desist order to removal of officers and/or directors. Civil penalties cover a wide range of violations and can amount to $25,000 per day, or even $1 million per day in especially egregious cases. The FDIC, as deposit insurer, has the authority to recommend to the FRB that enforcement action be taken with respect to a member bank. If action is not taken by the FRB, the FDIC has authority to take such action under certain circumstances. In general, regulatory enforcement actions occur with respect to situations involving unsafe or unsound practices or conditions, violations of law or regulation or breaches of fiduciary duty. Federal and Indiana law also establish criminal penalties for certain violations.

Assessments. Indiana banks are required to pay assessments to the INDFI to fund the agency’s operations. The assessments paid to the INDFI by First Savings Bank for the fiscal year ended September 30, 2015 totaled $50,000.

Federal Home Loan Bank System. First Savings Bank is a member of the Federal Home Loan Bank System, which consists of 12 regional Federal Home Loan Banks. The Federal Home Loan Bank System provides a central credit facility primarily for member institutions. First Savings Bank, as a member of the FHLB, is required to acquire and hold shares of capital stock in the FHLB. First Savings Bank was in compliance with this requirement with an investment in FHLB capital stock at September 30, 2015 of $5.8 million.

Federal Reserve Board System. The FRB regulations require banks to maintain reserves against their transaction accounts (primarily Negotiable Order of Withdrawal (NOW) and regular checking accounts). The regulations generally provide that reserves be maintained against aggregate transaction accounts as follows for 2015: a 3% reserve ratio is assessed on net transaction accounts up to and including $103.6 million; a 10% reserve ratio is applied above $103.6 million. The first $14.5 million of otherwise reservable balances (subject to adjustments by the FRB) are exempted from the reserve requirements. First Savings Bank complies with the foregoing requirements. The amounts are adjusted annually and, for 2016, establish a 3% reserve ratio for aggregate transaction accounts up to $110.0 million, a 10% ratio above $110 million, and an exemption of $15.2 million. In October 2008, the FRB began paying interest on certain reserve balances.

Other Regulations

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

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

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

- Right to Financial Privacy Act, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records;

- Electronic Funds Transfer Act and Regulation E promulgated thereunder, which govern automatic deposits to and withdrawals from deposit accounts and customers' rights and liabilities arising from the use of automated teller machines and other electronic banking services; and
- Check Clearing for the 21st Century Act (also known as "Check 21"), which gives "substitute checks," such as digital check images and copies made from that image, the same legal standing as the original paper check.

Holding Company Regulation

General. Upon the charter conversion of First Savings Bank from a federal savings bank to an Indiana commercial bank, First Savings Financial Group became a bank holding company rather than a savings and loan holding company, and simultaneously elected financial holding company status. As a bank holding company, First Savings Financial Group is subject to FRB regulation, examination, supervision and reporting requirements. In addition, the FRB has enforcement authority over First Savings Financial Group and its non-savings institution subsidiaries. Among other things, this authority permits the FRB to restrict or prohibit activities that are determined to be a serious risk to First Savings Bank. The INDFI also has examination and enforcement authority since First Savings Financial Group controls an Indiana bank.

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

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

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

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

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

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

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

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

Acquisition of Control. Under the federal Change in Bank Control Act, no person may acquire control of a bank holding company such as First Savings Financial Group unless the FRB has been given 60 days' prior written notice and has not issued a notice disapproving the proposed acquisition, taking into consideration certain factors, including the financial and managerial resources of the acquirer and the competitive effects of the acquisition. Control, as defined under federal law, means ownership, control of or holding irrevocable proxies representing more than 25% of any class of voting stock, control in any manner of the election of a majority of the company's directors, or a determination by the regulator that the acquirer has the power to direct, or directly or indirectly to exercise a controlling influence over, the management or policies of the institution. Acquisition of more than 10% of any class of a bank holding company's voting stock constitutes a rebuttable presumption of control under the regulations under certain circumstances including where, is the case with First Savings Financial Group, the issuer has registered securities under Section 12 of the Securities Exchange Act of 1934. Indiana law requires INDFI approval for changes in control of companies controlling Indiana banks, with "control" defined to mean power to direct the management or policies of the holding company or power to vote at least 25% of the company's voting securities.

Federal Securities Laws

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

INCOME TAXATION

Federal Taxation

General. We report our income on a fiscal year basis using the accrual method of accounting. The federal income tax laws apply to us in the same manner as to other corporations with some exceptions, including particularly our reserve for bad debts discussed below. The following discussion of tax matters is intended only as a summary and does not purport to be a comprehensive description of the tax rules applicable to us. For its 2015 fiscal year, the Company’s maximum federal income tax rate was 34%.

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

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

Bad Debt Reserves. For fiscal years beginning before June 30, 1996, thrift institutions that qualified under certain definitional tests and other conditions of the Internal Revenue Code, as the Bank did prior to its conversion to a commercial bank in December 2014, were permitted to use certain favorable provisions to calculate their deductions from taxable income for annual additions to their bad debt reserve. A reserve could be established for bad debts on qualifying real property loans, generally secured by interests in real property improved or to be improved, under the percentage of taxable income method or the experience method. The reserve for nonqualifying loans was computed using the experience method. Federal legislation enacted in 1996 repealed the reserve method of accounting for bad debts and the percentage of taxable income method for tax years beginning after 1995 and required savings institutions to recapture or take into income certain portions of their accumulated bad debt reserves. Approximately $4.6 million of our accumulated bad debt reserves would not be recaptured into taxable income unless First Savings Bank makes a “non-dividend distribution” to First Savings Financial Group as described below.

Distributions. If First Savings Bank makes “non-dividend distributions” to First Savings Financial Group, the distributions will be considered to have been made from First Savings Bank’s unrecaptured tax bad debt reserves, including the balance of its reserves as of September 30, 1988, to the extent of the “non-dividend distributions,” and then from First Savings Bank’s supplemental reserve for losses on loans, to the extent of those reserves, and an amount based on the amount distributed, but not more than the amount of those reserves, will be included in First Savings Bank’s taxable income. Non-dividend distributions include distributions in excess of First Savings Bank’s current and accumulated earnings and profits, as calculated for federal income tax purposes, distributions in redemption of stock, and distributions in partial or complete liquidation. Dividends paid out of First Savings Bank’s current or accumulated earnings and profits will not be so included in First Savings Bank’s taxable income.

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

State Taxation

Indiana. Effective July 1, 2013, Indiana amended its tax code to provide for reductions in the franchise tax rate. For the Company’s tax year ended September 30, 2015, Indiana imposed an 8.0% franchise tax based on a financial institution’s adjusted gross income as defined by statute. The Indiana franchise tax rate will be reduced to 7.5%, 7.0%, 6.5%, 6.5%, 6.25%, 6.0%, 5.5%, 5.0% and 4.9% for the Company’s tax years ending September 30, 2016, 2017, 2018, 2019, 2020, 2021, 2022, 2023, and 2024 and years thereafter, respectively. In computing adjusted gross income, deductions for municipal interest, U.S. Government interest, the bad debt deduction computed using the reserve method and pre-1990 net operating losses are disallowed.

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

Item 1A. RISK FACTORS

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

At September 30, 2015, $31.0 million, or 17.0% of our residential mortgage loan portfolio and 6.4% of our total loan portfolio, consisted of loans secured by non-owner occupied residential properties. Loans secured by non-owner occupied properties generally expose a lender to greater risk of non-payment and loss than loans secured by owner occupied properties because repayment of such loans depend primarily on the tenant's continuing ability to pay rent to the property owner, who is our borrower, or, if the property owner is unable to find a tenant, the property owner's ability to repay the loan without the benefit of a rental income stream. In addition, the physical condition of non-owner occupied properties is often below that of owner occupied properties due to lax property maintenance standards, which has a negative impact on the value of the collateral properties. Furthermore, some of our non-owner occupied residential loan borrowers have more than one loan outstanding with us. At September 30, 2015, we had 7 non-owner occupied residential loan relationships, each having an outstanding balance over $500,000, with aggregate outstanding balances of $6.6 million. Consequently, an adverse development with respect to one credit relationship may expose us to a greater risk of loss compared to an adverse development with respect to an owner occupied residential mortgage loan. At September 30, 2015, non-performing non-owner occupied residential loans amounted to $583,000. Non-owner occupied residential properties held as real estate owned amounted to $234,000 at September 30, 2015. For more information about the credit risk we face, see *"Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations — Risk Management."*

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

At September 30, 2015, $205.6 million, or 42.6%, of our loan portfolio consisted of commercial real estate loans and commercial business loans. Subject to market conditions, we intend to increase our origination of these loans. Commercial real estate loans generally expose a lender to greater risk of non-payment and loss than one- to four-family residential mortgage loans because repayment of the loans often depends on the successful operation of the property and the income stream of the borrowers. Commercial real estate loans also typically involve larger loan balances to single borrowers or groups of related borrowers both at origination and at maturity because many of our commercial real estate loans are not fully-amortizing, but result in "balloon" balances at maturity. Commercial business loans expose us to additional risks since they typically are made on the basis of the borrower's ability to make repayments from the cash flow of the borrower's business and are secured by non-real estate collateral that may depreciate over time. In addition, some of our commercial borrowers have more than one loan outstanding with us. Consequently, an adverse development with respect to one loan or one credit relationship may expose us to a greater risk of loss compared to an adverse development with respect to a one- to four-family residential mortgage loan. At September 30, 2015, non-performing commercial business loans and non-performing commercial real estate loans totaled $304,000 and $1.9 million, respectively. For more information about the credit risk we face, see *"Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations — Risk Management."*

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

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

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

At September 30, 2015, $46.3 million, or 9.6% of our loan portfolio consisted of construction loans, and land and land development loans, and $8.9 million, or 24.5% of the construction loan portfolio, consisted of speculative construction loans at that date. While recently the demand for construction loans has declined due to the decline in the housing market and tighter lending standards, historically, construction loans, including speculative construction loans, have been a material part of our loan portfolio. Speculative construction loans are loans made to builders who have not identified a buyer for the completed property at the time of loan origination. Subject to market conditions, we intend to continue to emphasize the origination of construction loans and land and land development loans. These loan types generally expose a lender to greater risk of nonpayment and loss than residential mortgage loans because the repayment of such loans often depends on the successful operation or sale of the property and the income stream of the borrowers and such loans typically involve larger balances to a single borrower or groups of related borrowers. In addition, many borrowers of these types of loans have more than one loan outstanding with us so an adverse development with respect to one loan or credit relationship can expose us to significantly greater risk of non-payment and loss. Furthermore, we may need to increase our allowance for loan losses through future charges to income as the portfolio of these types of loans grows, which would hurt our earnings. For more information about the credit risk we face, see *“Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations — Risk Management.”*

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

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

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

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

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

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

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

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

Changing interest rates may hurt our earnings and asset value.

