

Section 1: 10-Q (FORM 10-Q)

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2020

OR

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

For the transition period from _____ to _____

Commission File No. 1-34155

First Savings Financial Group, Inc.

(Exact name of registrant as specified in its charter)

Indiana

(State or other jurisdiction of
incorporation or organization)

37-1567871

(I.R.S. Employer
Identification Number)

702 North Shore Drive, Suite 300, Jeffersonville, Indiana 47130

(Address of principal executive offices) (Zip Code)

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

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

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

Common stock, \$0.01 par value per share
(Title of each class)

FSFG
(Trading Symbol)

The NASDAQ Stock Market, LLC
(Name of each exchange on which registered)

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

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

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

Large Accelerated Filer

Accelerated Filer

Non-accelerated Filer

Smaller Reporting Company

Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The number of shares outstanding of the registrant's common stock as of August 3, 2020 was 2,375,324.

FIRST SAVINGS FINANCIAL GROUP, INC.

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

<i>(In thousands, except share and per share data)</i>	<u>June 30,</u> <u>2020</u>	<u>\$</u>
ASSETS		
Cash and due from banks	\$ 13,594	\$
Interest-bearing deposits with banks	13,950	
Total cash and cash equivalents	<u>27,544</u>	
Interest-bearing time deposits	2,513	
Securities available for sale, at fair value	203,806	
Securities held to maturity	2,154	
Loans held for sale, residential mortgage, at fair value	190,305	
Loans held for sale, Small Business Administration	19,772	
Loans, net of allowance for loan losses of \$14,640 at June 30, 2020 and \$10,040 at September 30, 2019	1,081,381	
Federal Reserve Bank and Federal Home Loan Bank stock, at cost	17,293	
Premises and equipment	24,093	
Other real estate owned, held for sale	1,728	
Accrued interest receivable:		
Loans	4,264	
Securities	2,373	
Cash surrender value of life insurance	31,573	
Goodwill	9,848	
Core deposit intangibles	1,256	
Other assets	41,378	
Total Assets	<u>\$ 1,661,281</u>	<u>\$</u>
LIABILITIES		
Deposits:		
Noninterest-bearing	\$ 227,797	\$
Interest-bearing	755,073	
Total deposits	<u>982,870</u>	
Federal funds purchased	—	
Federal Home Loan Bank borrowings	298,622	
Federal Reserve PPPLF borrowings	174,835	
Other borrowings	19,780	
Accrued interest payable	502	
Advance payments by borrowers for taxes and insurance	2,485	
Accrued expenses and other liabilities	40,039	
Total Liabilities	<u>1,519,133</u>	
EQUITY		
Preferred stock of \$.01 par value per share; authorized 1,000,000 shares; none issued	—	
Common stock of \$.01 par value per share; authorized 20,000,000 shares; issued 2,567,842 shares (2,565,606 at September 30, 2019); outstanding 2,375,324 shares (2,350,229 shares at September 30, 2019)	26	
Additional paid-in capital	27,458	
Retained earnings - substantially restricted	108,426	
Accumulated other comprehensive income	11,102	
Unearned stock compensation	(397)	
Less treasury stock, at cost - 192,518 shares (215,377 shares at September 30, 2019)	(4,253)	
Total First Savings Financial Group, Inc. Stockholders' Equity	<u>142,362</u>	
Noncontrolling interests in subsidiary	(214)	
Total Equity	<u>142,148</u>	
Total Liabilities and Equity	<u>\$ 1,661,281</u>	<u>\$</u>

See notes to consolidated financial statements.

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

	Three Months Ended		Nine Months Ended	
	2020	2019	2020	2019
<i>(In thousands, except share and per share data)</i>				
INTEREST INCOME				
Loans, including fees	\$ 13,441	\$ 10,905	\$ 37,112	\$
Securities:				
Taxable	502	710	1,591	-
Tax-exempt	1,196	1,042	3,233	-
Dividend income	168	196	473	-
Interest-bearing deposits with banks	37	205	395	-
Total interest income	<u>15,344</u>	<u>13,058</u>	<u>42,804</u>	<u>-</u>
INTEREST EXPENSE				
Deposits	1,311	1,948	4,685	-
Federal funds purchased and repurchase agreements	2	1	3	-
Federal Home Loan Bank borrowings	846	898	2,492	-
Federal Reserve PPPLF borrowings	66	-	66	-
Other borrowings	318	319	955	-
Total interest expense	<u>2,543</u>	<u>3,166</u>	<u>8,201</u>	<u>-</u>
Net interest income	12,801	9,892	34,603	-
Provision for loan losses	2,980	337	5,190	-
Net interest income after provision for loan losses	<u>9,821</u>	<u>9,555</u>	<u>29,413</u>	<u>-</u>
NONINTEREST INCOME				
Service charges on deposit accounts	269	484	1,219	-
ATM and interchange fees	491	529	1,518	-
Net gain (loss) on sales of available for sale securities and time deposits	-	(56)	7	-
Net unrealized gain (loss) on equity securities	9	-	(18)	-
Net gain on sales of loans, Small Business Administration	1,317	1,515	3,307	-
Mortgage banking income	43,088	9,611	67,177	-
Increase in cash surrender value of life insurance	191	157	547	-
Commission income	70	87	180	-
Real estate lease income	138	121	441	-
Net gain (loss) on premises and equipment	-	7	(9)	-
Other income	764	189	1,088	-
Total noninterest income	<u>46,337</u>	<u>12,644</u>	<u>75,457</u>	<u>-</u>
NONINTEREST EXPENSE				
Compensation and benefits	26,896	11,705	59,623	-
Occupancy and equipment	2,212	1,572	6,123	-
Data processing	532	448	1,580	-
Advertising	1,861	727	5,104	-
Professional fees	924	508	2,073	-
FDIC insurance premiums	248	112	351	-
Net (gain) loss on other real estate owned	1	(30)	(1)	-
Other operating expenses	2,335	1,446	6,503	-
Total noninterest expense	<u>35,009</u>	<u>16,488</u>	<u>81,356</u>	<u>-</u>
Income before income taxes	21,149	5,711	23,514	-
Income tax expense	5,540	748	5,404	-
Net Income	<u>15,609</u>	<u>4,963</u>	<u>18,110</u>	<u>-</u>
Less: net income (loss) attributable to noncontrolling interests	204	571	(107)	-
Net Income Attributable to First Savings Financial Group, Inc.	<u>\$ 15,405</u>	<u>\$ 4,392</u>	<u>\$ 18,217</u>	<u>\$</u>
Net income per share:				
Basic	\$ 6.51	\$ 1.88	\$ 7.74	\$
Diluted	\$ 6.51	\$ 1.85	\$ 7.66	\$
Weighted average shares outstanding:				
Basic	2,365,217	2,333,502	2,353,816	-
Diluted	2,366,787	2,373,578	2,377,399	-
Dividends per share	\$ 0.17	\$ 0.16	\$ 0.50	\$

See notes to consolidated financial statements.

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

<i>(In thousands)</i>	Three Months Ended June 30,		Nine Month June 30
	2020	2019	2020
Net Income	\$ 15,609	\$ 4,963	\$ 18,110
OTHER COMPREHENSIVE INCOME, NET OF TAX			
Unrealized gains on securities available for sale:			
Unrealized holding gains arising during the period	13,509	2,671	4,832
Income tax expense	(2,879)	(584)	(1,021)
Net of tax amount	10,630	2,087	3,811
Less: reclassification adjustment for realized (gains) losses included in net income	—	56	(7)
Income tax benefit (expense)	—	(11)	2
Other Comprehensive Income	10,630	2,132	3,806
Comprehensive Income	26,239	7,095	21,916
Less: comprehensive income (loss) attributable to noncontrolling interests	204	571	(107)
Comprehensive Income Attributable to First Savings Financial Group, Inc.	\$ 26,035	\$ 6,524	\$ 22,023

See notes to consolidated financial statements.

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

(In thousands, except share and per share data)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Unearned Stock Compensation	Treasury Stock	Noncontrolling Interests in Subsidiary
Nine Months Ended June 30, 2019							
Balances at October 1, 2018	\$ 26	\$ 27,630	\$ 76,523	\$ 382	\$ (479)	\$ (5,269)	\$ 1
Net income	—	—	10,856	—	—	—	—
Other comprehensive income	—	—	—	5,839	—	—	—
Common stock dividends - \$0.47 per share	—	—	(1,096)	—	—	—	—
Distributions to noncontrolling interests	—	—	—	—	—	—	(1)
Restricted stock grants, net of forfeitures - 2,329 shares	—	141	—	—	(141)	—	—
Stock compensation expense	—	54	—	—	130	—	—
Stock option exercises - 66,877 shares	—	(349)	—	—	—	1,297	—
Purchase of 10,968 treasury shares	—	—	—	—	—	(573)	—
Balances at June 30, 2019	<u>\$ 26</u>	<u>\$ 27,476</u>	<u>\$ 86,283</u>	<u>\$ 6,221</u>	<u>\$ (490)</u>	<u>\$ (4,545)</u>	<u>\$ —</u>
Nine Months Ended June 30, 2020							
Balances at October 1, 2019	\$ 26	\$ 27,494	\$ 91,228	\$ 7,296	\$ (446)	\$ (4,545)	\$ —
Cumulative effect adjustment, adoption of ASU 2016-02	—	—	166	—	—	—	—
Net income (loss)	—	—	18,217	—	—	—	—
Other comprehensive income	—	—	—	3,806	—	—	—
Common stock dividends - \$0.50 per share	—	—	(1,185)	—	—	—	—
Distributions to noncontrolling interests	—	—	—	—	—	—	—
Restricted stock grants - 1,436 shares	—	95	—	—	(95)	—	—
Stock compensation expense	—	64	—	—	144	—	—
Stock option exercises - 28,361 shares	—	(195)	—	—	—	594	—
Purchase of 4,702 treasury shares	—	—	—	—	—	(302)	—
Balances at June 30, 2020	<u>\$ 26</u>	<u>\$ 27,458</u>	<u>\$ 108,426</u>	<u>\$ 11,102</u>	<u>\$ (397)</u>	<u>\$ (4,253)</u>	<u>\$ —</u>

See notes to consolidated financial statements.

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

<i>(In thousands)</i>	2020	Nine Months Ended June 30,
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$	18,110
Adjustments to reconcile net income to net cash used in operating activities:		
Provision for loan losses		5,190
Depreciation and amortization		1,281
Amortization of premiums and accretion of discounts on securities, net		425
Amortization and accretion of fair value adjustments on loans, net		(665)
Loans originated for sale		(2,125,722)
Proceeds on sales of loans		2,060,021
Net realized and unrealized gain on loans held for sale		(57,441)
Net realized and unrealized gain on other real estate owned		(16)
Net (gain) loss on sales of available for sale securities and time deposits		(7)
Increase in cash surrender value of life insurance		(547)
Net loss on equity securities		18
Net (gain) loss on sale of premises and equipment		9
Deferred income taxes		1,739
Stock compensation expense		208
Increase in accrued interest receivable		(1,596)
Increase (decrease) in accrued interest payable		(433)
Change in other assets and liabilities, net		3,996
Net Cash Used In Operating Activities		(95,430)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment in interest-bearing time deposits		(693)
Proceeds from sales and maturities of interest-bearing time deposits		445
Purchase of securities available for sale		(35,053)
Proceeds from sales of securities available for sale		3,180
Proceeds from maturities of securities available for sale		5,130
Proceeds from maturities of securities held to maturity		169
Principal collected on securities		4,656
Net increase in loans		(275,984)
Purchase of Federal Home Loan Bank stock		(4,253)
Investment in cash surrender value of life insurance		(4,481)
Proceeds from sale of other real estate owned		182
Purchase of premises and equipment		(6,451)
Proceeds from sales of premises and equipment		118
Net Cash Used In Investing Activities		(313,035)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits		148,486
Net decrease in federal funds purchased		(4,000)
Net increase in repurchase agreements		—
Increase (decrease) in Federal Home Loan Bank line of credit		(3,922)
Proceeds from Federal Home Loan Bank advances		325,000
Repayment of Federal Home Loan Bank advances		(245,000)
Net increase in Federal Reserve PPPLF borrowings		174,835
Net increase in advance payments by borrowers for taxes and insurance		579
Proceeds from exercise of stock options		148
Taxes paid on stock award shares for employees		(53)
Dividends paid on common stock		(1,185)
Distributions to noncontrolling interests		(311)
Net Cash Provided By Financing Activities		394,577
Net Increase (Decrease) in Cash and Cash Equivalents		(13,888)
Cash and cash equivalents at beginning of period		41,432
Cash and Cash Equivalents at End of Period	\$	27,544

See notes to consolidated financial statements.