Our net interest income is the interest we earn on loans and investments less the interest we pay on our deposits and borrowings. Our net interest margin is the difference between the yield we earn on our assets and the interest rate we pay for deposits and our other sources of funding. Changes in interest rates—up or down—could adversely affect our net interest margin and, as a result, our net interest income. Although the yield we earn on our assets and our funding costs tend to move in the same direction in response to changes in interest rates, one can rise or fall faster than the other, causing our net interest margin to expand or contract. Our liabilities tend to be shorter in duration than our assets, so they may adjust faster in response to changes in interest rates. As a result, when interest rates rise, our funding costs may rise faster than the yield we earn on our assets, causing our net interest margin to contract until the yield catches up. Changes in the slope of the "yield curve"—or the spread between short-term and long-term interest rates—could also reduce our net interest margin. Normally, the yield curve is upward sloping, meaning short-term rates are lower than long-term rates. Because our liabilities tend to be shorter in duration than our assets, when the yield curve flattens or even inverts, we could experience pressure on our net interest margin as our cost of funds increases relative to the yield we can earn on our assets. Also, interest rate decreases can lead to increased prepayments of loans and mortgage-backed securities as borrowers refinance their loans to reduce borrowing costs. Under these circumstances, we are subject to reinvestment risk as we may have to redeploy such repayment proceeds into lower yielding investments, which would likely hurt our income. At September 30, 2015, approximately $214.8 million, or 44.5% of the total loan portfolio, consisted of fixed-rate mortgage loans. This investment in fixed-rate mortgage loans exposes the Company to increased levels of interest rate risk.

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

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

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

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

Goodwill represents the amount of acquisition cost over the fair value of net assets we acquired in the purchase of another financial institution. We review goodwill for impairment at least annually, or more frequently if events or changes in circumstances indicate the carrying value of the asset might be impaired. We determine impairment by comparing the implied fair value of the reporting unit goodwill with the carrying amount of that goodwill. If the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. Any such adjustments are reflected in our results of operations in the periods in which they become known. At September 30, 2015, our goodwill totaled $7.9 million. While we have recorded no such impairment charges since we initially recorded the goodwill, there can be no assurance that our future evaluations of goodwill will not result in findings of impairment and related write-downs, which may have a material adverse effect on our financial condition and results of operations.

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

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

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

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

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

We face intense competition both in making loans and attracting deposits. This competition has made it more difficult for us to make new loans and attract deposits. Price competition for loans and deposits might result in us earning less on our loans and paying more on our deposits, which would reduce net interest income. Competition also makes it more difficult to grow loans and deposits. At June 30, 2015, which is the most recent date for which data is available from the FDIC, we held approximately 12.84%, 2.98%, 32.63%, 80.96% and 10.81% of the FDIC-insured deposits in Clark, Floyd, Harrison, Crawford and Washington Counties, Indiana, respectively. Some of the institutions with which we compete have substantially greater resources and lending limits than we have and may offer services that we do not provide. We expect competition to increase in the future as a result of legislative, regulatory and technological changes and the continuing trend of consolidation in the financial services industry. Our profitability depends upon our continued ability to compete successfully in our primary market area. See *"Item 1. Business — Market Area"* and *"Item 1. Business — Competition"* for more information about our primary market area and the competition we face.

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

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

Our business may be adversely affected by internet fraud.

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

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

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

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

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

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

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

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

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

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

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

Our ability to pay dividends is subject to certain limitations and restrictions, and there is no guarantee that we will be able to continue paying the same level of dividends in the future that we paid in 2015 or that we will be able to pay future dividends at all.

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

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

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

If we are unable to redeem the Senior Non-cumulative Preferred Stock, Series A prior to February 11, 2016, the cost of this capital to us will increase from approximately $171,000 annually (based on the average dividend rate for 2014, or 1.0% per annum of the Series A preferred stock liquidation value) to $1.5 million annually (9.0% per annum of the Series A preferred stock liquidation value). This increase in the annual dividend rate on the Senior Non-cumulative Preferred Stock, Series A would have a material negative effect on the earnings we can retain for growth and to pay dividends on our common stock.

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

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

Item 1B. UNRESOLVED STAFF COMMENTS

None.

Item 2. PROPERTIES

We conduct our business through our main office and branch offices. The following table sets forth certain information relating to these facilities as of September 30, 2015.

Location	Year Opened	Owned/ Leased
Main Office:		
Clarksville Main Office 501 East Lewis & Clark Parkway Clarksville, Indiana	1968	Owned
Branch Offices:		
Jeffersonville - Allison Lane Office 2213 Allison Lane Jeffersonville, Indiana	1975	Owned
Charlestown Office 1100 Market Street Charlestown, Indiana	1993	Owned

Georgetown Office 1000 Copperfield Drive Georgetown, Indiana	2003	Owned
Jeffersonville - Court Avenue Office 202 East Court Avenue Jeffersonville, Indiana	1986	Owned
Sellersburg Office 125 Hunter Station Way Sellersburg, Indiana	1995	Owned
Corydon Office 900 Hwy 62 NW Corydon, Indiana	1996	Owned
Salem Office 1336 S Jackson Street Salem, Indiana	1995	Owned
English Office 200 Indiana Avenue English, Indiana	1925	Owned
Marengo Office 125 W Old Short Street Marengo, Indiana	1984	Owned
Leavenworth Office 510 Hwy 62 Leavenworth, Indiana	1969	Owned
Lanesville Office 7340 Main Street NE Lanesville, Indiana	1948	Owned
Elizabeth Office 8160 Beech Street SE Elizabeth, Indiana	1975	Owned
New Albany Office 2218 State Street New Albany, Indiana	2013	Owned

The Bank owns two former branch office locations that have been closed and the operations of which were consolidated into existing branch office operations. The property located in Floyds Knobs, Indiana is utilized by the Bank as an operation center and the property located in Milltown, Indiana, is valued at $100,000 and was included in “other real estate owned, held for sale” at September 30, 2015 on the balance sheet of the Consolidated Financial Statements beginning on page F-1 of this annual report.

The Company owns a 4.077 acre parcel of land in New Albany, Indiana, which it has developed for retail purposes through a subsidiary of the Bank, FFCC. The retail development includes over 36,000 square feet of leasable class-A retail space and includes the Bank’s New Albany branch office location. See Note 5 of the Notes to Consolidated Financial Statements beginning on page F-1 of this annual report for additional information regarding the real estate development and construction.

The Company purchased an 8.097 acre parcel of land in Jeffersonville, Indiana, in July 2013 upon which it may locate a new main office and subsequently divest of additional unused acreage in future years. However, there were no formal plans as of September 30, 2015 to proceed with a new main office location or divestiture of the additional acreage. This land, with a carrying value of approximately $1.73 million, was included in “premises and equipment” at September 30, 2015 on the balance sheet of the Consolidated Financial Statements beginning on page F-1 of this annual report.

As a result of the Bank’s conversion to an Indiana-chartered commercial bank and entry in the Federal Reserve System on December 19, 2014, the Company is required under federal regulations to divest of its commercial real estate development by December 19, 2016 but may apply to the FRB for extension of the conformance period for up to three additional years, in three one-year increments. The Company is required under Indiana statute to divest of its commercial real estate development within a ten-year period, or prior to December 19, 2024. In connection with its charter conversion, the Bank has committed under a plan of divestiture filed with the INDFI to divest of the commercial real estate development and the additional unused acreage in Jeffersonville, Indiana, if any, prior to December 31, 2017, which may require approval from the FRB for extension of the federal conformance period beyond December 19, 2016.

Item 3. LEGAL PROCEEDINGS

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

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

Market for Common Equity and Related Stockholder Matters

The Company's common stock is listed on the NASDAQ Capital Market ("NASDAQ") under the trading symbol "FSFG." As of December 11, 2015, the Company had approximately 255 holders of record and 2,196,220 shares of common stock outstanding. The figure of shareholders of record does not reflect the number of persons whose shares are in nominee or "street" name accounts through brokers. See Item 1, *"Business—Regulation and Supervision—Limitation on Capital Distributions"* and Note 25 of the Notes to Consolidated Financial Statements beginning on page F-1 of this annual report for information regarding dividend restrictions applicable to the Company.

The following table provides quarterly market price and dividend information per common share for the fiscal years ended September 30, 2015 and 2014 as reported by NASDAQ.

	High Sale	Low Sale	Dividends	Market price end of period
2015:				
Fourth Quarter	$36.39	$29.25	$ 0.12	$ 34.00
Third Quarter	30.00	28.05	0.12	29.75
Second Quarter	29.57	25.55	0.12	28.95
First Quarter	26.45	24.50	0.11	26.25
2014:				
Fourth Quarter	$25.10	$23.62	$ 0.11	$ 24.96
Third Quarter	24.58	22.45	0.11	24.18
Second Quarter	24.00	22.71	0.11	23.48
First Quarter	23.84	20.88	0.10	22.85

On November 18, 2015, the Company declared a quarterly cash dividend of $0.12 per share on its outstanding common stock, payable on or about December 31, 2015 to stockholders of record as of the close of business on December 4, 2015. The Company currently intends to maintain a policy of paying regular quarterly cash dividends; however, the Company cannot guarantee that it will pay dividends or that if paid, it will not reduce or eliminate dividends in the future.

Purchases of Equity Securities

The following table presents information regarding the Company's stock repurchase activity during the quarter ended September 30, 2015:

Period	(a) Total number of shares purchased	(b) Average price paid per share	(c) Total number of shares purchased as part of publicly announced plans or programs (1)	(d) Maximum number of shares that may yet be purchased under the plans or programs
July 1, 2015 through July 31, 2015	—	—	—	78,590
August 1, 2015 through August 31, 2015	—	—	—	78,590
September 1, 2015 through September 30, 2015	—	—	—	78,590
Total	—	—	—	78,590

(1) On November 16, 2012, the Company announced that its Board of Directors authorized a stock repurchase program to acquire up to 230,217 shares, or 10.0% of the Company's outstanding common stock. Under the program, which has no expiration date, repurchases are to be conducted through open market purchases or privately negotiated transactions, and are to be made from time to time depending on market conditions and other factors. There is no guarantee as to the exact number of shares to be repurchased by the Company. Repurchased shares will be held in treasury.

Equity Compensation Plan Information

The following table sets forth information as of September 30, 2015 about Company common stock that may be issued under the Company's equity compensation plans. All plans were approved by the Company's stockholders.

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

	rights (a)	(b)	column (a)) (c)
Equity compensation plans approved by security holders	213,260	$ 13.25	–
Equity compensation plans not approved by security holders	N/A	N/A	N/A
Total	213,260	$ 13.25	–

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Item 6. SELECTED FINANCIAL DATA

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

	At September 30,				
(In thousands)	2015	2014	2013	2012	2011
Financial Condition Data:					
Total assets	$749,946	$713,129	$660,455	$638,913	$537,086
Cash and cash equivalents	24,994	20,330	20,815	38,791	27,203
Trading account securities	9,044	5,319	3,210	3,562	–
Securities available-for-sale	178,328	184,697	164,167	152,543	108,577
Securities held-to-maturity	4,620	5,419	6,417	7,848	9,506
Loans, net	457,112	433,876	408,375	389,067	354,432
Deposits	533,297	533,194	477,726	494,234	387,626
Borrowings from FHLB	104,867	79,548	89,348	53,062	53,137
Other borrowings	5,974	6,150	6,308	3,461	16,403
Stockholders' equity	94,357	87,080	82,253	82,926	76,601

	For the Year Ended September 30,				
(In thousands)	2015	2014	2013	2012	2011
Operating Data:					
Interest income	$27,987	$27,494	$27,175	$25,994	$25,983
Interest expense	3,778	3,555	3,936	4,675	5,385
Net interest income	24,209	23,939	23,239	21,319	20,598
Provision for loan losses	859	1,246	1,858	1,532	1,605
Net interest income after provision for loan losses	23,350	22,693	21,381	19,787	18,993
Noninterest income	5,976	5,046	4,258	3,422	3,008
Noninterest expense	20,999	20,272	19,132	17,464	16,308
Income before income taxes	8,327	7,467	6,507	5,745	5,693
Income tax expense	1,576	2,077	1,811	1,458	1,679
Net income	6,751	5,390	4,696	4,287	4,014
Less: Preferred stock dividends declared	171	171	171	171	115
Net income available to common shareholders	$6,580	$5,219	$4,525	$4,116	$3,899

	For the Year Ended September 30,				
	2015	2014	2013	2012	2011
Per Share Data:					
Net income per common share, basic	$3.07	$2.46	$2.09	$1.90	$1.82
Net income per common share, diluted	2.93	2.34	1.99	1.85	1.78

Dividends per common share	0.47	0.43	0.70	0.00	0.00

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	At or For the Year Ended September 30,									
	2015		2014		2013		2012		2011	
Performance Ratios:										
Return on average assets	0.93	%	0.78	%	0.72	%	0.75	%	0.78	%
Return on average equity	7.43		6.38		5.63		5.42		6.85	
Return on average common stockholders' equity	9.16		8.01		7.09		6.92		6.89	
Interest rate spread (1)	3.74		3.86		3.98		4.07		4.30	
Net interest margin (2)	3.84		3.93		4.09		4.22		4.44	
Other expenses to average assets	2.88		2.92		2.94		3.05		3.15	
Efficiency ratio (3)	69.57		69.94		69.58		70.59		69.08	
Average interest-earning assets to average interest-bearing liabilities	116.90		114.66		115.27		116.16		111.98	
Dividend payout ratio	14.74		16.96		33.48		–		–	
Average equity to average assets	12.47		12.17		12.81		13.81		11.33	
Capital Ratios (4):										
Total capital (to risk-weighted assets):										
Consolidated	16.21	%	N/A		N/A		N/A		N/A	
Bank	13.13		14.87	%	17.04	%	17.07	%	17.52	%
Tier 1 capital (to risk-weighted assets):										
Consolidated	14.96		N/A		N/A		N/A		N/A	
Bank	11.88		13.62		15.78		15.82		16.29	
Common equity Tier 1 capital (to risk-weighted assets):										
Consolidated	14.96		N/A		N/A		N/A		N/A	
Bank	11.88		N/A		N/A		N/A		N/A	
Tier 1 capital (to average adjusted total assets):										
Consolidated	11.01		N/A		N/A		N/A		N/A	
Bank	8.67		9.14		10.36		10.12		11.34	

(1) Represents the difference between the weighted average yield on average interest-earning assets and the weighted average cost on average interest-bearing liabilities. Tax exempt income is reported on a tax equivalent basis using a federal marginal tax rate of 34%.

(2) Represents net interest income as a percent of average interest-earning assets. Tax exempt income is reported on a tax equivalent basis using a federal marginal tax rate of 34%.

(3) Represents other expenses divided by the sum of net interest income and other income.

(4) First Savings Financial Group was not subject to the regulatory capital requirements until its conversion from a savings and loan holding company to a bank holding company in December 2014. Therefore, the capital amounts and ratios presented for the years ended September 30, 2014, 2013, 2012 and 2011 are for the Bank only.

	At or For the Year Ended September 30,				
	2015	2014	2013	2012	2011
Asset Quality Ratios:					
Allowance for loan losses as a percent of total loans	1.37 %	1.40 %	1.32 %	1.23 %	1.29 %
Allowance for loan losses as a percent of non-performing loans	150.37	145.96	61.15	84.12	63.70
Net charge-offs to average outstanding loans during the period	0.11	0.12	0.30	0.35	0.21
Non-performing loans as a percent of total loans	0.91	0.96	2.17	1.46	2.02
Non-performing assets as a percent of total assets	1.75	1.79	2.39	2.21	2.01
Other Data:					
Number of offices	14	15	15	14	12
Number of deposit accounts (5)	33,430	34,049	34,788	36,259	29,777
Number of loans (6)	5,373	5,482	5,663	6,072	5,777

(5) The significant increase from 2011 to 2012 is due primarily to 5,826 deposit accounts acquired in the acquisition of the First Federal branches.

(6) The significant increase from 2011 to 2012 is due primarily to 768 loans acquired in the acquisition of the First Federal branches.

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

Overview

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

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

Expenses. The noninterest expenses we incur in operating our business consist of salaries and employee benefits expenses, occupancy expenses, data processing expenses, professional service fees, federal deposit insurance premiums, advertising, net losses on foreclosed real estate and other miscellaneous expenses. Our noninterest expenses increased for the year ended September 30, 2015 when compared to 2014 primarily as a result of increased compensation and benefits, data processing, and advertising.

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

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

Data processing expenses are the fees we pay to third parties for processing customer information, deposits and loans. Our data processing expenses increased in the year ended September 30, 2015 when compared to 2014 primarily as a result of increased fees to our core processor as well as additional services implemented in 2015.

Professional fees expense represents the fees we pay to third parties for legal, accounting, investment advisory and other consulting services. Our professional fees decreased in the year ended September 30, 2015 when compared to 2014 primarily as a result of nonrecurring expenses in 2014 for consulting services related to a revenue enhancement and operating expense efficiencies project and decreased performance in the managed trading securities account in 2015.

Federal deposit insurance premiums are payments we make to the FDIC for insurance of our deposit accounts.

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

Critical Accounting Policies

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

Allowance for Loan Losses. The allowance for loan losses is the amount estimated by management as necessary to cover losses inherent in the loan portfolio at the balance sheet date. The allowance is established through the provision for loan losses, which is charged to income. Determining the amount of the allowance for loan losses necessarily involves a high degree of judgment. Among the material estimates required to establish the allowance are: loss exposure at default; the amount and timing of future cash flows on impacted loans; value of collateral; and determination of loss factors to be applied to the various elements of the portfolio. All of these estimates are susceptible to significant change. Management reviews the level of the allowance at least quarterly and establishes the provision for loan losses based upon an evaluation of the portfolio, past loss experience, current economic conditions and other factors related to the collectability of the loan portfolio. Although we believe that we use the best information available to establish the allowance for loan losses, future adjustments to the allowance may be necessary if economic or other conditions differ substantially from the assumptions used in making the evaluation. In addition, the banking regulators, as an integral part of their examination process, periodically review our allowance for loan losses and may require us to recognize adjustments to the allowance based on their judgments about information available to them at the time of their examination. A large loss could deplete the allowance and require increased provisions to replenish the allowance, which would adversely affect earnings. Note 1 of the Notes to Consolidated Financial Statements beginning on page F-1 of this annual report describes the methodology used to determine the allowance for loan losses. The Company has not made any substantive changes to its methodology for determining the allowance for loan losses during the fiscal year ended September 30, 2015, and there have been no material changes in the assumptions or estimation techniques compared to prior years.