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

1. Presentation of Interim Information

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

The Bank, which is a wholly-owned Indiana-chartered commercial bank subsidiary of the Company, provides a variety of banking services to individuals and business customers through 16 locations in southern Indiana. The Bank attracts deposits primarily from the general public and uses those funds, along with other borrowings, primarily to originate commercial mortgage, residential mortgage, construction, commercial business and consumer loans, and to a lesser extent, to invest in mortgage-backed securities, municipal bonds and other investment securities. The Bank has two wholly-owned subsidiaries: First Savings Investments, Inc., a Nevada corporation that manages a securities portfolio, and Southern Indiana Financial Corporation, which is currently inactive.

The Captive, which is a wholly-owned insurance subsidiary of the Company, 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 11 other third-party insurance captives for which insurance may not be currently available or economically feasible in the insurance marketplace.

On April 25, 2017, the Bank formed Q2 Business Capital, LLC (“Q2”), which is an Indiana limited liability company that specializes in the origination and servicing of U.S. Small Business Administration (“SBA”) loans. The Bank owns 51% of Q2 with the option to purchase the minority interest between July 1, 2020 and September 30, 2020. In accordance with Q2’s operating agreement, the Bank was allocated the first \$1.7 million of Q2’s cumulative net income with any additional profits and losses allocated 51% to the Bank and 49% to Q2’s minority members.

In the opinion of management, the accompanying unaudited consolidated financial statements include all adjustments considered necessary to present fairly the financial position as of June 30, 2020, the results of operations for the three- and nine-month periods ended June 30, 2020 and 2019, and the cash flows for the nine-month periods ended June 30, 2020 and 2019. All of these adjustments are of a normal, recurring nature. Such adjustments are the only adjustments included in the unaudited consolidated financial statements. Interim results are not necessarily indicative of results for a full year.

The unaudited consolidated financial statements and notes have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial statements, conform to general practices within the banking industry and are presented as permitted by the instructions to Form 10-Q. Accordingly, they do not contain certain information included in the Company’s audited consolidated financial statements and related notes for the year ended September 30, 2019 included in the Company’s Annual Report on Form 10-K.

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

FIRST SAVINGS FINANCIAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
(Unaudited)

2. Investment Securities

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

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

Securities Available for Sale and Held to Maturity

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

	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Losses
<i>(In thousands)</i>			
June 30, 2020:			
Securities available for sale:			
Agency mortgage-backed	\$ 8,323	\$ 511	\$ —
Agency CMO	9,752	386	—
Privately-issued CMO	995	66	9
Privately-issued ABS	912	80	13
SBA certificates	654	57	3
Municipal bonds	169,001	13,149	55
Total securities available for sale	\$ 189,637	\$ 14,249	\$ 80
Securities held to maturity:			
Agency mortgage-backed	\$ 89	\$ 7	\$ —
Municipal bonds	2,065	327	—
Total securities held to maturity	\$ 2,154	\$ 334	\$ —

FIRST SAVINGS FINANCIAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
(Unaudited)

	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Losses
	<i>(In thousands)</i>		
September 30, 2019:			
Securities available for sale:			
Agency mortgage-backed	\$ 13,743	\$ 366	\$ 12
Agency CMO	8,834	221	7
Privately-issued CMO	1,242	142	2
Privately-issued ABS	1,022	156	—
SBA certificates	1,119	41	6
Municipal bonds	141,995	8,465	17
Total securities available for sale	\$ 167,955	\$ 9,391	\$ 44
Securities held to maturity:			
Agency mortgage-backed	\$ 102	\$ 7	\$ —
Municipal bonds	2,234	327	—
Total securities held to maturity	\$ 2,336	\$ 334	\$ —

The amortized cost and fair value of investment securities as of June 30, 2020 by contractual maturity are shown below. CMO, ABS, SBA certificates, and mortgage-backed securities which do not have a single maturity date are shown separately.

	Available for Sale		Held to M
	Amortized Cost	Fair Value	Amortized Cost
	<i>(In thousands)</i>		
Due within one year	\$ 3,975	\$ 4,038	\$ 244
Due after one year through five years	27,298	28,488	1,003
Due after five years through ten years	23,872	25,672	683
Due after ten years	113,856	123,897	135
CMO	10,747	11,190	—
ABS	912	979	—
SBA certificates	654	708	—
Mortgage-backed securities	8,323	8,834	89
	\$ 189,637	\$ 203,806	\$ 2,154

FIRST SAVINGS FINANCIAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
(Unaudited)

Information pertaining to investment securities with gross unrealized losses at June 30, 2020 and September 30, 2019, aggregated by investment category and the length of time that individual securities have been in a continuous loss position, follows:

	Number of Investment Positions	Fair Value	
		(Dollars in thousands)	
June 30, 2020:			
Securities available for sale:			
Continuous loss position less than twelve months:			
Privately-issued ABS	1	\$ 455	\$
Municipals	1	1,945	\$
Total less than twelve months	2	2,400	\$
Continuous loss position more than twelve months:			
Privately-issued CMO	1	26	
SBA certificates	1	198	
Total more than twelve months	2	224	
Total securities available for sale	4	\$ 2,624	\$
September 30, 2019:			
Securities available for sale:			
Continuous loss position less than twelve months:			
Agency mortgage-backed	3	\$ 1,248	\$
Agency CMO	1	1,962	
Municipal bonds	3	1,694	
Total less than twelve months	7	4,904	
Continuous loss position more than twelve months:			
Agency mortgage-backed	2	785	
Agency CMO	2	956	
Privately-issued CMO	1	33	
SBA certificates	1	451	
Municipal bonds	1	140	
Total more than twelve months	7	2,365	
Total securities available for sale	14	\$ 7,269	\$

At June 30, 2020 and September 30, 2019, the Company did not have any securities held to maturity with an unrealized loss.

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

FIRST SAVINGS FINANCIAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
(Unaudited)

The total available for sale debt securities in loss positions at June 30, 2020, which consisted of privately issued CMOs, privately issued ABS, municipal bonds and SBA certificates, had a fair value as a percentage of amortized cost of 97.04%. The municipal securities are issued by municipal governments, and are generally secured by municipal project revenues or general obligations of the municipality.

The Company evaluates the existence of a potential credit loss component related to the decline in fair value of the privately issued CMO and ABS portfolios each quarter using an independent third party analysis. At June 30, 2020, the Company held twelve privately-issued CMO and ABS securities, acquired in a 2009 bank merger, with an aggregate amortized cost of \$946,000 and fair value of \$1.0 million that have been downgraded to a substandard regulatory classification due to the security's credit quality rating by various nationally recognized statistical rating organizations ("NRSROs").

At June 30, 2020, one privately-issued CMO security and one privately-issued ABS were in a loss position, had depreciated approximately 4.24% from the Company's carrying value and were collateralized by residential mortgage loans. These securities had a total fair value of \$481,000 and a total unrealized loss of \$21,000 at June 30, 2020. Based on the independent third party analysis of the expected cash flows, management determined that no other-than-temporary impairment was required to be recognized on the privately issued CMO and ABS portfolios at June 30, 2020. While the Company does not anticipate additional credit-related impairment losses at June 30, 2020, additional deterioration in market and economic conditions may have an adverse impact on the credit quality of the portfolio, and therefore, require a credit related impairment charge in the future.

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

During the nine-month period ended June 30, 2020, the Company realized gross gains on sales of available for sale securities of \$15,000, and gross losses of \$8,000. During the nine-month period ended June 30, 2019, the Company realized gross gains on sales of available for sale securities of \$68,000, and gross losses of \$123,000. The Company did not realize any gross gains or losses on sales of available for sale securities during the three-month period ended June 30, 2020. During the three-month period ended June 30, 2019, the Company realized gross gains on sales of available for sale securities of \$67,000, and gross losses of \$123,000.

Certain available for sale debt securities were pledged to secure FHLB borrowings at June 30, 2020 and September 30, 2019, and may be pledged to secure federal funds borrowings.

FIRST SAVINGS FINANCIAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
(Unaudited)

3. Loans and Allowance for Loan Losses

Loans at June 30, 2020 and September 30, 2019 consisted of the following:

	June 30, 2020	September 30, 2019
<i>(In thousands)</i>		
Real estate mortgage:		
1-4 family residential	\$ 185,489	\$ 198,067
Commercial	512,744	436,020
Multifamily residential	42,414	38,226
Residential construction	10,792	12,545
Commercial construction	7,948	6,995
Land and land development	10,352	10,536
Commercial business (1)	269,821	73,034
Consumer:		
Home equity	44,997	28,651
Auto	12,197	13,347
Other consumer	2,016	2,663
Total Loans	1,098,770	820,084
Deferred loan origination fees and costs, net (2)	(2,749)	614
Allowance for loan losses	(14,640)	(10,040)
Loans, net	\$ 1,081,381	\$ 810,658

(1) Includes \$180.5 million of loans originated under the SBA's Paycheck Protection Program ("PPP") at June 30, 2020.

(2) Includes \$3.5 million of net deferred loan fees related to PPP loans at June 30, 2020.

During the nine-month period ended June 30, 2020, there was no significant change in the Company's lending activities or the methodology used to estimate the allowance for loan losses as disclosed in the Company's Annual Report on Form 10-K for the year ended September 30, 2019.

Certain qualitative factors used to determine the allowance for loan losses at June 30, 2020 were increased due to economic uncertainties related to the novel coronavirus ("COVID-19").

At June 30, 2020 and September 30, 2019, the Bank did not own any residential real estate properties where physical possession has been obtained. At June 30, 2020 and September 30, 2019, the recorded investment in consumer mortgage loans collateralized by residential real estate properties in the process of foreclosure was \$1.1 million and \$1.3 million, respectively.

FIRST SAVINGS FINANCIAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
(Unaudited)

The following table provides the components of the recorded investment in loans as of June 30, 2020:

	<u>Residential Real Estate</u>	<u>Commercial Real Estate</u>	<u>Multifamily</u>	<u>Construction</u>	<u>Land & Land Development</u>	<u>Commercial Business</u>	<u>Consumer</u>
	<i>(In thousands)</i>						
Recorded Investment in Loans:							
Principal loan balance	\$ 185,489	\$ 512,744	\$ 42,414	\$ 18,740	\$ 10,352	\$ 269,821	\$ 59,210
Accrued interest receivable	599	2,424	206	91	22	744	178
Net deferred loan origination fees and costs	(90)	458	(34)	54	(12)	(3,096)	(29)
Recorded investment in loans	\$ 185,998	\$ 515,626	\$ 42,586	\$ 18,885	\$ 10,362	\$ 267,469	\$ 59,359
Recorded Investment in Loans as Evaluated for Impairment:							
Individually evaluated for impairment	\$ 5,230	\$ 11,344	\$ 697	\$ —	\$ 1	\$ 2,057	\$ 174
Collectively evaluated for impairment	180,768	504,282	41,889	18,885	10,361	265,412	59,185
Ending balance	\$ 185,998	\$ 515,626	\$ 42,586	\$ 18,885	\$ 10,362	\$ 267,469	\$ 59,359

The following table provides the components of the recorded investment in loans as of September 30, 2019:

	<u>Residential Real Estate</u>	<u>Commercial Real Estate</u>	<u>Multifamily</u>	<u>Construction</u>	<u>Land & Land Development</u>	<u>Commercial Business</u>	<u>Consumer</u>
	<i>(In thousands)</i>						
Recorded Investment in Loans:							
Principal loan balance	\$ 198,067	\$ 436,020	\$ 38,226	\$ 19,540	\$ 10,536	\$ 73,034	\$ 44,666
Accrued interest receivable	627	1,922	99	117	29	448	8
Net deferred loan origination fees and costs	(98)	408	(33)	3	(1)	366	(3)
Recorded investment in loans	\$ 198,596	\$ 438,350	\$ 38,292	\$ 19,660	\$ 10,564	\$ 73,848	\$ 44,711
Recorded Investment in Loans as Evaluated for Impairment:							
Individually evaluated for impairment	\$ 4,448	\$ 7,647	\$ —	\$ —	\$ —	\$ 105	\$ 23
Collectively evaluated for impairment	194,148	430,703	38,292	19,660	10,564	73,743	44,48
Ending balance	\$ 198,596	\$ 438,350	\$ 38,292	\$ 19,660	\$ 10,564	\$ 73,848	\$ 44,711

FIRST SAVINGS FINANCIAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
(Unaudited)

An analysis of the allowance for loan losses as of June 30, 2020 is as follows:

	<u>Residential Real Estate</u>	<u>Commercial Real Estate</u>	<u>Multifamily</u>	<u>Construction</u>	<u>Land & Land Development</u>	<u>Commercial Business</u>	<u>Consumer</u>
	<i>(In thousands)</i>						
Ending Allowance Balance Attributable to Loans:							
Individually evaluated for impairment	\$ —	\$ 1,745	\$ —	\$ —	\$ —	\$ 50	\$ 1
Collectively evaluated for impairment	541	7,111	731	524	257	2,719	961
Ending balance	<u>\$ 541</u>	<u>\$ 8,856</u>	<u>\$ 731</u>	<u>\$ 524</u>	<u>\$ 257</u>	<u>\$ 2,769</u>	<u>\$ 962</u>

An analysis of the allowance for loan losses as of September 30, 2019 is as follows:

	<u>Residential Real Estate</u>	<u>Commercial Real Estate</u>	<u>Multifamily</u>	<u>Construction</u>	<u>Land & Land Development</u>	<u>Commercial Business</u>	<u>Consumer</u>
	<i>(In thousands)</i>						
Ending Allowance Balance Attributable to Loans:							
Individually evaluated for impairment	\$ 10	\$ 512	\$ —	\$ —	\$ —	\$ —	\$ 23
Collectively evaluated for impairment	328	5,869	478	421	209	1,639	551
Ending balance	<u>\$ 338</u>	<u>\$ 6,381</u>	<u>\$ 478</u>	<u>\$ 421</u>	<u>\$ 209</u>	<u>\$ 1,639</u>	<u>\$ 574</u>

An analysis of the changes in the allowance for loan losses for the three months ended June 30, 2020 is as follows:

	<u>Residential Real Estate</u>	<u>Commercial Real Estate</u>	<u>Multifamily</u>	<u>Construction</u>	<u>Land & Land Development</u>	<u>Commercial Business</u>	<u>Consumer</u>
	<i>(In thousands)</i>						
Changes in Allowance for Loan Losses:							
Beginning balance	\$ 400	\$ 6,935	\$ 499	\$ 366	\$ 203	\$ 2,587	\$ 701
Provisions	136	1,921	232	158	54	170	309
Charge-offs	—	—	—	—	—	—	(69)
Recoveries	5	—	—	—	—	12	21
Ending balance	<u>\$ 541</u>	<u>\$ 8,856</u>	<u>\$ 731</u>	<u>\$ 524</u>	<u>\$ 257</u>	<u>\$ 2,769</u>	<u>\$ 962</u>

FIRST SAVINGS FINANCIAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
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An analysis of the changes in the allowance for loan losses for the nine months ended June 30, 2020 is as follows:

	<u>Residential Real Estate</u>	<u>Commercial Real Estate</u>	<u>Multifamily</u>	<u>Construction</u>	<u>Land & Land Development</u>	<u>Commercial Business</u>	<u>Consumer</u>
<i>(In thousands)</i>							
Changes in Allowance for Loan Losses:							
Beginning balance	\$ 338	\$ 6,381	\$ 478	\$ 421	\$ 209	\$ 1,639	\$ 574
Provisions	214	2,544	253	103	48	1,508	520
Charge-offs	(36)	(115)	—	—	—	(396)	(195)
Recoveries	25	46	—	—	—	18	63
Ending balance	\$ 541	\$ 8,856	\$ 731	\$ 524	\$ 257	\$ 2,769	\$ 962

An analysis of the changes in the allowance for loan losses for the three months ended June 30, 2019 is as follows:

	<u>Residential Real Estate</u>	<u>Commercial Real Estate</u>	<u>Multifamily</u>	<u>Construction</u>	<u>Land & Land Development</u>	<u>Commercial Business</u>	<u>Consumer</u>
<i>(In thousands)</i>							
Changes in Allowance for Loan Losses:							
Beginning balance	\$ 220	\$ 6,696	\$ 232	\$ 515	\$ 237	\$ 1,535	\$ 4
Provisions	142	(316)	259	(23)	5	228	—
Charge-offs	—	(574)	—	—	—	(71)	—
Recoveries	8	2	—	—	—	12	—
Ending balance	\$ 370	\$ 5,808	\$ 491	\$ 492	\$ 242	\$ 1,704	\$ 5

An analysis of the changes in the allowance for loan losses for the nine months ended June 30, 2019 is as follows:

	<u>Residential Real Estate</u>	<u>Commercial Real Estate</u>	<u>Multifamily</u>	<u>Construction</u>	<u>Land & Land Development</u>	<u>Commercial Business</u>	<u>Consumer</u>
<i>(In thousands)</i>							
Changes in Allowance for Loan Losses:							
Beginning balance	\$ 274	\$ 6,825	\$ 195	\$ 580	\$ 210	\$ 1,041	\$ 1
Provisions	84	(445)	296	(88)	32	721	3
Charge-offs	(10)	(574)	—	—	—	(71)	(1)
Recoveries	22	2	—	—	—	13	—
Ending balance	\$ 370	\$ 5,808	\$ 491	\$ 492	\$ 242	\$ 1,704	\$ 5

FIRST SAVINGS FINANCIAL GROUP, INC.
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(Unaudited)

The following table presents impaired loans individually evaluated for impairment as of June 30, 2020 and for the three and nine months ended June 30, 2020 and 2019.

	At June 30, 2020			Three Months Ended June 30,				Nine Months Ended June 30,		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	2020	2020	2019	2019	2020	2020	2019
				Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment
<i>(In thousands)</i>										
Loans with no related allowance recorded:										
Residential real estate	\$ 5,230	\$ 5,722	\$ —	\$ 5,964	\$ 33	\$ 4,873	\$ 26	\$ 5,526	\$ 94	\$ 5.0
Commercial real estate	3,927	3,934	—	4,264	42	6,451	78	5,035	151	6.6
Multifamily	697	700	—	702	—	—	—	351	—	—
Construction	—	—	—	—	—	—	—	—	—	—
Land and land development	1	1	—	1	—	—	—	1	—	—
Commercial business	1,982	2,082	—	2,084	—	171	2	1,834	1	2
Consumer	66	65	—	66	1	106	1	74	3	1
	<u>\$ 11,903</u>	<u>\$ 12,504</u>	<u>\$ —</u>	<u>\$ 13,081</u>	<u>\$ 76</u>	<u>\$ 11,601</u>	<u>\$ 107</u>	<u>\$ 12,821</u>	<u>\$ 249</u>	<u>\$ 12.0</u>
Loans with an allowance recorded:										
Residential real estate	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 94	\$ —	\$ 29	\$ —	\$ 1
Commercial real estate	7,417	7,395	1,745	7,467	—	2,549	—	4,690	—	1.9
Multifamily	—	—	—	—	—	—	—	—	—	—
Construction	—	—	—	—	—	—	—	—	—	—
Land and land development	—	—	—	—	—	—	—	—	—	—
Commercial business	75	74	50	938	—	90	—	469	—	—
Consumer	108	110	1	135	—	140	—	158	—	1
	<u>\$ 7,600</u>	<u>\$ 7,579</u>	<u>\$ 1,796</u>	<u>\$ 8,540</u>	<u>\$ —</u>	<u>\$ 2,873</u>	<u>\$ —</u>	<u>\$ 5,346</u>	<u>\$ —</u>	<u>\$ 2.5</u>
Total:										
Residential real estate	\$ 5,230	\$ 5,722	\$ —	\$ 5,964	\$ 33	\$ 4,967	\$ 26	\$ 5,555	\$ 94	\$ 5.2
Commercial real estate	11,344	11,329	1,745	11,731	42	9,000	78	9,725	151	8.5
Multifamily	697	700	—	702	—	—	—	351	—	—
Construction	—	—	—	—	—	—	—	—	—	—
Land and land development	1	1	—	1	—	—	—	1	—	—
Commercial business	2,057	2,156	50	3,022	—	261	2	2,303	1	2
Consumer	174	175	1	201	1	246	1	232	3	2
	<u>\$ 19,503</u>	<u>\$ 20,083</u>	<u>\$ 1,796</u>	<u>\$ 21,621</u>	<u>\$ 76</u>	<u>\$ 14,474</u>	<u>\$ 107</u>	<u>\$ 18,167</u>	<u>\$ 249</u>	<u>\$ 14.3</u>

The Company did not recognize any interest income using the cash receipts method during the three-and nine-month periods ended June 30, 2020 and 2019.

FIRST SAVINGS FINANCIAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
(Unaudited)

The following table presents impaired loans individually evaluated for impairment as of September 30, 2019.

	<u>Recorded Investment</u>	<u>Unpaid Principal Balance</u>	
		<i>(In thousands)</i>	
Loans with no related allowance recorded:			
Residential real estate	\$ 4,438	\$ 4,967	\$
Commercial real estate	5,401	5,408	
Multifamily	—	—	
Construction	—	—	
Land and land development	—	—	
Commercial business	105	106	
Consumer	78	81	
	<u>\$ 10,022</u>	<u>\$ 10,562</u>	<u>\$</u>
Loans with an allowance recorded:			
Residential real estate	\$ 10	\$ 7	\$
Commercial real estate	2,246	2,637	
Multifamily	—	—	
Construction	—	—	
Land and land development	—	—	
Commercial business	—	—	
Consumer	156	155	
	<u>\$ 2,412</u>	<u>\$ 2,799</u>	<u>\$</u>
Total:			
Residential real estate	\$ 4,448	\$ 4,974	\$
Commercial real estate	7,647	8,045	
Multifamily	—	—	
Construction	—	—	
Land and land development	—	—	
Commercial business	105	106	
Consumer	234	236	
	<u>\$ 12,434</u>	<u>\$ 13,361</u>	<u>\$</u>

FIRST SAVINGS FINANCIAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
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Nonperforming loans consist of nonaccrual loans and loans over 90 days past due and still accruing interest. The following table presents the recorded investment in nonperforming loans at June 30, 2020:

	Nonaccrual Loans	Loans 90+ Days Past Due Still Accruing <i>(In thousands)</i>
Residential real estate	\$ 2,648	\$ —
Commercial real estate	8,297	—
Multifamily	697	—
Construction	—	—
Land and land development	1	—
Commercial business	2,055	—
Consumer	112	—
Total	\$ 13,810	\$ —

The following table presents the recorded investment in nonperforming loans at September 30, 2019:

	Nonaccrual Loans	Loans 90+ Days Past Due Still Accruing <i>(In thousands)</i>
Residential real estate	\$ 2,580	\$ 12
Commercial real estate	2,425	—
Multifamily	—	—
Construction	—	—
Land and land development	—	—
Commercial business	—	—
Consumer	163	—
Total	\$ 5,168	\$ 12



FIRST SAVINGS FINANCIAL GROUP, INC.
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The following table presents the aging of the recorded investment in past due loans at June 30, 2020:

	30-59 Days Past Due	60-89 Days Past Due	90 + Days Past Due	Total Past Due	Current
	<i>(In thousands)</i>				
Residential real estate	\$ 1,957	\$ 459	\$ 1,525	\$ 3,941	\$ 182,057
Commercial real estate	1,912	—	2,787	4,699	510,927
Multifamily	—	—	—	—	42,586
Construction	—	—	—	—	18,885
Land and land development	—	—	1	1	10,361
Commercial business	770	7	322	1,099	266,370
Consumer	11	—	4	15	59,344
Total	\$ 4,650	\$ 466	\$ 4,639	\$ 9,755	\$ 1,090,530

The following table presents the aging of the recorded investment in past due loans at September 30, 2019:

	30-59 Days Past Due	60-89 Days Past Due	90 + Days Past Due	Total Past Due	Current
	<i>(In thousands)</i>				
Residential real estate	\$ 1,619	\$ 577	\$ 1,121	\$ 3,317	\$ 195,279
Commercial real estate	892	772	1,523	3,187	435,163
Multifamily	—	—	—	—	38,292
Construction	—	—	—	—	19,660
Land and land development	—	—	—	—	10,564
Commercial business	182	—	—	182	73,666
Consumer	77	17	19	113	44,604
Total	\$ 2,770	\$ 1,366	\$ 2,663	\$ 6,799	\$ 817,228

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

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

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

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

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

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass-rated loans. As of June 30, 2020, and based on the most recent analysis performed, the recorded investment in loans by risk category was as follows:

	Residential Real Estate	Commercial Real Estate	Multifamily	Construction	Land and Land Development	Commercial Business	Consumer
	<i>(In thousands)</i>						
Pass	\$ 182,541	\$ 500,722	\$ 41,889	\$ 18,885	\$ 10,361	\$ 262,230	\$ 59,331
Special Mention	—	1,057	—	—	—	125	—
Substandard	3,326	13,847	697	—	1	5,114	28
Doubtful	131	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—
Total	\$ 185,998	\$ 515,626	\$ 42,586	\$ 18,885	\$ 10,362	\$ 267,469	\$ 59,359

As of September 30, 2019, the recorded investment in loans by risk category was as follows:

	Residential Real Estate	Commercial Real Estate	Multifamily	Construction	Land and Land Development	Commercial Business	Consumer
	<i>(In thousands)</i>						
Pass	\$ 194,591	\$ 424,989	\$ 37,823	\$ 19,660	\$ 10,564	\$ 71,050	\$ 44,618
Special Mention	—	904	—	—	—	—	—
Substandard	3,946	12,457	469	—	—	2,798	97
Doubtful	59	—	—	—	—	—	2
Loss	—	—	—	—	—	—	—
Total	\$ 198,596	\$ 438,350	\$ 38,292	\$ 19,660	\$ 10,564	\$ 73,848	\$ 44,717

Troubled Debt Restructurings

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

FIRST SAVINGS FINANCIAL GROUP, INC.
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(Unaudited)

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

The following table summarizes the Company's recorded investment in TDRs at June 30, 2020 and September 30, 2019. There was \$665,000 of specific reserves included in the allowance for loan losses related to TDRs at June 30, 2020. There was no specific reserve included in the allowance for loan losses related to TDRs at September 30, 2019.