Other-Than-Temporary Impairment of Securities. The Company reviews all investment securities with significant declines in fair value for potential other-than-temporary impairment ("OTTI") on a periodic basis. In evaluating the investment portfolio for OTTI, management considers the issuer's credit rating, credit outlook, payment status and financial condition, the length of time the investment has been in a loss position, the size of the loss position and other meaningful information. Generally changes in market interest rates that result in a decline in value of an investment security are considered to be temporary, since the value of such investment can recover in the foreseeable future as market interest rates return to their original levels. However, such declines in value that are due to the underlying credit quality of the issuer or other adverse conditions that cannot be expected to improve in the foreseeable future, may be considered to be other-than-temporary. The Company recognizes credit-related OTTI on debt securities in earnings, while noncredit-related OTTI on debt securities not expected to be sold is recognized in accumulated other comprehensive income. Management believes this is a critical accounting policy because this evaluation of the underlying credit or analysis of other conditions contributing to the decline in value involves a high degree of complexity and requires us to make subjective judgments that often require assumptions or estimates about various matters. No other-than-temporary write-down charges to earnings were recognized during 2015 or 2014. See Note 3 of the Notes to Consolidated Financial Statements beginning on page F-1 of this annual report for additional information regarding OTTI.

Valuation Methodologies. In the ordinary course of business, management applies various valuation methodologies to assets and liabilities that often involve a significant degree of judgment, particularly when active markets do not exist for the items being valued. Generally, in evaluating various assets for potential impairment, management compares the fair value to the carrying value. Quoted market prices are referred to when estimating fair values for certain assets, such as investment securities. However, for those items for which market-based prices do not exist, management utilizes significant estimates and assumptions to value such items. Examples of these items include loans held for sale, goodwill and other intangible assets, foreclosed and other repossessed assets, estimated present value of impaired loans, value ascribed to stock-based compensation and certain other financial investments. The use of different assumptions could produce significantly different results, which could have material positive or negative effects on the Company's results of operations. See Notes 22 and 23 of the Notes to Consolidated Financial Statements beginning on page F-1 of this annual report for additional information.

Operating Strategy

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

- continuing our historical focus on residential mortgage lending but de-emphasizing residential mortgage lending secured by non-owner occupied properties;
- pursuing opportunities to increase commercial real estate lending and commercial business lending;
- improving customer service and product offerings by leveraging the Bank's investment in the core operating system and in new technology;
- providing exceptional customer service to attract and retain customers;
- promoting our presence, brand image and product offerings in our primarily market area;
- continuing to monitor asset quality and credit risk in the loan and investment portfolios;
- recognizing improvements in noninterest income with respect to service charges on deposits as a result of restructuring deposit account types and fees, interchange income as a result of promoting increased debit card usage, commission income related to non-deposit investment products, and gains on sales of mortgage loans and loans guaranteed by the SBA in the secondary market;

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

- increasing shareholder value through stock repurchase programs and dividends.

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

Historically, our predominant lending activity has been residential mortgage lending in our primary market area. A significant portion of the residential mortgage loans that we had originated before 2005 are secured by non-owner occupied properties, which generally carry a greater risk of loss than loans secured by owner-occupied properties. However, since 2005, we have de-emphasized non-owner occupied residential mortgage lending and have focused, and intend to continue to focus, our residential mortgage lending primarily on originating residential mortgage loans secured by owner-occupied properties. At September 30, 2015, 37.7% of our total loans were residential mortgage loans and 17.03% of our residential mortgage loans were secured by non-owner occupied properties. We intend to continue our emphasis on residential mortgage lending because this type of lending generally carries lower credit risk and has contributed to our historically favorable asset quality.

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

Commercial real estate loans and commercial business loans provide us the opportunity to earn more income because these loans generally have higher interest rates than residential mortgage loans in order to compensate for the increased credit risk. In recent periods, we have focused more heavily on commercial real estate and commercial business lending and intend to continue pursuing these lending opportunities. In addition, the Company's participation in the United States Department of the Treasury's Small Business Lending Fund program, as discussed further in Note 25 of the Notes to Consolidated Financial Statements beginning on page F-1 of this annual report, also provides an incentive and capital to increase commercial lending. At September 30, 2015, commercial real estate loans and commercial business loans represented 35.86% and 6.75%, respectively, of our total loans.

During 2013, we began a commercial real estate lending program that is focused on loans to high net worth individuals that are secured by low loan-to-value, single-tenant commercial properties that are leased to investment grade national-brand retailers, the borrowers and collateral properties for which are out of our primary market area. This program is designed to diversify the Company's geographic and credit risk profile given the geographic dispersion of the loans and collateral, and the investment grade credit of the national-brand lessees. The Company originated $25.7 million of these loans during 2015 and the portfolio balance was $59.6 million at September 30, 2015.

Beginning in April 2015, the Bank hired a management team, business development officers (loan officers), underwriters and supporting staff that are seasoned and experienced in U.S. Small Business Administration ("SBA") lending in order to enhance the Company's proficiency in SBA 7(a) program loan originations and sales. The Bank intends to continue hiring additional business development officers and appropriate supporting staff during the fiscal year ending September 30, 2016 in order to grow this program, the borrowers and collateral for which are out of our primary market area. The primary purpose of the program is to originate SBA 7(a) program loans and sell the amounts guaranteed by the SBA in the secondary market. The program is also designed to diversify the Company's geographic and interest rate risk profile with respect to the retained unguaranteed amounts given the geographic dispersion of the loans and collateral, and their floating rate structure. The Company originated $5.7 million of these loans during 2015, of which $5.3 million was outstanding and included in loans held for sale with a fair value of $5.8 million at September 30, 2015 on the balance sheet of the Consolidated Financial Statements beginning on page F-1 of this annual report.

Improving customer service and product offerings with new technology.

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

Providing exceptional customer service to attract and retain customers.

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

Continuing to monitor asset quality and credit risk.

Our strategy for credit risk management focuses on having well-defined credit policies and uniform underwriting criteria and providing prompt attention to potential problem loans. During the years 2012 through 2014, we placed special emphasis on the improvement of asset quality and reductions in the levels of classified and criticized assets, which has resulted in significant improvements. We will continue to place emphasis on maintaining a robust credit culture, improving asset quality, and reducing classified and criticized assets. For more information about our monitoring of credit risk and improvement in levels of classified and criticized assets, see *"Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations — Risk Management."*

Recognizing improvements in noninterest income.

The Company has recognized significant improvement in its levels of noninterest income for 2015 as compared to prior fiscal years due primarily to a gain on life insurance and net gain on sales of loans. However, the Company still underperforms compared to its peers, particularly with respect to service charges on deposit fee income. Therefore, the Company continues to focus on enhancing service charges on deposit fee income as the Bank continues to transition its deposit base to that more consistent with a commercial bank, and seek alternative sources of noninterest income. In addition, the Company expects to generate additional noninterest income as a result of gains on sales of loan amounts guaranteed by the SBA sold in the secondary market.

Expanding our market share and market area.

The acquisition of Community First Bank, an Indiana-chartered commercial bank, in 2009 expanded our market area into Harrison, Crawford and Washington Counties, Indiana, while the 2012 acquisition of the First Federal branches enhanced our presence in Harrison and Floyd Counties, Indiana. We intend to continue to pursue opportunities to expand our market share and market area by seeking to open additional branch offices and pursuing opportunities to acquire other financial institutions or branches of other financial institutions in our primary market area and surrounding areas.

Increasing shareholder value through stock repurchase programs and dividends.

The Company has been active in the repurchase of its common shares and has purchased and committed a net of 358,532 shares to treasury as of September 30, 2015, which represents 14.10% of the 2,542,042 common shares issued in its public offering in October 2008. In addition, the Company has 78,590 common shares remaining for repurchase under the stock repurchase program approved by its Board of Directors on November 16, 2012. Under the program, repurchases are to be conducted through open market purchases or privately negotiated transactions, and are to be made from time to time depending on market conditions and other factors. There is no guarantee as to the exact number of shares to be repurchased by the Company. For more information about our stock repurchases, see *"Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities."*

The Company paid a cash dividend of $0.11 per common share during the quarter ended December 31, 2014 and increased the quarterly cash dividend plan to $0.12 per common share beginning with the quarter ended March 31, 2015, under which it paid $0.12 per common share for the quarters ended March 31, June 30 and September 30, 2015, for a total of $0.47 per common share paid during the fiscal year ended September 30, 2015. The Company currently intends to maintain a policy of paying regular quarterly cash dividends; however, the Company cannot guarantee that it will pay dividends or that if paid, it will not reduce or eliminate dividends in the future. For more information about our dividends, see *"Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities."*

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

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

Balance Sheet Analysis

Cash and Cash Equivalents. At September 30, 2015 and 2014, cash and cash equivalents totaled $25.0 million and $20.3 million, respectively. The Bank is required to maintain reserve balances on hand and with the Federal Reserve Bank, which are unavailable for investment but interest-bearing. The average amount of those reserve balances for the year ended September 30, 2015 was approximately $8.4 million.

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

Residential mortgage loans comprise the largest segment of our loan portfolio. At September 30, 2015, these loans totaled $181.9 million, or 37.7% of total loans, compared to $182.7 million, or 40.9% of total loans at September 30, 2014. Total residential mortgage loan balances decreased in 2015 primarily due to repayments and refinancings that were sold in the secondary market. We generally originate loans for investment purposes, although, depending on the interest rate environment, we typically sell 25-year and 30-year fixed-rate residential mortgage loans that we originate into the secondary market in order to limit exposure to interest rate risk and to earn noninterest income. Management intends to continue offering short-term adjustable rate residential mortgage loans and generally sell long-term fixed rate mortgage loans in the secondary market with servicing released.