	<u>Accruing</u>	<u>Nonaccrual</u>	<u>Total</u>
	<i>(In thousands)</i>		
June 30, 2020:			
Residential real estate	\$ 2,583	\$ 125	\$ 2,708
Commercial real estate	3,047	4,390	7,437
Multifamily	—	697	697
Commercial business	2	1,733	1,735
Consumer	62	—	62
Total	<u>\$ 5,694</u>	<u>\$ 6,945</u>	<u>\$ 12,639</u>
September 30, 2019:			
Residential real estate	\$ 1,868	\$ 351	\$ 2,219
Commercial real estate	5,222	59	5,281
Commercial business	105	—	105
Consumer	70	—	70
Total	<u>\$ 7,265</u>	<u>\$ 410</u>	<u>\$ 7,675</u>

The following table summarizes information regarding TDRs that were restructured during the three- and nine-month periods ended June 30, 2020:

	<u>Number of Loans</u>	<u>Pre- Modification Principal Balance</u>
	<i>(Dollars in thousands)</i>	
Three Months Ended June 30, 2020:		
Multifamily	2	\$ 701
Commercial business	9	1,737
Total	<u>11</u>	<u>\$ 2,438</u>
Nine Months Ended June 30, 2020:		
Residential real estate	1	\$ 1,099
Commercial real estate	1	3,831
Multifamily	2	701
Commercial business	9	1,737
Total	<u>13</u>	<u>\$ 7,368</u>

There were no TDRs that were restructured during the three- and nine-month periods ended June 30, 2019.

FIRST SAVINGS FINANCIAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
(Unaudited)

At June 30, 2020 and September 30, 2019, the Company had committed to lend \$1,000 to customers with outstanding loans classified as TDRs.

There were no principal charge-offs recorded as a result of TDRs during the three- and nine-month periods ended June 30, 2020 and 2019. At June 30, 2020, there was \$665,000 of specific allowance for loan losses related to TDRs modified during the three- and nine-month periods ended June 30, 2020. At June 30, 2019, there was no specific allowance for loan losses related to TDRs modified during the three- and nine-month periods ended June 30, 2019. In the event that a TDR subsequently defaults, the Company evaluates the restructuring for possible impairment. As a result, the related allowance for loan losses may be increased or charge-offs may be taken to reduce the carrying amount of the loan.

During the three- and nine-month periods ended June 30, 2020, the Company did not have any TDRs that were modified within the previous twelve months and for which there was a payment default. During the nine-month period ended June 30, 2019, the Company had one TDR with an outstanding balance of \$114,000 that was modified within the previous twelve months and for which there was a payment default. During the three-month period ended June 30, 2019, the Company did not have any TDRs that were modified within the previous twelve months and for which there was a payment default.

On March 22, 2020, the federal banking agencies issued an "Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus". This guidance encourages financial institutions to work prudently with borrowers that may be unable to meet their contractual obligations because of the effects of COVID-19. The guidance indicates that, in consultation with the Financial Accounting Standards Board ("FASB"), the federal banking agencies concluded that short-term modifications (e.g., six months) made on a good faith basis to borrowers who were current as of the implementation date of a relief program are not TDRs. The Coronavirus Aid, Relief and Economic Security ("CARES") Act was passed by Congress on March 27, 2020. The CARES Act also addressed COVID-19 related modifications and specified that COVID-19 related modifications on loans that were current as of December 31, 2019 are not TDRs. As of July 24, 2020, the Company had approved payment extensions or loan forbearance agreements using this guidance on approximately \$90.6 million of balances in the loan portfolio, of which \$81.9 million related to commercial real estate, \$7.2 million related to residential real estate and consumer loans, and \$1.5 million related to SBA lending relationships. These payment extensions or loan forbearance agreements are generally for periods of three months or less.

SBA Loan Servicing Rights

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

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

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The unpaid principal balance of SBA loans serviced for others was \$190.5 million, \$165.0 million and \$151.4 million at June 30, 2020, September 30, 2019 and June 30, 2019, respectively. Contractually specified late fees and ancillary fees earned on SBA loans were \$23,000 and \$53,000 for the three- and nine-month periods ended June 30, 2020, respectively. Contractually specified late fees and ancillary fees earned on SBA loans were \$11,000 and \$27,000 for the three- and nine-month periods ended June 30, 2019, respectively. Net servicing income (contractually specified servicing fees offset by direct servicing expenses) related to SBA loans was \$502,000 and \$1.3 million for the three- and nine-month periods ended June 30, 2020, respectively. Net servicing income (contractually specified servicing fees offset by direct servicing expenses) related to SBA loans was \$317,000 and \$890,000 for the three- and nine-month periods ended June 30, 2019, respectively. Net servicing income and costs are included in other noninterest income in the consolidated statements of income.

An analysis of SBA loan servicing rights for the three- and nine-month periods ended June 30, 2020 and 2019 is as follows:

	Three Months Ended		Nine Months
	June 30,		June 30
	2020	2019	2020
	<i>(In thousands)</i>		
Balance, beginning of period	\$ 2,891	\$ 2,595	\$ 3,030
Servicing rights resulting from transfers of loans	337	449	888
Amortization	(166)	(130)	(633)
Direct write-offs	—	(142)	—
Change in valuation allowance	129	72	(94)
Balance, end of period	\$ 3,191	\$ 2,844	\$ 3,191

The valuation allowance related to SBA loan servicing rights at June 30, 2020 and September 30, 2019 was \$242,000 and \$148,000, respectively.

Mortgage Servicing Rights ("MSRs")

The Company originates residential mortgage loans for sale in the secondary market and in August 2019 began retaining servicing for certain of these loans when they are sold. MSRs retained for originated loans that have been sold are accounted for at fair value. The fair value of MSRs are determined using the present value of estimated expected net servicing income using assumptions about expected mortgage loan prepayment rates, discount rate, servicing costs, and other economic factors, which are determined based on current market conditions. Changes in these underlying assumptions could cause the fair value of MSRs to change significantly in the future. Changes in fair value of MSRs are recorded in mortgage banking income in the accompanying consolidated statements of income. MSRs are subject to changes in value from, among other things, changes in interest rates, prepayments of the underlying loans and changes in the credit quality of the underlying loans.



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A valuation model employed by an independent third party calculates the present value of future cash flows and is used to value the MSRs on a monthly basis. Management periodically compares the valuation model inputs and results to published industry data in order to validate the model results and assumptions. Key assumptions used to estimate the fair value of the MSRs at June 30, 2020 were as follows:

<u>Assumption</u>	<u>Range of Assumption (Weighted Average)</u> <u>June 30, 2020</u>	<u>Range of Assumption (Weighted Average)</u> <u>September 30, 2019</u>
Discount rate	9.25%	9.25%
Prepayment rate	2.41% to 92.40% (20.05%)	4.42% to 72.79% (18.75%)

The unpaid principal balance of residential mortgage loans serviced for others was \$1.18 billion and \$91.6 million at June 30, 2020 and September 30, 2019, respectively. Custodial escrow balances maintained in connection with the foregoing loan servicing and other liabilities were \$9.1 million and \$427,000 at June 30, 2020 and September 30, 2019, respectively. Contractually specified servicing fees (net of direct servicing expenses), late fees and other ancillary fees related to residential mortgage loans serviced for others were \$141,000 and \$237,000 for the three- and nine-months ended June 30, 2020, respectively, and are included in other noninterest income in the consolidated statements of income.

Changes in the carrying value of MSRs accounted for at fair value for the three - and nine-months ended June 30, 2020 were as follows:

	<u>Three Months Ended</u> <u>June 30,</u> <u>2020</u>	<u>Nine Months Ended</u> <u>June 30,</u> <u>2020</u>
	<i>(In thousands)</i>	
Fair value as of beginning of period	\$ 4,055	\$ 934
Servicing rights capitalized	7,104	11,289
Changes in fair value related to:		
Loan repayments	(354)	(538)
Changes in valuation model inputs or assumptions	(433)	(1,313)
Fair value as of end of period	<u>\$ 10,372</u>	<u>\$ 10,372</u>

4. Deposits

Deposits at June 30, 2020 and September 30, 2019 consisted of the following:

	<u>June 30,</u> <u>2020</u>	<u>September 30,</u> <u>2019</u>
	<i>(In thousands)</i>	
Noninterest-bearing demand deposits	\$ 227,797	\$ 173,072
NOW accounts	209,479	173,746
Money market accounts	140,931	121,281
Savings accounts	134,483	120,393
Retail time deposits	210,439	146,227
Brokered time deposits	59,741	99,665
Total	<u>\$ 982,870</u>	<u>\$ 834,384</u>

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5. Supplemental Disclosure for Net Income Per Share

Net income per share information is presented below for the three- and nine-month periods ended June 30, 2020 and 2019.

	Three Months Ended June 30,		Nine Months June 30,	
	2020	2019	2020	2019
<i>(Dollars in thousands, except per share data)</i>				
Basic:				
Earnings:				
Net income attributable to First Savings Financial Group, Inc.	\$ 15,405	\$ 4,392	\$ 18,217	\$ —
Shares:				
Weighted average common shares outstanding, basic	2,365,217	2,333,502	2,353,816	—
Net income per common share, basic	\$ 6.51	\$ 1.88	\$ 7.74	\$ —
Diluted:				
Earnings:				
Net income attributable to First Savings Financial Group, Inc.	\$ 15,405	\$ 4,392	\$ 18,217	\$ —
Shares:				
Weighted average common shares outstanding, basic	2,365,217	2,333,502	2,353,816	—
Add: Dilutive effect of outstanding options	639	35,669	20,378	—
Add: Dilutive effect of restricted stock	931	4,407	3,205	—
Weighted average common shares outstanding, as adjusted	2,366,787	2,373,578	2,377,399	—
Net income per common share, diluted	\$ 6.51	\$ 1.85	\$ 7.66	\$ —

Nonvested restricted stock shares are not considered as outstanding for purposes of computing weighted average common shares outstanding.

There were no antidilutive restricted stock awards excluded from the calculation of diluted net income per share for the three- and nine-month periods ended June 30, 2020 and 2019. Stock options for 27,458 and 22,158 shares of common stock were excluded from the calculation of diluted net income per common share for the three- and nine-month periods ended June 30, 2020, respectively, because their effect was antidilutive. Stock options for 7,200 and 10,200 shares of common stock were excluded from the calculation of diluted net income per common share for the three- and nine-month periods ended June 30, 2019, respectively, because their effect was antidilutive.

FIRST SAVINGS FINANCIAL GROUP, INC.
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6. Supplemental Disclosures of Cash Flow Information

	Nine Months Ended	
	June 30,	
	2020	2019
	<i>(In thousands)</i>	
Cash payments for:		
Interest	\$ 8,653	\$ 7,205
Income taxes (net of refunds received)	1,254	308
Noncash investing and financing activities:		
Transfers from loans to other real estate owned	—	224
Proceeds from sales of other real estate owned financed through loans	—	47
Right-of-use assets obtained in exchange for lease obligations	8,816	—
Noncash exercise of stock options	249	542
Transfers from premises and equipment to other real estate owned	—	1,838

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

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

- Level 1: Inputs to the valuation methodology are quoted prices, unadjusted, for identical assets or liabilities in active markets. A quoted market price in an active market provides the most reliable evidence of fair value and shall be used to measure fair value whenever available.
- Level 2: Inputs to the valuation methodology include quoted market prices for similar assets or liabilities in active markets; quoted market prices for identical or similar assets or liabilities in markets that are not active; or inputs that are derived principally from or can be corroborated by observable market data by correlation or other means.
- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Level 3 assets and liabilities include financial instruments whose value is determined using discounted cash flow methodologies, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

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A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below. These valuation methodologies were applied to all of the Company's financial assets and liabilities carried at fair value or the lower of cost or fair value. The tables below present the balances of financial assets and liabilities measured at fair value on a recurring and nonrecurring basis as of June 30, 2020 and September 30, 2019.

	Carrying Value		
	Level 1	Level 2	Level 3
<i>(In thousands)</i>			
June 30, 2020:			
Assets Measured - Recurring Basis:			
Securities available for sale:			
Agency mortgage-backed	\$ —	\$ 8,834	\$ —
Agency CMO	—	10,138	—
Privately-issued CMO	—	1,052	—
Privately-issued ABS	—	979	—
SBA certificates	—	708	—
Municipal	—	182,095	—
Total securities available for sale	\$ —	\$ 203,806	\$ —
Residential mortgage loans held for sale – fair value option elected	\$ —	\$ 190,305	\$ —
Derivative assets (included in other assets)	\$ —	\$ —	\$ 17,006
Equity securities (included in other assets)	\$ 66	\$ —	\$ —
Mortgage servicing rights (included in other assets)	\$ —	\$ —	\$ 10,372
Liabilities Measured – Recurring Basis:			
Derivative liabilities (included in other liabilities)	\$ —	\$ 3,468	\$ —
Assets Measured - Nonrecurring Basis:			
Impaired loans:			
Residential real estate	\$ —	\$ —	\$ 5,230
Commercial real estate	—	—	9,599
Multifamily real estate	—	—	697
Commercial business	—	—	2,007
Land and land development	—	—	1
Consumer	—	—	173
Total impaired loans	\$ —	\$ —	\$ 17,707
SBA loans held for sale	\$ —	\$ —	\$ 19,772
SBA loan servicing rights	\$ —	\$ —	\$ 3,191
Other real estate owned, held for sale:			
Former bank premises	\$ —	\$ —	\$ 1,728
Total other real estate owned	\$ —	\$ —	\$ 1,728

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	Carrying Value		
	Level 1	Level 2	Level 3
	<i>(In thousands)</i>		
September 30, 2019:			
Assets Measured - Recurring Basis			
Securities available for sale:			
Agency mortgage-backed	\$ —	\$ 14,097	\$ —
Agency CMO	—	9,048	—
Privately-issued CMO	—	1,382	—
Privately-issued ABS	—	1,178	—
SBA certificates	—	1,154	—
Municipal bonds	—	150,443	—
Total securities available for sale	\$ —	\$ 177,302	\$ —
Residential mortgage loans held for sale – fair value option elected	\$ —	\$ 80,457	\$ —
Derivative assets (included in other assets)	\$ —	\$ 130	\$ 3,269
Equity securities (included in other assets)	\$ 85	\$ —	\$ —
Mortgage servicing rights (included in other assets)	\$ —	\$ —	\$ 934
Liabilities Measured – Recurring Basis			
Derivative liabilities (included in other liabilities)	\$ —	\$ 329	\$ —
Assets Measured - Nonrecurring Basis			
Impaired loans:			
Residential real estate	\$ —	\$ —	\$ 4,438
Commercial real estate	—	—	7,135
Commercial business	—	—	105
Consumer	—	—	211
Total impaired loans	\$ —	\$ —	\$ 11,889
SBA loans held for sale	\$ —	\$ 15,613	\$ —
SBA loan servicing rights	\$ —	\$ —	\$ 3,030
Other real estate owned, held for sale:			
Former bank premises	\$ —	\$ —	\$ 1,893
Total other real estate owned	\$ —	\$ —	\$ 1,893

Fair value is based upon quoted market prices where available. If quoted market prices are not available, fair value is based on internally developed models or obtained from third parties that primarily use, as inputs, observable market-based parameters or a matrix pricing model that employs the Bond Market Association's standard calculations for cash flow and price/yield analysis and observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value, or at the lower of cost or fair value. These adjustments may include unobservable parameters. Any such valuation adjustments have been applied consistently over time.

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The Company's valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While management believes the Company's valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. Other than SBA loans held for sale (see discussion below), there have been no changes in the valuation techniques and related inputs used for assets measured at fair value on a recurring and nonrecurring basis during the nine-month period ended June 30, 2020.

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

Residential Mortgage Loans Held for Sale. The Company has elected to record substantially all of its residential mortgage loans held for sale at fair value in accordance with FASB ASC 825-10. The fair value of residential mortgage loans held for sale is based on specific prices of the underlying contracts for sale to investors or current secondary market prices for loans with similar characteristics, and is classified as Level 2 in the fair value hierarchy.

SBA Loans Held for Sale. SBA loans held for sale are carried at the lower of cost or market value. At September 30, 2019, the fair value of SBA loans held for sale was obtained from an independent third party pricing firm based on specific prices of the underlying contracts for sale to investors or current secondary market prices for loans with similar characteristics, and was classified as Level 2 in the fair value hierarchy. At June 30, 2020, the fair value of SBA loans held for sale reflects management's estimate based on the weighted average price of SBA loans sold to investors during the prior quarter and is classified as Level 3 in the fair value hierarchy.

Derivative Financial Instruments. Derivative financial instruments consist of mortgage banking interest rate lock commitments and forward mortgage loan sale commitments. The fair value of forward mortgage loan sale commitments is obtained from an independent third party and is based on the gain or loss that would occur if the Company were to pair-off the sales transaction with the investor. The fair value of forward mortgage loan sale commitments is classified as Level 2 in the fair value hierarchy.

The fair value of interest rate lock commitments is also obtained from an independent third party and is based on investor prices for the underlying loans or current secondary market prices for loans with similar characteristics, less estimated costs to originate the loans and adjusted for the anticipated funding probability (pull-through rate). The fair value of interest rate lock commitments is classified as Level 3 in the fair value hierarchy.

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The table below presents a reconciliation of derivative assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three- and nine-months ended June 30, 2020 and 2019:

<i>(In thousands)</i>	Three Months Ended June 30,		Nine Months Ended June 30,	
	2020	2019	2020	2019
Beginning balance	\$ 5,678	\$ 1,705	\$ 3,269	\$ 380
Unrealized gains recognized in earnings, net of settlements	11,328	1,062	13,737	2,387
Ending balance	\$ 17,006	\$ 2,767	\$ 17,006	\$ 2,767

The realized and unrealized gains recognized in earnings in the table above are included in mortgage banking income on the accompanying consolidated statements of income. Gains recognized in earnings for the three- and nine-month periods ended June 30, 2020 and 2019 attributable to Level 3 derivative assets held at the balance sheet date were \$17.0 million and \$2.8 million, respectively.

The table below presents information about significant unobservable inputs (Level 3) used in the valuation of derivative financial instruments measured at fair value on a recurring basis as of June 30, 2020 and September 30, 2019.

Financial Instrument	Significant Unobservable Inputs	Range of Inputs June 30, 2020	Range of Inputs September 30, 2019
Interest rate lock commitments	Pull-through rate	25% - 100%	55% - 100%
	Direct costs to close	0.20% - 1.00%	1.00%

Mortgage Servicing Rights. The current market for MSR is not sufficiently liquid to provide participants with quoted market prices. Therefore, the Company uses a discounted cash flow valuation model from an independent third party to determine the fair value of MSR. The discounted cash flow model approach consists of projecting expected servicing cash flows and calculating the present value. The key assumptions used in the valuation of MSR include mortgage prepayment speeds, discount rates and loan servicing costs. Due to the nature of the valuation inputs, MSR are classified within Level 3 of the valuation hierarchy. A reconciliation of MSR measured at fair value on a recurring basis using significant unobservable inputs (Level 3) and a summary of the significant unobservable inputs used in the MSR valuations is presented in Note 3. Changes in the fair value of MSR are included in mortgage banking income in the accompanying consolidated statements of income.

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

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Impaired loans are measured at the present value of estimated future cash flows using the loan's effective interest rate or the fair value of the collateral if the loan is a collateral-dependent loan. At June 30, 2020 and September 30, 2019, all impaired loans were considered to be collateral dependent for the purpose of determining fair value. Collateral may be real estate and/or business assets, including equipment, inventory and/or accounts receivable, and its fair value is generally determined based on real estate appraisals or other independent evaluations by qualified professionals. The appraisals are generally then discounted by management in order to reflect management's estimate of the fair value of the collateral given the current market conditions and the condition of the collateral. At June 30, 2020 and September 30, 2019, the significant unobservable inputs used in the fair value measurement of impaired loans included discounts from appraised value ranging from 0.0% to 25.0% and 0.0% to 90.0%, respectively, and estimated costs to sell the collateral ranging from 0.0% to 12.0% for both periods. During the three-month periods ended June 30, 2020 and 2019, the Company recognized provisions for loan losses of \$157,000 and \$171,000, respectively, for impaired loans. During the nine-month periods ended June 30, 2020 and 2019, the Company recognized provisions for loan losses of \$2.1 million and \$717,000, respectively, for impaired loans.

SBA Loan Servicing Rights. SBA loan servicing rights represent the value associated with servicing SBA loans that have been sold. The fair value of SBA loan servicing rights is determined on a quarterly basis by an independent third party valuation model using market-based discount rate and prepayment assumptions, and is classified as Level 3 in the fair value hierarchy. At June 30, 2020, the significant unobservable inputs used in the fair value measurement of SBA loan servicing rights included discount rates ranging from 5.12% to 21.23% with a weighted average of 11.57% and prepayment speed assumptions ranging from 10.41% to 24.47% with a weighted average rate of 17.10%. At September 30, 2019, the significant unobservable inputs used in the fair value measurement of SBA loan servicing rights included discount rates ranging from 6.82% to 26.61% with a weighted average of 11.11% and prepayment speed assumptions ranging from 6.80% to 21.17% with a weighted average rate of 14.10%. Impairment of the SBA loan servicing rights is recognized on a quarterly basis through a valuation allowance to the extent that fair value is less than the carrying amount. The Company reversed impairment charges of \$129,000 on SBA loan servicing rights for the three-month period ended June 30, 2020, and recognized impairment charges of \$94,000 on loan servicing rights for the nine-month period ended June 30, 2020. The Company recognized \$70,000 of impairment charges on loan servicing rights for the three- and nine-month periods ended June 30, 2019.

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

Other real estate owned is reported at fair value, less estimated costs to dispose of the property. The fair values are determined by real estate appraisals, which are then generally discounted by management in order to reflect management's estimate of the fair value of the property given current market conditions and the condition of the property. At June 30, 2020, the significant unobservable inputs used in the fair value measurement of other real estate owned included a discount from appraised value (including estimated costs to sell the property) of 30.9%. At September 30, 2019, the significant unobservable inputs used in the fair value measurement of other real estate owned included a discount from appraised value (including estimated costs to sell the property) ranging from 0.0% to 15.0% with a weighted average of 10.5%. The Company did not recognize any charges to write down other real estate owned to fair value for the three- and nine-month periods ended June 30, 2020 and 2019.

Transfers Between Categories. As previously described, management used different valuation methodologies related to SBA loans held for sale at June 30, 2020 and September 30, 2019, resulting in a change in classification from Level 2 to Level 3 for those types of instruments. Other than that change, there were no transfers into or out of Levels 1, 2, or 3 of the fair value hierarchy for the three- and nine-month periods ended June 30, 2020 and 2019.



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

The Company has elected the fair value option for substantially all of its residential mortgage loans held for sale effective July 1, 2018, including all loans originated by the Company's mortgage banking division. These loans are intended for sale and the Company believes that the fair value is the best indicator of the resolution of these loans. Interest income is recorded based on the contractual terms of the loans and in accordance with the Company's policy on loans held for investment. None of these loans were 90 days or more past due, nor were any on nonaccrual status, as of June 30, 2020 and September 30, 2019.

The table below presents the difference between the aggregate fair value and the aggregate remaining principal balance for residential mortgage loans held for sale for which the fair value option had been elected as of June 30, 2020 and September 30, 2019.