Commercial real estate loans totaled $173.0 million, or 35.9% of total loans at September 30, 2015, compared to $153.9 million, or 34.5% of total loans at September 30, 2014. The balance of commercial real estate loans has increased primarily due to the previously discussed lending program that is focused on loans secured by low loan-to-value, single-tenant commercial properties that are leased to investment grade national-brand retailers, the borrowers and collateral properties for which are out of our primary market area. Management continues to focus on pursuing nonresidential loan opportunities in order to further diversify the loan portfolio.

Multi-family real estate loans totaled $21.6 million, or 4.5% of total loans at September 30, 2015, compared to $21.3 million, or 4.8% of total loans at September 30, 2014. These loans are primarily secured by apartment buildings and other multi-tenant developments in our primary market area.

Residential construction loans totaled $19.7 million, or 4.1% of total loans, at September 30, 2015 of which $8.9 million were speculative construction loans. At September 30, 2014, residential construction loans totaled $14.5 million, or 3.3% of total loans, of which $4.8 million were speculative loans. The increase in residential construction loans is due primarily to the continuing recovery of the housing market.

Commercial construction loans totaled $15.5 million, or 3.2% of total loans, at September 30, 2015 compared to $8.4 million, or 1.9% of total loans at September 30, 2014. The increase is due primarily to the increase of commercial construction in our primary market area.

Land and land development loans totaled $11.1 million, or 2.3% of total loans at September 30, 2015, compared to $11.3 million, or 2.5% of total loans at September 30, 2014. These loans are primarily secured by vacant lots to be improved for residential and nonresidential development, and farmland.

Commercial business loans totaled $32.6 million, or 6.8% of total loans, at September 30, 2015 compared to $28.4 million, or 6.4% of total loans, at September 30, 2014. The increase is due primarily to the increase of commercial business lending opportunities in our primary market area. Management continues to focus on pursuing commercial business loan opportunities in order to further diversify the loan portfolio.

Consumer loans totaled $27.0 million, or 5.6% of total loans, at September 30, 2015 compared to $25.8 million, or 5.8% of total loans, at September 30, 2014. In general, organic consumer loans including automobile loans, home equity lines of credit, unsecured loans and loans secured by deposits, has only slightly increased due to pay-downs, payoffs, charge-offs and management's decision to focus on other lending opportunities with less inherent credit risk. Home equity lines of credit increased $1.5 million, or 8.5%, while automobile loans decreased $167,000, or 3.0%, and other consumer loans decreased $161,000, or 6.9%, from September 30, 2014 to September 30, 2015.

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

	At September 30, 2015		2014		2013		2012		2011	
(Dollars in thousands)	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Real estate mortgage:										
Residential	$181,873	37.70 %	$182,743	40.94 %	$184,390	44.10 %	$190,958	47.72 %	$169,353	46.65 %
Commercial	172,995	35.86	153,896	34.48	117,782	28.17	90,290	22.56	73,513	20.25
Multi-family	21,647	4.49	21,286	4.77	26,759	6.40	23,879	5.97	24,909	6.86
Residential construction	19,723	4.08	14,528	3.25	12,537	3.00	10,748	2.69	8,002	2.20
Commercial construction	15,548	3.22	8,354	1.87	6,730	1.61	5,182	1.29	4,144	1.14
Land and land development	11,061	2.29	11,290	2.53	11,396	2.73	12,320	3.08	12,947	3.57
Total	422,847	87.64	392,097	87.84	359,594	86.01	333,377	83.31	292,868	80.67
Commercial business	32,574	6.75	28,448	6.37	31,627	7.56	36,189	9.04	40,628	11.19
Consumer:										
Home equity lines of credit	19,423	4.03	17,903	4.01	17,133	4.10	18,294	4.57	15,210	4.19
Auto loans	5,452	1.13	5,619	1.26	6,519	1.56	8,219	2.05	9,827	2.71
Other	2,159	0.45	2,320	0.52	3,266	0.77	4,114	1.03	4,514	1.24
Total	27,034	5.61	25,842	5.79	26,918	6.43	30,627	7.65	29,551	8.14
Gross loans	482,455	100.00%	446,387	100.00%	418,139	100.00%	400,193	100.00%	363,047	100.00%
Undisbursed portion of construction loans	(18,599)		(6,271)		(4,389)		(6,602)		(4,501)	
Principal loan balance	463,856		440,116		413,750		393,591		358,546	
Deferred loan origination fees and costs, net	(120)		10		163		382		558	
Allowance for loan	(6,624)		(6,250)		(5,538)		(4,906)		(4,672)	

losses					
Loans, net	$457,112	$433,876	$408,375	$389,067	$354,432

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Loan Maturity

The following table sets forth certain information at September 30, 2015 regarding the dollar amount of loan principal repayments becoming due during the period indicated. The table does not include any estimate of prepayments which significantly shorten the average life of all loans and may cause our actual repayment experience to differ from that shown below. Demand loans having no stated schedule of repayments and no stated maturity are reported as due in one year or less.

(Dollars in thousands)	At September 30, 2015 Residential Real Estate (1)	Commercial Real Estate (2)	Construction (3)	Commercial Business	Consumer	Total Loans
Amounts due in:						
One year or less	$20,062	$ 37,766	$ 35,271	$ 15,379	$ 5,791	$114,269
More than one year to two years	13,290	23,776	-	4,349	4,309	45,724
More than two years to three years	11,529	18,188	-	2,971	3,453	36,141
More than three years to five years	20,851	30,750	-	4,519	4,616	60,736
More than five years to ten years	41,204	53,946	-	3,537	6,206	104,893
More than ten years to fifteen years	33,703	13,629	-	1,394	2,659	51,385
More than fifteen years	62,881	6,001	-	425	-	69,307
Total	$203,520	$ 184,056	$ 35,271	$ 32,574	$ 27,034	$482,455

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

Fixed vs. Adjustable Rate Loans

The following table sets forth the dollar amount of all loans at September 30, 2015 that are due after September 30, 2016, and have either fixed interest rates or adjustable interest rates. The amounts shown below exclude unearned loan origination fees.

(In thousands)	Fixed Rates	Adjustable Rates	Total
Residential real estate (1)	$ 93,812	$ 89,646	$183,458
Commercial real estate (2)	57,671	89,619	146,290
Construction	-	-	-
Commercial business	11,126	6,069	17,195

Consumer	4,626	16,617	21,243
Total	$ 167,235	$ 200,951	$368,186

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

The following table presents loans held for investment originated, purchased and sold during the periods indicated, and excludes loans originated with the intention of sale in the secondary market.

	Year Ended September 30,		
(In thousands)	2015	2014	2013
Total loans at beginning of period	$446,387	$418,139	$400,193
Loans originated:			
Residential real estate (1)	29,774	32,487	36,573
Commercial real estate (2)	44,528	64,644	60,503
Construction	9,729	8,691	9,122
Commercial business	11,403	6,657	8,296
Consumer	8,181	7,607	7,182
Total loans originated	103,615	120,086	121,676
Loans purchased	–	–	–
Deduct:			
Loan principal repayments	(67,547)	(87,327)	(97,373)
Loan sales	–	(4,511)	(6,357)
Net loan activity	36,068	28,248	17,946
Total loans at end of period	$482,455	$446,387	$418,139

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

Trading Account Securities. Our trading account securities represent an investment in a managed brokerage account that invests in small and medium lot, investment grade municipal bonds. The brokerage account is managed by an investment advisory firm registered with the U.S. Securities and Exchange Commission. At September 30, 2015, trading account securities recorded at fair value totaled $9.0 million, comprised of investment grade municipal bonds. See Note 3 of the Notes to Consolidated Financial Statements beginning on page F-1 of this annual report for additional information regarding trading account securities.

Securities Available for Sale. Our available for sale securities portfolio consists primarily of U.S. government agency and sponsored enterprises securities, mortgage backed securities and collateralized mortgage obligations issued by U.S. government agencies and sponsored enterprises, municipal bonds, privately-issued collateralized mortgage obligations and asset-backed securities, and a pass-through asset-backed security guaranteed by the SBA. Available for sale securities decreased by $6.4 million, from $184.7 million at September 30, 2014 to $178.3 million at September 30, 2015, due primarily to maturities and calls of $11.2 million and principal repayments of $18.7 million, which more than offset purchases of $23.7 million and unrealized gains of $549,000. There were no sales recognized in 2015.

Securities Held to Maturity. Our held to maturity securities portfolio consists of mortgage-backed securities issued by government sponsored enterprises and municipal bonds. Held to maturity securities decreased by $799,000 from September 30, 2014 to September 30, 2015, due primarily to maturities and principal repayments of $794,000.