<i>(In thousands)</i>	Aggregate Fair Value June 30, 2020	Aggregate Principal Balance June 30, 2020	Difference
Residential mortgage loans held for sale	\$ 190,305	\$ 182,516	\$ 7,789

<i>(In thousands)</i>	Aggregate Fair Value September 30, 2019	Aggregate Principal Balance September 30, 2019	Difference
Residential mortgage loans held for sale	\$ 80,457	\$ 77,787	\$ 2,670

The table below presents gains and losses and interest included in earnings related to financial assets measured at fair value under the fair value option for the three- and nine-month periods ended June 30, 2020 and 2019:

<i>(In thousands)</i>	Three Months Ended June 30,		Nine Months Ended June 30,	
	2020	2019	2020	2019
Gains – included in mortgage banking income	\$ 2,271	\$ 1,727	\$ 5,627	\$ 2,753
Interest income	2,088	425	3,929	766
	\$ 4,359	\$ 2,152	\$ 9,556	\$ 3,519



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

	Carrying Amount	Fair Value Measurements Using:	
		Level 1	Level 2
<i>(In thousands)</i>			
June 30, 2020:			
Financial assets:			
Cash and due from banks	\$ 13,594	\$ 13,594	\$ —
Interest-bearing deposits with banks	13,950	13,950	—
Interest-bearing time deposits	2,513	—	2,513
Securities available for sale	203,806	—	203,806
Securities held to maturity	2,154	—	2,488
Loans, net	1,081,381	—	—
Residential mortgage loans held for sale	190,305	—	190,305
SBA loans held for sale	19,772	—	—
FRB and FHLB stock	17,293	N/A	N/A
Accrued interest receivable	6,637	—	6,637
SBA loan servicing rights (included in other assets)	3,191	—	—
Residential mortgage loan servicing rights (included in other assets)	10,372	—	—
Derivative assets (included in other assets)	17,006	—	—
Equity securities (included in other assets)	66	66	—
Financial liabilities:			
Deposits	982,870	—	—
Borrowings from FHLB	298,622	—	300,469
Federal Reserve PPPLF borrowings	174,835	—	172,206
Subordinated note	19,780	—	23,779
Accrued interest payable	502	—	502
Advance payments by borrowers for taxes and insurance	2,485	—	2,485
Derivative liabilities (included in other liabilities)	3,468	—	3,468

FIRST SAVINGS FINANCIAL GROUP, INC.
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	Carrying Amount	Fair Value Measurements Using:	
		Level 1	Level 2
<i>(In thousands)</i>			
September 30, 2019:			
Financial assets:			
Cash and due from banks	\$ 13,008	\$ 13,008	\$ —
Interest-bearing deposits with banks	28,424	28,424	—
Interest-bearing time deposits	2,265	—	2,265
Securities available for sale	177,302	—	177,302
Securities held to maturity	2,336	—	2,670
Residential mortgage loans held for sale	80,457	—	80,457
SBA loans held for sale	15,613	—	17,040
Loans, net	810,658	—	—
FRB and FHLB stock	13,040	N/A	N/A
Accrued interest receivable	5,041	—	5,041
SBA Loan servicing rights (included in other assets)	3,030	—	—
Residential mortgage loan servicing rights (included in other assets)	934	—	—
Derivative assets (included in other assets)	3,399	—	130
Equity securities (included in other assets)	85	85	—
Financial liabilities:			
Deposits	834,384	—	—
Federal funds purchased	4,000	—	4,000
Borrowings from FHLB	222,544	—	222,432
Subordinated note	19,729	—	21,143
Accrued interest payable	935	—	935
Advance payments by borrowers for taxes and insurance	1,906	—	1,906
Derivative liabilities (included in other liabilities)	329	—	329

8. Employee Stock Ownership Plan

On October 6, 2008, the Company established a leveraged employee stock ownership plan (“ESOP”) covering substantially all employees. The ESOP trust acquired 203,363 shares of Company common stock at a cost of \$10.00 per share financed by a term loan with the Company. The employer loan and the related interest income are not recognized in the consolidated financial statements because the debt is serviced from Company contributions. Dividends payable on allocated shares are charged to retained earnings and are satisfied by the allocation of cash dividends to participant accounts or by utilizing the dividends as additional debt service on the ESOP loan. Dividends payable on unallocated shares are not considered dividends for financial reporting purposes. Shares held by the ESOP trust are allocated to participant accounts based on the ratio of the current year principal and interest payments to the total of the current year and future years’ principal and interest to be paid on the employer loan. Compensation expense is recognized based on the average fair value of shares released for allocation to participant accounts during the year with a corresponding credit to stockholders’ equity. The ESOP loan was repaid in full during the quarter ended December 31, 2015 and all shares have been allocated to participants in the plan; therefore, no compensation expense was recognized for the three- and nine-month periods ended June 30, 2020 and 2019. The ESOP trust held 121,317 and 136,219 shares of Company common stock at June 30, 2020 and September 30, 2019, respectively.

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9. Stock Based Compensation Plans

The Company maintains two equity incentive plans under which stock options and restricted stock have been or may be granted, the 2010 Equity Incentive Plan ("2010 Plan"), approved by the Company's shareholders in February 2010, and the 2016 Equity Incentive Plan ("2016 Plan"), approved by the Company's shareholders in February 2016. The aggregate number of shares of the Company's common stock available for issuance under the 2016 Plan may not exceed 88,000 shares, consisting of 66,000 stock options and 22,000 shares of restricted stock. At June 30, 2020, there were no remaining shares of the Company's common stock available for issuance under the 2010 Plan. At June 30, 2020, 7,255 shares of the Company's common stock were available for issuance under the 2016 Plan, all of which were available for stock options. The Company accounts for any forfeitures as they occur, and any previously recognized compensation cost for an award is reversed in the period the award is forfeited.

Stock Options

Under the plans, the Company may grant both non-statutory and incentive stock options that may not have a term exceeding ten years. In the case of incentive stock options, the aggregate fair value (determined at the time the incentive stock options are granted) which are first exercisable during any calendar year shall not exceed \$100,000. Exercise prices generally may not be less than the fair market value of the underlying stock at the date of the grant. The terms of the plans also include provisions whereby all unearned options and restricted shares become immediately exercisable and fully vested upon a change in control.

Stock options granted generally vest ratably over five years and are exercisable in whole or in part for a period up to ten years from the date of the grant. Compensation expense is measured based on the fair market value of the options at the grant date and is recognized ratably over the period during which the shares are earned (the vesting period). The fair market value of stock options granted is estimated at the date of grant using a binomial option pricing model. Expected volatilities are based on historical volatility of the Company's stock. The expected term of options granted represents the period of time that options are expected to be outstanding. The risk free rate for the expected life of the options is based on the U.S. Treasury yield curve in effect at the grant date.

The fair value of options granted during the nine-month period ended June 30, 2020 was determined using the following assumptions:

Expected dividend yield	1.75 %
Risk-free interest rate	2.13 %
Expected volatility	14.6 %
Expected life of options	7.0 years
Weighted average fair value at grant date	\$ 6.13

FIRST SAVINGS FINANCIAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
(Unaudited)

A summary of stock option activity as of June 30, 2020, and changes during the nine-month period then ended is presented below.

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)
Outstanding at beginning of period	84,806	\$ 34.13	
Granted	11,958	66.35	
Exercised	(28,361)	14.01	
Forfeited or expired	—	—	
Outstanding at end of period	<u>68,403</u>	\$ 48.11	7.1
Vested and expected to vest	<u>68,403</u>	\$ 48.11	7.1
Exercisable at end of period	<u>30,027</u>	\$ 42.91	6.6

The intrinsic value of stock options exercised during the nine-month period ended June 30, 2020 was \$1.4 million. The intrinsic value of stock options exercised during the nine-month period ended June 30, 2019 was \$2.6 million. The Company recognized compensation expense related to stock options of \$22,000 and \$64,000 for the three- and nine-month periods ended June 30, 2020, respectively. The Company recognized compensation expense related to stock options of \$18,000 and \$54,000 for the three- and nine-month periods ended June 30, 2019, respectively. At June 30, 2020, there was \$183,000 of unrecognized compensation expense related to nonvested stock options. The compensation expense is expected to be recognized over a weighted average period of 2.74 years. Cash received from the exercise of stock options and the tax benefit from the exercise of stock options were \$148,000 and \$134,000, respectively, for the nine-month period ended June 30, 2020.

Restricted Stock

The vesting period of restricted stock granted under the plans is generally five years beginning one year after the date of grant of the awards. Compensation expense is measured based on the fair market value of the restricted stock at the grant date and is recognized ratably over the vesting period. Compensation expense related to restricted stock recognized for the three- and nine-month periods ended June 30, 2020 was \$49,000 and \$144,000, respectively. Compensation expense related to restricted stock recognized for the three and nine-month periods ended June 30, 2019 was \$44,000 and \$129,000, respectively.



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A summary of the Company's nonvested restricted shares activity as of June 30, 2020 and changes during the nine-month period then ended is presented below.

	<u>Number of Shares</u>	<u>Weighted Average Grant Date Fair Value</u>
Nonvested at October 1, 2019	13,458	\$ 44.62
Granted	1,436	\$ 66.35
Vested	(4,086)	\$ 43.24
Forfeited	—	—
Nonvested at June 30, 2020	<u>10,808</u>	<u>\$ 48.04</u>

There were 4,086 restricted shares vested during the nine-month period ended June 30, 2020 with a total fair value of \$271,000. There were 3,653 restricted shares that vested during the nine-month period ended June 30, 2019 with a total fair value of \$216,000. At June 30, 2020, there was \$397,000 of unrecognized compensation expense related to nonvested restricted shares. The compensation expense is expected to be recognized over a weighted average period of 2.59 years.

10. Derivative Financial Instruments

The Company enters into commitments to originate loans whereby the interest rate on the loan is determined prior to funding (i.e., rate lock commitment). The Company also enters into forward mortgage loan commitments to sell loans to various investors to protect itself against exposure to various factors and to reduce sensitivity to interest rate movements. Both the interest rate lock commitments and the related forward mortgage loan sales contracts are considered derivatives and are recorded on the accompanying consolidated balance sheets at fair value in accordance with FASB ASC 815, *Derivatives and Hedging*, with changes in fair value recorded in mortgage banking income in the accompanying consolidated statements of income. All such derivatives are considered stand-alone derivatives and have not been formally designated as hedges by management.

Certain financial instruments, including derivatives, may be eligible for offset in the balance sheet when the "right of setoff" exists or when the instruments are subject to an enforceable master netting agreement, which includes the right of the non-defaulting party or non-affected party to offset recognized amounts, including collateral posted with the counterparty, to determine a net receivable or net payable upon early termination of the agreement. Certain of the Company's derivative instruments are subject to master netting agreements. However, the Company has not elected to offset such financial instruments in the consolidated balance sheets. The Company may be required to post margin collateral to derivative counterparties based on agreements with the dealers. At June 30, 2020, the Company had cash collateral posted with certain derivative counterparties of \$1.5 million against its derivative obligations. The Company had no cash collateral posted with derivative counterparties at September 30, 2019. Cash collateral related to derivative contracts is recorded in other liabilities in the consolidated balance sheets.

FIRST SAVINGS FINANCIAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
(Unaudited)

The tables below provide information on the Company's derivative financial instruments as of June 30, 2020 and September 30, 2019.

<i>(In thousands)</i>	Notional Amount June 30, 2020	Asset Derivatives June 30, 2020	-
Interest rate lock commitments	\$ 786,015	\$ 17,006	\$
Forward mortgage loan sale contracts	570,750	—	-
	<u>\$ 1,356,765</u>	<u>\$ 17,006</u>	<u>\$</u>

<i>(In thousands)</i>	Notional Amount September 30, 2019	Asset Derivatives September 30, 2019	-
Interest rate lock commitments	\$ 258,545	\$ 3,269	\$
Forward mortgage loan sale contracts	203,250	130	-
	<u>\$ 461,795</u>	<u>\$ 3,399</u>	<u>\$</u>

Income (loss) related to derivative financial instruments included in mortgage banking income in the accompanying consolidated statements of income for the three- and nine-month periods ended June 30, 2020 and 2019 is as follows:

<i>(In thousands)</i>	Three Months Ended June 30,		Nine Months Ended June 30,	
	2020	2019	2020	2019
Interest rate lock commitments	\$ 11,328	\$ 1,062	\$ 13,737	\$ 2,387
Forward mortgage loan sale contracts	(5,201)	(1,399)	(16,018)	(2,174)
	<u>\$ 6,127</u>	<u>\$ (337)</u>	<u>\$ (2,281)</u>	<u>\$ 213</u>

11. Regulatory Capital

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

FIRST SAVINGS FINANCIAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
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Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total, Tier 1 and common equity Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and Tier 1 capital (as defined) to average assets (as defined). The final rules implementing the Basel Committee on Banking Supervision's capital guidelines for U.S. banks ("Basel III rules") became effective for the Bank on January 1, 2015, with full compliance with all of the requirements being phased in over a multi-year schedule through January 1, 2019. Under the Basel III rules, the Bank must hold a conservation buffer above the adequately capitalized risk-based capital ratios disclosed in the table below. The capital conservation buffer was phased in from 0.0% for 2015 to 2.5% for 2019. The capital conservation buffer was 1.875% for 2018 and 2.5% for 2019. The Bank met all capital adequacy requirements to which it was subject as of June 30, 2020 and September 30, 2019.

As of June 30, 2020, the most recent notification from the Federal Reserve Bank categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier 1 risk-based, common equity Tier 1 risk-based and Tier 1 leverage ratios as set forth in the table below. There are no conditions or events since that notification that management believes have changed the Bank's category.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
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The Company's and Bank's actual capital amounts and ratios are also presented in the table. The Company is not subject to the Federal Reserve Bank's consolidated capital requirements because it has less than \$3 billion in total consolidated assets. However, management has elected to disclose the Company's capital amounts and ratios in addition to the Bank's required disclosures in the table below. No amount was deducted from capital for interest-rate risk at either date.