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

	At September 30,					
	2015		2014		2013	
(In thousands)	**Amortized Cost**	**Fair Value**	**Amortized Cost**	**Fair Value**	**Amortized Cost**	**Fair Value**
Securities available for sale:						
Agency bonds and notes	$5,564	$5,582	$12,269	$12,091	$15,877	$15,197
Agency mortgage-backed securities	47,418	48,278	51,845	52,255	41,720	41,714
Agency CMO	18,943	19,014	29,648	29,484	24,200	24,074
Privately-issued CMO	3,005	3,470	3,302	3,920	3,881	4,616
Privately-issued asset-backed	4,820	6,109	5,552	7,353	5,829	7,799
SBA certificates	1,472	1,480	1,753	1,762	2,081	2,093
Municipal	90,380	94,395	74,148	77,832	68,072	68,581
Equity securities	–	–	–	–	–	93
Total	$171,602	$178,328	$178,517	$184,697	$161,660	$164,167
Securities held to maturity:						
Agency mortgage-backed securities	$345	$376	$455	$492	$721	$773
Municipal	4,275	4,815	4,964	5,357	5,696	5,741
Total	$4,620	$5,191	$5,419	$5,849	$6,417	$6,514

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

	At or For the Year Ended September 30,		
(In thousands)	2015	2014	2013
Mortgage-backed securities:			
Mortgage-backed securities, beginning of period (1)	$52,747	$42,487	$44,880
Purchases	2,563	17,688	11,361
Sales	–	–	–
Maturities	–	–	–
Repayments and prepayments	(6,385)	(7,010)	(11,629)
Net amortization of premiums and accretion of discounts on securities	(714)	(820)	(887)
Gains on sales	–	–	–
Increase (decrease) in net unrealized gain	443	402	(1,238)
Net increase (decrease) in mortgage-backed securities	(4,093)	10,260	(2,393)
Mortgage-backed securities, end of period (1)	$48,654	$52,747	$42,487

Investment securities:			
Investment securities, beginning of period (1)	$137,799	$128,194	$115,977
Purchases	21,106	24,077	39,591
Sales	–	(808)	(801)
Maturities	(11,893)	(10,358)	(12,990)
Repayments and prepayments	(12,429)	(7,209)	(8,281)
Net accretion of premiums and discounts on securities	35	177	273
Other than temporary impairment loss	–	–	–
Gains on sales	–	123	1
Increase (decrease) in net unrealized gain	247	3,603	(5,576)
Net increase in investment securities	(2,934)	9,605	12,217
Investment securities, end of period (1)	$134,865	$137,799	$128,194

(1) At fair value.

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The following table sets forth the stated maturities and weighted average yields of debt securities at September 30, 2015. Weighted average yields on tax-exempt securities are presented on a tax equivalent basis using a federal marginal tax rate of 34%. Certain mortgage-backed securities and collateralized mortgage obligations have adjustable interest rates and will reprice annually within the various maturity ranges. These repricing schedules are not reflected in the table below. Weighted average yield calculations on investments available for sale do not give effect to changes in fair value that are reflected as a component of equity.

	One Year or Less		**More than One Year to Five Years**		**More than Five Years to Ten Years**		**More than Ten Years**		Total	
(Dollars in thousands)	**Carrying Value**	Weighted Average Yield	**Carrying Value**	Weighted Average Yield	**Carrying Value**	Weighted Average Yield	**Carrying Value**	Weighted Average Yield	**Carrying Value**	Weighted Average Yield
Securities available for sale:										
Agency bonds and notes	$–	– %	$–	– %	$3,005	1.25%	$2,577	1.79 %	$5,582	1.50 %
Agency mortgage-backed securities	2	3.72	8,962	1.96	3,999	1.82	35,314	2.42	48,278	2.29
Agency CMO	–	–	2,727	1.77	–	–	16,287	1.73	19,014	1.74
Privately-issued CMO	–	–	–	–	–	–	3,470	7.66	3,470	7.66
Privately-issued ABS	–	–	–	–	–	–	6,109	18.14	6,109	18.14
SBA Certificates	–	–	–	–	1,480	1.26	–	–	1,480	1.26
Municipal	1,955	6.25	6,467	3.52	19,993	4.26	65,980	4.94	94,395	4.73
Total	$1,957	6.25%	$18,156	2.49%	$28,477	3.45%	$129,737	4.49 %	$178,328	4.14 %
Securities held to maturity:										
Agency mortgage-backed securities	$–	– %	$–	– %	$–	– %	$345	4.00 %	$345	4.00 %
Municipal	537	5.31	1,721	6.97	1,305	6.93	712	6.65	4,275	6.70
Total	$537	5.31%	$1,721	6.97%	$1,305	6.93%	$1,057	5.79 %	$4,620	6.50 %

As of September 30, 2015, we did not own any investment securities of a single issuer that had an aggregate book value in excess of 10% of the Company’s stockholders’ equity at that date, other than securities and obligations issued by U.S. government agencies and sponsored enterprises.

Deposits. Deposit accounts, generally obtained from individuals and businesses throughout our primary market area, are our primary source of funds for lending and investments. Our deposit accounts are comprised of noninterest-bearing accounts, interest-bearing savings, checking and money market accounts and time deposits. Deposits increased $103,000 from $533.2 million at September 30, 2014 to $533.3 million at September 30, 2015. The Bank recognized increases in interest-bearing checking accounts of $19.5 million, noninterest-bearing checking accounts of $15.1 million and interest-bearing savings accounts of $3.3 million, and decreases in money market deposit accounts of $13.5 million and time deposits of $13.6 million when comparing the two years. Brokered certificates of deposit totaled $59.4 million at September 30, 2015 compared to $57.8 million at September 30, 2014. We have continued to promote relationship-oriented deposit accounts but at times also utilize brokered certificates of deposit as a lower-cost alternative to retail time deposits. In addition, we have continued to develop and promote cash management services including sweep accounts and remote deposit capture in order to increase the level of commercial deposit accounts. We believe that the development and promotion of these products has made us more competitive in attracting commercial deposits during recent periods.

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

	At September 30,		
(In thousands)	2015	2014	2013
Non-interest-bearing demand deposits	$71,184	$56,092	$50,093
NOW accounts	136,670	117,200	113,670
Money market accounts	57,008	81,144	71,794
Savings accounts	74,539	71,235	67,463
Time deposits	193,896	207,523	174,706
Total	$533,297	$533,194	$477,726

The following table indicates the amount of jumbo certificates of deposit by time remaining until maturity as of September 30, 2015. Jumbo certificates of deposit require minimum deposits of $100,000.

(In thousands)	Amount
Three months or less	$5,292
Over three through six months	5,647
Over six through twelve months	10,981
Over twelve months	19,188
Total	$41,108

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

	At September 30,		
(In thousands)	2015	2014	2013
0.00 - 1.00%	$128,176	$134,795	$84,442
1.01 - 2.00%	42,584	38,502	46,692
2.01 - 3.00%	15,344	25,203	30,382
3.01 - 4.00%	4,179	5,156	8,113
4.01 - 5.00%	1,674	1,935	3,177
5.01 - 6.00%	1,939	1,932	1,900
Total	$193,896	$207,523	$174,706

The following table sets forth the amount and maturities of time deposits at September 30, 2015.

Amount Due

(Dollars in thousands)	**Less Than One Year**	**More Than One Year to Two Years**	**More Than Two Years to Three Years**	**More Than Three Years**	Total	**Percent of Total Time Deposit Accounts**	
0.00 - 1.00%	$91,049	$ 19,426	$ 8,459	$ 9,242	$128,176	66.11	%
1.01 - 2.00%	5,068	16,935	1,720	18,861	42,584	21.96	
2.01 - 3.00%	6,825	11	–	9,048	15,344	7.91	
3.01 - 4.00%	111	18	325	3,725	4,179	2.16	
4.01 - 5.00%	690	459	79	446	1,674	0.86	
5.01 - 6.00%	1,295	638	6	–	1,939	1.00	
Total	$104,498	$ 37,487	$ 10,589	$ 41,322	$193,896	100.00	%

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

	Year Ended September 30,		
(In thousands)	2015	2014	2013
Beginning balance	$533,194	$477,726	$494,234
Increase (decrease) before interest credited	(2,270)	53,064	(19,527)
Interest credited	2,373	2,404	3,019
Net increase (decrease) in deposits	103	55,468	(16,508)
Ending balance	$533,297	$533,194	$477,726

Borrowings. We use borrowings from the FHLB consisting of advances and borrowings under a line of credit arrangement to supplement our supply of funds for loans and investments. We also utilize retail repurchase agreements as a source of borrowings.

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

	Year Ended September 30,		
(Dollars in thousands)	2015	2014	2013
Maximum amount of FHLB borrowings outstanding at any month-end during period	$119,085	$102,565	$89,348
Average FHLB borrowings outstanding during period	94,413	88,271	69,198
Weighted average interest rate during period	1.24 %	1.27 %	1.53 %
Balance outstanding at end of period	$104,867	$79,548	$89,348
Weighted average interest rate at end of period	1.48 %	1.10 %	1.15 %

The outstanding balance of borrowings from the FHLB increased $25.4 million, from $79.5 million at September 30, 2014 to $104.9 million at September 30, 2015. FHLB borrowings are primarily used to fund loan demand and to purchase available for sale securities. See Note 13 of the Notes to Consolidated Financial Statements beginning on page F-1 of this annual report for additional information regarding FHLB borrowings.

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

	Year Ended September 30,		
(Dollars in thousands)	2015	2014	2013
Maximum amount of retail repurchase agreements outstanding at any month-end during period	$1,342	$1,338	$1,335
Average retail repurchase agreements outstanding during period	1,340	1,336	1,332
Weighted average interest rate during period	0.25 %	0.25 %	0.45 %
Balance outstanding at end of period	$1,342	$1,338	$1,335
Weighted average interest rate at end of period	0.25 %	0.25 %	0.25 %

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

Other Long-Term Debt. On July 27, 2012, FFCC entered into a loan agreement with another financial institution to finance the retail development project discussed in Note 5 of the Notes to Consolidated Financial Statements beginning on page F-1 of this annual report. The loan had a maximum commitment of $5.0 million and the outstanding balance of the loan was $4.6 million at September 30, 2015. See Note 14 of the Notes to Consolidated Financial Statements beginning on page F-1 of this annual report for additional information regarding other long-term debt.

Results of Operations for the Years Ended September 30, 2015 and 2014

Overview. The Company reported net income of $6.8 million and net income available to common shareholders of $6.6 million ($2.93 per common share diluted; weighted average common shares outstanding of 2,247,966, as adjusted) for the year ended September 30, 2015, compared to net income of $5.4 million and net income available to common shareholders of $5.2 million ($2.34 per common share diluted; weighted average common shares outstanding of 2,229,314, as adjusted) for the year ended September 30, 2014. Net income for 2015 included an $831,000 gain on life insurance. Excluding the impact of this nonrecurring item, the Company would have reported net income of $6.1 million and net income available to common shareholders of $5.9 million, or $2.64 per diluted share, for the year ended September 30, 2015.

Net Interest Income. Net interest income increased $270,000, or 1.1%, from $23.9 million for the year ended September 30, 2014 to $24.2 million for the year ended September 30, 2015, primarily as the result of an increase in the average balance of interest earning assets from 2014 to 2015, which more than offset a decrease in the interest rate spread from 2014 to 2015. The interest rate spread, the difference between the average tax-equivalent yield on interest-earning assets and the average cost of interest-bearing liabilities, decreased from 3.86% for 2014 to 3.74% for 2015 due primarily to a decrease in the average tax-equivalent yield on interest-earning assets from 4.50% for 2014 to 4.41% for 2015 and an increase in the average cost of interest-bearing liabilities from 0.64% for 2014 to 0.67% for 2015.

Total interest income increased $493,000, or 1.8%, from $27.5 million for the year ended September 30, 2014 to $28.0 million for the year ended September 30, 2015. The increase in total interest income is due primarily to an increase in the average balance of interest earning assets of $28.4 million, from $633.2 million for 2014 to $661.6 million for 2015, which more than offset the change in total interest income due to a decrease in the average tax-equivalent yield on interest-earning assets from 4.50% for 2014 to 4.41% for 2015. The increase in the average balance of interest-earning assets primarily relates to increases in the average balance of loans of $23.6 million and interest-bearing deposits with banks of $4.6 million.

Interest income on loans increased $478,000, or 2.3%, from $21.0 million for 2014 to $21.4 million for 2015, due primarily to an increase in the average balance of loans outstanding of $23.6 million, from $428.8 million for 2014 to $452.4 million, which more than offset the change in total interest income due to a decrease in the average tax-equivalent yield on loans from 4.91% for 2014 to 4.76% for 2015. The increase in the average balance of loans outstanding is due primarily to an increase in commercial real estate mortgage loans, as a result of the previously discussed lending program that is focused on loans secured by low loan-to-value, single-tenant commercial properties that are leased to investment grade national-brand retailers, the borrowers and collateral properties for which are out of our primary market area.

Interest income on investment securities decreased $56,000, or 0.9%, from $6.3 million for 2014 to $6.2 million for 2015. The decrease in interest income on investment securities is due primarily to a decrease in the average balance of investment securities of $1.0 million, from $186.2 million for 2014 to $185.2 million for 2015, which more than offset the change in total interest income due to an increase in the average tax-equivalent yield on investment securities from 3.84% for 2014 to 3.93% for 2015. The increase in the average tax-equivalent yield on investment securities was due primarily to an increased investment in municipal bonds, which generally provide a higher rate of interest than securities issued by U.S. government agencies and sponsored enterprises.

Total interest expense increased $223,000, or 6.2%, due primarily to an increase in the average balance of interest-bearing liabilities of $13.7 million, from $552.2 million for 2014 to $565.9 million for 2015, and an increase in the average cost of funds from 0.64% for 2014 to 0.67% for 2015. The average balance of interest-bearing deposits increased $7.7 million, or 1.7%, from $457.7 million for 2014 to $465.4 million for 2015, and the average cost of funds for deposits was 0.52% for both 2014 and 2015. The average balance of borrowings increased $6.0 million, or 6.2%, from $94.5 million for 2014 to $100.5 million for 2015, and the average cost of funds for borrowings was 1.24% for 2014 compared to 1.34% for 2015. The average cost of interest-bearing liabilities increased for 2015 primarily as a result of the lengthening of maturities of wholesale funding liabilities in order to reposition the Company’s interest rate risk sensitivity position.

Average Balances and Yields.

The following tables present information regarding average balances of assets and liabilities, the total dollar amounts of interest income and dividends from average interest-earning assets, the total dollar amounts of interest expense on average interest-bearing liabilities, and the resulting annualized average yields and costs. The yields and costs for the periods indicated are derived by dividing income or expense by the average balances of assets or liabilities, respectively, for the periods presented. Nonaccrual loans are included in average balances only. Loan fees are included in interest income on loans and are not material. Tax exempt income on loans and investment securities has been calculated on a tax equivalent basis using a federal marginal tax rate of 34%.

	Year Ended September 30, 2015			2014			2013		
(Dollars in thousands)	**Average Balance**	**Interest and Dividends**	**Yield/ Cost**	**Average Balance**	**Interest and Dividends**	**Yield/ Cost**	**Average Balance**	**Interest and Dividends**	**Yield/ Cost**
Assets:									
Interest-bearing deposits with banks	$16,971	$48	0.28 %	$12,356	$35	0.28 %	$11,295	$29	0.26 %
Loans	452,426	21,526	4.76	428,844	21,047	4.91	402,430	21,227	5.27
Investment securities	135,819	6,235	4.59	136,806	6,118	4.47	128,363	5,781	4.50
Mortgage-backed securities	49,381	1,038	2.10	49,384	1,026	2.08	43,502	845	1.94
FRB and FHLB stock	6,976	303	4.34	5,802	245	4.22	5,415	200	3.69
Total interest-earning assets	661,573	29,150	4.41	633,192	28,471	4.50	591,005	28,082	4.75
Non-interest-earning assets	66,898			60,319			59,944		
Total assets	$728,471			$693,511			$650,949		
Liabilities and equity:									
NOW accounts	$127,265	$242	0.19	$122,883	$241	0.20	$108,668	$314	0.29
Money market deposit accounts	66,153	206	0.31	67,108	244	0.36	69,736	276	0.40
Passbook accounts	72,320	47	0.06	69,970	45	0.06	65,950	60	0.09
Time deposits	199,694	1,932	0.97	197,756	1,851	0.94	193,884	2,149	1.11
Total interest-bearing deposits	465,432	2,427	0.52	457,717	2,381	0.52	438,238	2,799	0.64
Borrowings (1)	100,480	1,351	1.34	94,534	1,174	1.24	74,478	1,137	1.53
	565,912	3,778	0.67	552,251	3,555	0.64	512,716	3,936	0.77

Total interest-bearing liabilities									
Non-interest-bearing deposits	62,008			51,811			49,886		
Other non-interest-bearing liabilities	9,699			5,025			4,971		
Total liabilities	637,619			609,087			567,573		
Total equity	90,852			84,424			83,376		
Total liabilities and equity	$728,471			$693,511			$650,949		
Net interest income		$25,372			$24,916			$24,146	
Interest rate spread			3.74 %			3.86 %			3.98 %
Net interest margin			3.84			3.93			4.09
Average interest-earning assets to average interest-bearing liabilities			116.90			114.66			115.27

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

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Rate/Volume Analysis. The following table sets forth the effects of changing rates and volumes on our net interest income. The rate column shows the effects attributable to changes in rate (changes in rate multiplied by prior volume). The volume column shows the effects attributable to changes in volume (changes in volume multiplied by prior rate). The net column represents the sum of the prior columns. Changes attributable to changes in both rate and volume have been allocated proportionally based on the absolute dollar amounts of change in each.

	Year Ended September 30, 2015 Compared to Year Ended September 30, 2014 Increase (Decrease)			**Year Ended September 30, 2014 Compared to Year Ended September 30, 2013 Increase (Decrease)**		
	Due to			**Due to**		
(In thousands)	Volume	Rate	Net	Volume	Rate	Net
Interest income:						
Interest-bearing deposits with banks	$ 13	$ -	$ 13	$ 4	$ 2	$ 6
Loans	1,077	(598)	479	4,396	(4,576)	(180)
Investment securities	(43)	160	117	376	(39)	337
Mortgage-backed securities	-	12	12	118	63	181
Other interest-earning assets	51	7	58	16	29	45
Total interest-earning assets	1,098	(419)	679	4,910	(4,521)	389
Interest expense:						
Deposits	46	-	46	130	(548)	(418)
Borrowings (1)	78	99	177	125	(88)	37
Total interest-bearing liabilities	124	99	223	255	(636)	(381)
Net increase (decrease) in net interest income	$ 974	$ (518)	$ 456	$ 4,655	$ (3,885)	$ 770

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

Provision for Loan Losses. The provision for loan losses decreased $387,000, or 31.1%, from $1.2 million for the year ended September 30, 2014 to $859,000 for the year ended September 30, 2015. During 2015, the Bank had net charge-offs of $485,000 compared to $534,000 for 2014. The gross loan portfolio increased $36.1 million, from $446.4 million at September 30, 2014 to $482.5 million at September 30, 2015, primarily in the commercial real estate mortgage portfolio. Nonperforming loans increased $123,000 from $4.3 million at September 30, 2014 to $4.4 million at September 30, 2015. The consistent application of management's allowance for loan losses methodology resulted in an increase in the level of the allowance for loan losses consistent with the growth in the commercial real estate mortgage loan portfolio. See "*Analysis of Nonperforming and Classified Assets*" included herein. It is management's assessment that the allowance for loan losses at September 30, 2015 was adequate and appropriately reflected the inherent risk of loss in the Bank's loan portfolio at that date.

Noninterest Income. Noninterest income increased $930,000, or 18.4%, from $5.0 million for the year ended September 30, 2014 to $6.0 million for the year ended September 30, 2015. The increase is due primarily to increases in gain on life insurance of $831,000 and net gain on sale of loans of $537,000, which more than offset decreases in net gain on trading account securities of $264,000, other income of $199,000, and net gain on sale of available for sale securities of $123,000. The increase in net gain on sale of loans is due primarily to SBA loans held for sale for which the fair value option had been elected at September 30, 2015. The decrease in other income is due primarily to a litigation settlement of $277,000 received during the quarter ended March 31, 2014 as a partial recovery of losses on commercial bond investments recognized by Community First Bank in 2008.