	Actual		Minimum For Capital Adequacy Purposes:		Mi To 1
	Amount	Ratio	Amount	Ratio	Capital Prompt Action
<i>(Dollars in thousands)</i>					
As of June 30, 2020:					
Total capital (to risk-weighted assets):					
Consolidated	\$ 153,498	13.20 %	\$ 93,002	8.00 %	N/A
Bank	144,922	12.49	92,822	8.00	\$ 116.02
Tier 1 capital (to risk-weighted assets):					
Consolidated	\$ 119,213	10.25 %	\$ 69,752	6.00 %	N/A
Bank	130,417	11.24	69,617	6.00	\$ 92.82
Common equity tier 1 capital (to risk-weighted assets):					
Consolidated	\$ 119,213	10.25 %	\$ 52,314	4.50 %	N/A
Bank	130,417	11.24	52,212	4.50	\$ 75.41
Tier 1 capital (to average adjusted total assets):					
Consolidated	\$ 119,213	8.48 %	\$ 56,206	4.00 %	N/A
Bank	130,417	9.36	55,714	4.00	\$ 69.64
As of September 30, 2019:					
Total capital (to risk-weighted assets):					
Consolidated	\$ 130,700	13.85 %	\$ 75,474	8.00 %	N/A
Bank	121,160	12.88	75,249	8.00	\$ 94.06
Tier 1 capital (to risk-weighted assets):					
Consolidated	\$ 100,931	10.70 %	\$ 56,606	6.00 %	N/A
Bank	111,120	11.81	56,437	6.00	\$ 75.24
Common equity tier 1 capital (to risk-weighted assets):					
Consolidated	\$ 100,931	10.70 %	\$ 42,454	4.50 %	N/A
Bank	111,120	11.81	42,327	4.50	\$ 61.14
Tier 1 capital (to average adjusted total assets):					
Consolidated	\$ 100,931	8.39 %	\$ 48,142	4.00 %	N/A
Bank	111,120	9.34	47,564	4.00	\$ 59.45



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12. Recent Accounting Pronouncements

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

In February 2016, the FASB issued Accounting Standards Update (“ASU”) No. 2016-02, *Leases (Topic 842)*. The guidance supersedes existing guidance on accounting for leases with the main difference being that operating leases are to be recorded in the statement of financial position as right-of-use assets and lease liabilities, initially measured at the present value of the lease payments. For operating leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election not to recognize lease assets and liabilities. Under the new guidance, lessor accounting is largely unchanged. For public business entities, the guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. In July 2018, the FASB issued ASU No. 2018-11, *Leases (Topic 842): Targeted Improvements*, which provides an additional, optional transition method related to implementing the new leases standard. ASU 2018-11 provides that companies can initially apply the new leases standard at adoption and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The Company adopted the new leases standard on October 1, 2019, and as a result the Company recorded a right-of-use asset of \$6.2 million, a lease liability of \$6.3 million and a cumulative-effect adjustment of \$166,000 to increase retained earnings. The Company has elected all applicable practical expedients permitted under the standard, including the option to expense short-term leases with a term of one year or less. The Company also utilized the transition method allowed under ASU 2018-11 and did not restate prior periods. See Note 15 for further details regarding adoption of the new leases standard.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326)*. The update commonly referred to as the current expected credit loss methodology (“CECL”) replaces the incurred loss methodology for recognizing credit losses under current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Under the new guidance, an entity will measure all expected credit losses for financial instruments held at the reporting date based on historical experience, current conditions and reasonable and supportable forecasts. The expected loss model will apply to loans and leases, unfunded lending commitments, held-to-maturity debt securities and other debt instruments measured at amortized cost. The impairment model for available-for-sale debt securities will require the recognition of credit losses through a valuation allowance when fair value is less than amortized cost, regardless of whether the impairment is considered to be other-than-temporary. For the Company, the amendments in the update were originally effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company is currently assessing the impact the guidance will have upon adoption. Management expects to recognize a one-time cumulative-effect adjustment to the allowance for loan losses through retained earnings as of the beginning of the first reporting period in which the new standard is effective; however, the magnitude of the adjustment is unknown. In planning for the implementation of ASU 2016-13, management is currently evaluating software solutions, data requirements and loss methodologies.

In November 2019, the FASB issued ASU No. 2019-10 which delayed the effective date of ASU 2016-13 for smaller reporting companies (as defined by the SEC) and other non-SEC reporting entities to fiscal years beginning after December 15, 2022, including interim periods within those fiscal periods. Early adoption is permitted as of fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is a smaller reporting company as defined by the SEC, and currently does not intend to early adopt CECL.

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In March 2017, the FASB issued ASU No. 2017-08, *Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20) – Premium Amortization on Purchased Callable Debt Securities*. The update shortens the amortization period for certain callable debt securities held at a premium. Specifically, the update requires the premium to be amortized to the earliest call date. The update does not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. The amendments in the update are effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. An entity should apply the amendments in this update on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. Additionally, in the period of adoption, an entity should provide disclosures about a change in accounting principle. The adoption of this update effective October 1, 2019 did not have a material impact on the Company's consolidated financial position or results of operations.

In August 2018, the FASB issued ASU No. 2018-13, *Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*. The update removes, modifies and adds certain disclosure requirements for fair value measurements. Among other changes, entities will no longer be required to disclose the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, the policy for timing of transfers between levels and the valuation processes for Level 3 fair value measurements, but will be required to disclose the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. The amendments in the update are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted upon issuance of the update. The adoption of this update is not expected to have a material impact on the Company's consolidated financial position or results of operations.

13. Segment Reporting

The Company's operations include three primary segments: core banking, SBA lending, and mortgage banking. The core banking segment originates residential, commercial and consumer loans and attracts deposits from its customer base. Net interest income from loans and investments that are funded by deposits and borrowings is the primary revenue for the core banking segment. The SBA lending segment originates loans guaranteed by the SBA, subsequently selling the guaranteed portion to outside investors. Net gains on sales of loans and net interest income are the primary sources of revenue for the SBA lending segment. The mortgage banking segment originates residential mortgage loans and sells them in the secondary market. Net gains on the sales of loans, income from derivative financial instruments and net interest income are the primary sources of revenue for the mortgage banking segment.

The core banking segment is comprised primarily by the Bank and First Savings Investments, Inc., while the SBA lending segment's revenues are comprised primarily of net interest income and gains on the sales of SBA loans generated by Q2. The mortgage banking segment operates as a separate division of the Bank and began operations in April 2018.



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The following segment financial information has been derived from the internal financial statements of the Company which are used by management to monitor and manage financial performance. The accounting policies of the three segments are the same as those of the Company. The amounts reflected in the "Other" column in the tables below represent combined balances of the Company and the Captive, and are the primary differences between the sum of the segment amounts and consolidated totals, along with amounts to eliminate transactions between segments.

	<u>Core Banking</u>	<u>SBA Lending</u>	<u>Mortgage Banking</u>	<u>Other</u>	
	<i>(In thousands)</i>				
Three Months Ended June 30, 2020:					
Net interest income (loss)	\$ 9,955	\$ 1,584	\$ 1,565	\$ (303)	\$
Provision for loan losses	1,668	1,312	—	—	—
Net interest income (loss) after provision	8,287	272	1,565	(303)	(303)
Net gains on sales of loans, SBA	—	1,317	—	—	—
Mortgage banking income	2	—	43,086	—	—
Noninterest income	1,324	1,785	43,228	—	—
Noninterest expense (income)	12,176	1,642	21,321	(130)	(130)
Income (loss) before taxes	(2,565)	415	23,472	(173)	(173)
Income tax expense (benefit)	(314)	53	5,868	(67)	(67)
Segment profit (loss)	(2,251)	362	17,604	(106)	(106)
Non cash items:					
Depreciation and amortization	441	13	49	17	17
Segment assets at June 30, 2020	1,412,434	277,888	240,612	(269,653)	(269,653)
	<u>Core Banking</u>	<u>SBA Lending</u>	<u>Mortgage Banking</u>	<u>Other</u>	
	<i>(In thousands)</i>				
Nine Months Ended June 30, 2020:					
Net interest income (loss)	\$ 28,976	\$ 3,952	\$ 2,575	\$ (900)	\$
Provision for loan losses	2,404	2,786	—	—	—
Net interest income (loss) after provision	26,572	1,166	2,575	(900)	(900)
Net gains on sales of loans, SBA	—	3,307	—	—	—
Mortgage banking income	6	—	67,171	—	—
Noninterest income	4,126	3,923	67,408	—	—
Noninterest expense (income)	25,867	5,308	50,484	(303)	(303)
Income (loss) before taxes	4,831	(219)	19,499	(597)	(597)
Income tax expense (benefit)	1,020	(28)	4,875	(463)	(463)
Segment profit (loss)	3,811	(191)	14,624	(134)	(134)
Non cash items:					
Depreciation and amortization	1,062	40	128	51	51
Segment assets at June 30, 2020	1,412,434	277,888	240,612	(269,653)	(269,653)

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	<u>Core Banking</u>	<u>SBA Lending</u>	<u>Mortgage Banking</u>	<u>Other</u>	
	(In thousands)				
Three Months Ended June 30, 2019:					
Net interest income (loss)	\$ 9,043	\$ 1,066	\$ 87	\$ (304)	\$
Provision for loan losses	162	175	—	—	—
Net interest income (loss) after provision	8,881	891	87	(304)	(304)
Net gains on sales of loans, SBA	—	1,515	—	—	—
Mortgage banking income	1	—	9,610	—	—
Noninterest income	1,351	1,658	9,635	—	—
Noninterest expense (income)	7,625	1,385	7,527	(49)	(49)
Income (loss) before taxes	2,607	1,164	2,195	(255)	(255)
Income tax expense (benefit)	196	148	549	(145)	(145)
Segment profit (loss)	2,411	1,016	1,646	(110)	(110)
Non cash items:					
Depreciation and amortization	306	12	26	17	17
Segment assets at June 30, 2019	1,153,430	75,979	86,152	(86,608)	(86,608)
	<u>Core Banking</u>	<u>SBA Lending</u>	<u>Mortgage Banking</u>	<u>Other</u>	
	(In thousands)				
Nine Months Ended June 30, 2019:					
Net interest income (loss)	\$ 27,043	\$ 2,908	\$ 291	\$ (913)	\$
Provision (credit) for loan losses	(346)	1,338	—	—	—
Net interest income (loss) after provision	27,389	1,570	291	(913)	(913)
Net gains on sales of loans, SBA	—	3,000	—	—	—
Mortgage banking income	31	—	17,943	—	—
Noninterest income	4,068	3,468	17,978	—	—
Noninterest expense (income)	21,228	4,069	15,558	(71)	(71)
Income (loss) before taxes	10,229	969	2,711	(842)	(842)
Income tax expense (benefit)	1,549	123	678	(614)	(614)
Segment profit (loss)	8,680	846	2,033	(228)	(228)
Non cash items:					
Depreciation and amortization	1,065	36	69	51	51
Segment assets at June 30, 2019	1,153,430	75,979	86,152	(86,608)	(86,608)

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14. Revenue from Contracts with Customers

Substantially all of the Company's revenue from contracts with customers within the scope of FASB ASC 606 is included in the core banking segment and is recognized within noninterest income. The following table presents the Company's sources of noninterest income for the three- and nine-month periods ended June 30, 2020 and 2019:

	Three Months Ended		Nine Months Ended	
	June 30,		June 30,	
	2020	2019	2020	2019
	<i>(In thousand)</i>			
Service charges on deposit accounts	\$ 269	\$ 484	\$ 1,219	\$ 1,444
ATM and interchange fees	491	529	1,518	1,428
Investment advisory income	70	87	180	221
Other	23	29	80	109
Revenue from contracts with customers	853	1,129	2,997	3,202
Gain (loss) on sale of securities	—	(56)	7	(55)
Gain on sale of SBA loans	1,317	1,515	3,307	3,000
Mortgage banking income	43,088	9,611	67,177	17,974
Increase in cash value of life insurance	191	157	547	415
Real estate lease income	138	121	441	436
Other	750	167	981	542
Other noninterest income	45,484	11,515	72,460	22,312
Total noninterest income	\$ 46,337	\$ 12,644	\$ 75,457	\$ 25,514

A description of the Company's revenue streams accounted for under FASB ASC 606 follows:

Service Charges on Deposit Accounts: The Company earns fees from its deposit customers for transaction-based, account maintenance, and overdraft services. Transaction-based fees, which include services such as wire fees, stop payment charges, statement rendering, and ACH fees, are recognized at the time the transaction is executed as that is the point in time the Company fulfills the customer's request. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Company satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs.

ATM and Interchange Fees: The Company earns ATM usage fees and interchange fees from debit cardholder transactions conducted through a payment network. ATM fees are recognized when the transaction occurs. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder.

Investment Advisory Income: The Company earns trust, insurance commissions, brokerage commissions and annuities income from its contracts with customers to manage assets for investment, and/or to transact on their accounts. These fees are primarily earned over time as the Company provides the contracted services and are generally assessed based on the market value of assets under management. Fees that are transaction based, including trade execution services, are recognized when the transaction is executed. Other related fees, which are based on a fixed fee schedule, are recognized when the services are rendered.

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Other Income: Other income from contracts with customers includes check cashing and cashier's check fees, safe deposit box fees and cash advance fees. This revenue is recognized at the time the transaction is executed or over the period the Company satisfies the performance obligation.

15. Leases

A lease is defined as a contract, or part of a contract, that conveys the right to control the use of identified property, plant or equipment for a period of time in exchange for consideration. The Company is a lessor in certain leasing agreements, such as for office space, and is a lessee in others, such as for certain office space and equipment. The Company's operating leases have terms that expire at different dates through August 2028, and some include options to extend the leases in five year increments.