Noninterest Expense. Noninterest expenses increased $727,000, or 3.6%, from $20.3 million for the year ended September 30, 2014 to $21.0 million for the year ended September 30, 2015. The increase was due primarily to increases in compensation and benefits expense of $642,000, data processing expense of $153,000, and advertising expense of $130,000, which more than offset decreases in net loss on other real estate owned of $229,000 and professional fees of $104,000. The increase in compensation and benefits expense is due primarily to normal salary, wages and benefits increases, increased incentive compensation based on Company performance, and increased staffing as a result of the Company's enhanced focus on its SBA lending business. The increase in data processing expense is due primarily to contract termination costs of $68,000 incurred in 2015. The decrease in net loss on other real estate owned is due primarily to $210,000 in provisions for losses on other real estate owned recognized during 2014 as compared to $73,000 in provisions for losses during 2015, and $85,000 less in net expenses recognized on other real estate owned for 2015 as compared to 2014.

Income Tax Expense. The Company recognized income tax expense of $1.6 million for the year ended September 30, 2015, for an effective tax rate of 18.9%, compared to income tax expense of $2.1 million, for an effective tax rate of 27.8%, for the year ended September 30, 2014. The decreases in income tax expense and the effective tax rate for the year ended September 30, 2015 were due primarily to the nontaxable gain on life insurance and the tax benefit provided by the Captive, which was formed in September 2014. See Note 18 of the Notes to Consolidated Financial Statements beginning on page F-1 of this annual report for additional information regarding income taxes.

Risk Management

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

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

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

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

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

The following table provides information with respect to our nonperforming assets at the dates indicated. Included in nonperforming loans are loans for which the Bank has modified the repayment terms, and therefore are considered to be troubled debt restructurings. The Bank had 33 troubled debt restructurings totaling $8.1 million, which were performing according to their terms and on accrual status, as of September 30, 2015. See Note 4 of the Notes to Consolidated Financial Statements beginning on page F-1 of this annual report for additional information regarding trouble debt restructurings.

	At September 30,				
(Dollars in thousands)	2015	2014	2013	2012	2011
Non-accrual loans:					
Residential real estate	$1,923	$2,431	$3,519	$2,775	$3,758
Commercial real estate	1,855	1,034	4,817	899	1,133
Multi-family	–	–	–	–	–
Construction	–	–	29	174	174
Land and land development	–	–	–	–	340
Commercial business	210	123	218	66	2
Consumer	165	216	310	175	215
Total (1)	4,153	3,804	8,893	4,089	5,622
Accruing loans past due 90 days or more:					
Residential real estate	155	458	143	1,548	603
Commercial real estate	–	–	–	3	949
Multi-family	–	–	–	–	–
Construction	–	–	–	–	–
Land and land development	–	–	–	–	–
Commercial business	94	–	–	98	99
Consumer	3	20	21	94	61
Total	252	478	164	1,743	1,712
Total non-performing loans	4,405	4,282	9,057	5,832	7,334

Trouble debt restructurings classified as performing loans:					
Residential real estate	2,767	2,710	2,187	2,993	1,499
Commercial real estate	5,186	4,671	1,274	1,290	812
Multifamily	–	–	2,306	2,356	–
Commercial business	12	22	17	14	–
Consumer	125	134	146	158	–
Total troubled debt restructurings classified as performing loans	8,090	7,537	5,930	6,811	2,311
Real estate owned	618	953	799	1,481	1,028
Other non-performing assets	–	12	2	–	126
Total non-performing assets	$13,113	$12,784	$15,788	$14,124	$10,799
Total non-performing loans to total loans	0.91 %	0.96 %	2.17 %	1.46 %	2.02 %
Total non-performing loans to total assets	0.59	0.60	1.37	0.91	1.37
Total non-performing assets to total assets	1.75	1.79	2.39	2.21	2.01

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

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

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

	At September 30,		
(In thousands)	2014	2014	2013
Special mention assets	$6,250	$14,832	$7,256
Substandard assets (1)	18,289	17,277	18,965
Doubtful assets	420	224	1,087
Loss assets	–	–	–
Total classified assets	18,709	17,501	20,052
Total criticized assets	$24,959	$32,333	$27,308

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

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

At September 30, 2015, the Company held twenty privately-issued CMO and ABS securities with an aggregate carrying value of $2.6 million and fair value of $3.7 million that have been downgraded to a substandard regulatory classification due to a downgrade of the security's credit quality rating by various rating agencies. Based on an independent third party analysis, the Bank expects to collect the contractual principal and interest cash flows for these securities and, as a result, no other-than-temporary impairment has been recognized on the privately-issued CMO or ABS portfolios. At September 30, 2014, the Company held twenty privately-issued CMO and ABS securities with an aggregate carrying value of $2.9 million and fair value of $4.4 million that had been downgraded to a substandard regulatory classification due to a downgrade of the security's credit quality rating by various rating agencies.

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

(Dollars in thousands)	At September 30, 2015				At September 30, 2014			
	30-89 Days		90 Days or More		30-89 Days		90 Days or More	
	Number of Loans	**Principal Balance of Loans**	**Number of Loans**	**Principal Balance of Loans**	**Number of Loans**	**Principal Balance of Loans**	**Number of Loans**	**Principal Balance of Loans**
Residential real estate	73	$ 4,969	27	$ 1,886	77	$ 6,093	38	$ 2,081
Commercial real estate	6	1,232	3	144	3	185	1	60
Multi-family	1	500	–	–	1	295	–	–
Construction	–	–	–	–	–	–	–	–
Land and land development.	1	250	–	–	2	210	–	–
Commercial business	4	15	4	362	2	256	2	110
Consumer	16	93	4	32	19	117	8	74
Total	101	$ 7,059	38	$ 2,424	104	$ 7,156	49	$ 2,325

(Dollars in thousands)	At September 30, 2013			
	30-89 Days		90 Days or More	
	Number of Loans	**Principal Balance of Loans**	**Number of Loans**	**Principal Balance of Loans**
Residential real estate	68	$ 4,188	37	$ 2,731
Commercial real estate	3	504	4	696
Multi-family	1	35	–	–
Construction	–	–	–	–
Land and land development	1	9	–	–
Commercial business	1	–	2	217
Consumer	26	237	11	218
Total	100	$ 4,973	54	$ 3,862

Analysis and Determination of the Allowance for Loan Losses.

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

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

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

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

Unallocated Allowance. We may establish an unallocated allowance to cover uncertainties that could affect management's estimate of probable losses. Any unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies to estimate specific and general losses in the loan portfolio. There was no unallocated allowance for loan losses at September 30, 2015, 2014, 2013, 2012 and 2011.

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

	At September 30, 2015			2014			2013		
(Dollars in thousands)	Amount	% of Allowance to Total Allowance	% of Loans in Category to Total Loans	Amount	% of Allowance to Total Allowance	% of Loans in Category to Total Loans	Amount	% of Allowance to Total Allowance	% of Loans in Category to Total *Loans*
Residential real estate	$444	6.70 %	37.59 %	$577	9.23 %	40.94 %	$780	14.08 %	44.10 %
Commercial real estate	4,327	65.32	35.97	3,808	60.93	34.48	2,826	51.03	28.17
Multi-family	156	2.36	4.47	146	2.34	4.77	249	4.50	6.40
Construction	551	8.32	7.30	443	7.09	5.12	229	4.14	4.61
Land and land development	369	5.57	2.29	302	4.83	2.53	299	5.40	2.73
Commercial business	678	10.24	6.79	795	12.72	6.37	907	16.38	7.56
Consumer	99	1.49	5.59	179	2.86	5.79	248	4.47	6.43
Total allowance for loan losses	$6,624	100.00 %	100.00 %	$6,250	100.00 %	100.00 %	$5,538	100.00 %	100.00 %

	At September 30, 2012			2011		
(Dollars in thousands)	Amount	% of Allowance to Total Allowance	% of Loans in Category to Total	Amount	% of Allowance to Total Allowance	% of Loans in Category to Total

				Loans						**Loans**	
Residential real estate	$908	18.51	%	47.72	%	$833	17.83	%	46.65	%
Commercial real estate	2,204	44.92		22.56		1,314	28.13		20.25	
Multi-family	389	7.93		5.97		604	12.93		6.86	
Construction	52	1.06		3.98		56	1.20		3.34	
Land and land development	2	0.04		3.08		53	1.13		3.57	
Commercial business	1,084	22.10		9.04		1,525	32.64		11.19	
Consumer	267	5.44		7.65		287	6.14		8.14	
Total allowance for loan losses	$4,906	100.00	%	100.00	%	$4,672	100.00	%	100.00	%

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

Analysis of Loan Loss Experience.

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

	Year Ended September 30,				
(Dollars in thousands)	2015	2014	2013	2012	2011
Allowance for loan losses at beginning of period	$6,250	$5,538	$4,906	$4,672	$3,811
Provision for loan losses	859	1,246	1,858	1,532	1,605
Charge offs:					
Residential real estate	283	278	284	510	651
Commercial real estate	40	224	11	543	68
Multi-family	–	–	–	85	–
Construction	–	–	–	–	8
Land and land development	–	–	–	–	–
Commercial business	126	234	1,013	33	86
Consumer	144	136	111	304	287
Total charge-offs	593	872	1,419	1,475	1,100
Recoveries:					
Residential real estate	41	28	65	109	79
Commercial real estate	–	219	25	–	–
Multi-family	–	–	–	–	–
Land and land development	–	–	–	–	–
Construction	–	–	–	–	–
Commercial business	1	–	41	2	214
Consumer	66	91	62	66	63
Total recoveries	108	338	193	177	356
Net charge-offs	485	534	1,226	1,298	744
Allowance for loan losses at end of period	$6,624	$6,250	$5,538	$4,906	$4,672
Allowance for loan losses to non-performing loans	150.37%	145.96%	61.15%	84.12%	