On October 1, 2019, the Company adopted FASB ASC 842 and all subsequent updates that modified FASB ASC 842. For the Company, this update primarily affected the accounting treatment for operating lease agreements. With the adoption of FASB ASC 842, operating lease agreements are required to be recognized on the consolidated balance sheet as a "right of use" ("ROU") asset and a corresponding lease liability. All of the Company's leases are classified as operating leases, and therefore, were previously not recognized on the Company's consolidated balance sheet.

The Company's right to use an asset over the life of a lease is recorded as an ROU asset included in other assets on the consolidated balance sheet and was \$8.0 million at June 30, 2020. Certain adjustments to the ROU asset may be required for items such as initial direct costs paid or incentives received. The Company recorded a lease liability in other liabilities on the consolidated balance sheet, which had a balance of \$8.1 million at June 30, 2020.

The calculated amount of the ROU assets and lease liabilities are impacted by the length of the lease term and the discount rate used to calculate the present value of minimum lease payments. Regarding the discount rate, FASB ASC 842 requires the use of the rate implicit in the lease whenever this rate is readily determinable. As this rate is rarely determinable, the Company utilizes its incremental borrowing rate at lease inception, on a collateralized basis, over a similar term. For operating leases existing prior to October 1, 2019, the rate for the remaining lease term as of October 1, 2019 was used.

Leases with an initial term of 12 months or less are not recorded on the balance sheet and the Company recognizes lease expense for these leases on a straight-line basis over the term of the lease. Certain leases include one or more options to renew, with renewal terms that can extend the lease term from one to 20 years or more. The exercise of renewal options on operating leases is at the Company's sole discretion, and certain leases may include options to purchase the leased property. If at lease inception, the Company considers the exercising of a renewal option to be reasonably certain, the Company will include the extended term in the calculation of the ROU asset and lease liability. The Company does not enter into lease agreements which contain material residual value guarantees or material restrictive covenants. At June 30, 2020, the Company had not entered into any leases that had yet to commence.

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Lease expense for the three – and nine–month periods ended June 30, 2019 was \$301,000 and \$852,000, respectively. The components of lease expense for the three- and nine–month periods ended June 30, 2020 were as follows:

	Three Months Ended June 30, 2020	Nine M Jun
Operating lease cost	\$ 356	\$
Short-term lease cost	137	
	<u>\$ 493</u>	<u>\$</u>

Future minimum commitments due under these lease agreements as of June 30, 2020 are as follows, including renewal options that are reasonably certain to be exercised:

2020 (remaining three months)	\$
2021	
2022	
2023	
2024	
Thereafter	
Total lease payments	—
Less imputed interest	
Total	<u>\$</u>

The lease term and discount rate at June 30, 2020 were as follows:

Weighted-average remaining lease term (years)	
Weighted-average discount rate	

Supplemental cash flow information for the nine–month period ended June 30, 2020 related to leases was as follows:

	Nine Month June 30,
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	\$
ROU assets obtained in exchange for lease obligations:	
Operating leases	\$

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Safe Harbor Statement for Forward-Looking Statements

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

Forward-looking statements are not guarantees of future performance. Numerous risks and uncertainties could cause or contribute to the Company's actual results, performance and achievements being materially different from those expressed or implied by the forward-looking statements. Factors that may cause or contribute to these differences include, without limitation, the scope, duration and severity of the COVID-19 pandemic and its effects on our business and operations, our customers, including their ability to make timely payments on loans, our service providers, and on the economy and financial markets, general economic conditions, including changes in market interest rates and changes in monetary and fiscal policies of the federal government; legislative and regulatory changes; the quality and composition of the loan and investment securities portfolio; loan demand; deposit flows; competition; and changes in accounting principles and guidelines. Additional factors that may affect our results are discussed herein and in our Annual Report on Form 10-K for the year ended September 30, 2019 under "Part II, Item 1A. Risk Factors." These factors should be considered in evaluating the forward-looking statements and undue reliance should not be placed on such statements. Except as required by applicable law or regulation, the Company assumes no obligation and disclaims any obligation to update any forward-looking statements.

Critical Accounting Policies

During the nine-month period ended June 30, 2020, there was no significant change in the Company's critical accounting policies or the application of critical accounting policies as disclosed in the Company's Annual Report on Form 10-K for the year ended September 30, 2019.

COVID-19 Pandemic

The COVID-19 pandemic has placed, and continues to place, significant health, economic and other major hardships throughout the communities we serve, the United States and the entire world. The outbreak of COVID-19, or any other such outbreak of a highly contagious disease, occurring in the United States could negatively affect our business operations, asset valuations, financial condition and results of operations.

The Company has implemented a number of procedures in response to the pandemic to support the safety and well-being of our customers, employees, and communities:

- Following the guidelines of the Center for Disease Control and local governments, we have updated our branch operating procedures. While our branches remain open, the lobbies were temporarily closed and were being conducted through drive-up windows or by appointment. Our branches have returned to pre-pandemic service levels, but have implemented safety precautions, including the use of personal ("PPE") (where and when prudent), enhanced daily cleaning and instructions to maintain appropriate social distancing.
- We also actively encourage customers to utilize PPE and alternative banking channels, such as our online and mobile banking platforms. Our customer service and retail departments remain fully staffed customers remotely.



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- Our corporate and operations offices have predominantly returned to pre-pandemic schedules and processes, but we have enhanced daily cleaning and instructed employees to maintain appropriate safety protocols. Employees maintain the ability to work remotely, both safely and efficiently using technology, in the event that such is required or necessary. Most of our normally scheduled meetings, including Board and various committee meetings, are now held virtually instead of in-person.
- We continue to assist customers experiencing COVID-19 related hardships by approving payment extensions or loan forbearance agreements, and waiving or refunding certain fees. During the initial period, we proactively contacted all commercial borrowers and offered uniform payment extensions or loan forbearance agreements, while requests from consumer borrowers were reviewed and approved on a case-by-case basis. Beginning with March 18, 2020 and through July 24, 2020, we had approved 206 payment extensions or loan forbearance agreements on approximately \$90.6 million of balances in the loan portfolio, consisting of \$7.2 million related to commercial real estate, \$7.2 million related to residential real estate and consumer loans, and \$1.5 million related to SBA lending relationships. These payment extensions or loan forbearance agreements were for periods of three months and included deferment of both principal and interest. As of July 24, 2020, we had 48 loans with payment extensions or loan forbearance agreements on approximately \$22.1 million that were still in effect and set to expire between July 27, 2020 and October 13, 2020. Following the expiration of the initial payment extensions or loan forbearance agreements, we expect to entertain requests on a case-by-case basis, which will generally include deferment of only the principal portion of payments (but both principal and interest for hotel loans) for a period of up to three months. Of the payment extensions or loan forbearance agreements in effect as of July 24, 2020, three were for second three-month periods of deferred principal and interest payments, including two loans secured by hotels and one to a borrower in the service industry.
- As a result of the passage of the CARES Act, the SBA will make six months of principal and interest payments for loans of existing SBA borrowers that were in "regular servicing status" (not delinquent) for SBA loans of new borrowers originated between March 27, 2020 and September 27, 2020. The aforementioned \$1.5 million of SBA lending relationships that were provided payment extensions or loan forbearance agreements by the Company will also receive the six months of SBA-made payments once the forbearance periods have expired. In addition, the majority of the Company's SBA borrowers applied for participation in the Paycheck Protection Program ("PPP").
- We are actively participating in the PPP and had \$180.5 million of outstanding PPP loan balances as of June 30, 2020. At June 30, 2020, we had approximately \$3.5 million of net deferred loan fees related to PPP loans that will be recognized over the life of the loans and as borrowers are granted forgiveness.
- The leisure and hospitality industries carry a higher degree of credit risk due to the COVID-19 pandemic. The Company had outstanding loan balances to restaurants totaling \$167.5 million as of June 30, 2020, of which \$100 million is fully guaranteed by the SBA, including \$74.5 million of PPP loans, and \$77.4 million represents commercial real estate loans where the collateral property is leased to national-brand, investment-grade tenants. The Company had outstanding loan balances to hotels totaling \$17.5 million as of June 30, 2020, of which \$3.7 million is fully guaranteed by the SBA, including \$606,000 of PPP loans. Based on our evaluation of the Company's loan losses at June 30, 2020, management believes the allowance for loan losses is adequate to cover estimated losses at that date. However, as the pandemic continues, losses could be recognized by June 30, 2020.

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Management continues to closely monitor the pandemic and may take additional action to respond to the pandemic's effects on the Company's business as the situation continues to evolve. We cannot determine or estimate the impact on our business at this time because the length and severity of the economic downturn is not known. We believe we are well-positioned to withstand any challenges that may be presented, and we are committed to continuing to serve our customers, employees and communities.

Comparison of Financial Condition at June 30, 2020 and September 30, 2019

Cash and Cash Equivalents. Cash and cash equivalents decreased \$13.9 million from \$41.4 million at September 30, 2019 to \$27.5 million at June 30, 2020.

Loans. Net loans receivable increased \$270.7 million, from \$810.7 million at September 30, 2019 to \$1.08 billion at June 30, 2020, due primarily to an increase in commercial business loans of \$196.8 million, including a net increase in PPP loans of \$180.5 million.

Loans Held for Sale. Loans held for sale increased \$114.0 million, from \$96.1 million at September 30, 2019 to \$210.1 million at June 30, 2020, due to an increase in residential mortgage loans held for sale of \$109.8 million and an increase in SBA loans held for sale of \$4.2 million. The increase in residential mortgage loans held for sale is due to additional staff hired in 2019 and 2020 for the purpose of expanding the Company's mortgage banking activities and the decline in market interest rates, which have significantly increased refinance activity. As a result of this expansion, the Company originated \$2.08 billion of residential loans held for sale in the secondary market for the nine-month period ended June 30, 2020 compared to \$436.1 million in originations for the nine-month period ended June 30, 2019.

Securities Available for Sale. Securities available for sale increased \$26.5 million, from \$177.3 million at September 30, 2019 to \$203.8 million at June 30, 2020, due primarily to purchases of \$35.1 million and an increase in unrealized gains on securities available for sale of \$4.8 million, partially offset by calls and maturities of \$5.1 million, sales of \$3.2 million, and principal repayments of \$4.6 million.

Securities Held to Maturity. Investment securities held to maturity decreased \$182,000 from September 30, 2019 to June 30, 2020 due to partial calls and principal repayments. There were no purchases of securities held to maturity during the nine-month period ended June 30, 2020.

Other Assets. Other assets increased \$25.9 million from September 30, 2019 to June 30, 2020 due to a \$13.6 million increase in derivative assets related to the mortgage banking segment, a \$9.4 million increase in mortgage servicing rights and a lease right of use asset of \$8.0 million that was recorded in 2020.

Deposits. Total deposits increased \$148.5 million, from \$834.4 million at September 30, 2019 to \$982.9 million at June 30, 2020, due primarily to increases in interest bearing deposit accounts and non-interest bearing deposit accounts of \$93.8 million and \$54.7 million, respectively. The increase in interest bearing deposit accounts is primarily due to increases in NOW accounts, money market accounts, savings accounts and time deposits of \$35.7 million, \$19.7 million, \$14.1 million and \$24.3 million, respectively.

FHLB Borrowings. Borrowings from the FHLB increased \$76.1 million, from \$222.5 million at September 30, 2019 to \$298.6 million at June 30, 2020. The increase in borrowings was primarily used to fund loan growth and the expansion of the Company's mortgage lending activities.



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Federal Reserve PPPLF Borrowings. During the three-month period ended June 30, 2020, the Company began utilizing the Federal Reserve PPP Liquidity Facility ("PPPLF"). PPPLF borrowings totaled \$174.8 million at June 30, 2020. The proceeds from the PPPLF were used to fund certain PPP loans, which are pledged as collateral to secure the borrowings, and borrowings under the PPPLF carry a fixed interest rate of 0.35% .

Accrued Expenses and Other Liabilities. Accrued expenses and other liabilities increased \$22.2 million from September 30, 2019 to June 30, 2020 primarily due to the recording of lease liabilities of \$8.1 million in 2020, a \$5.5 million increase in accrued incentive compensation and a \$3.1 million increase in derivative liabilities related to the mortgage banking segment.

Equity. Stockholders' equity attributable to the Company was \$142.4 million at June 30, 2020, an increase of \$21.3 million from September 30, 2019 due primarily to a \$17.2 million increase in retained earnings and a \$3.8 million increase in accumulated other comprehensive income due to an increase in the market value of available for sale securities.

Results of Operations for the Three Months Ended June 30, 2020 and 2019

Overview. The Company reported net income of \$15.4 million, or \$6.51 per diluted share, for the three-month period ended June 30, 2020 compared to net income of \$4.4 million, or \$1.85 per diluted share, for the three-month period ended June 30, 2019.

Net Interest Income. Net interest income increased \$2.9 million, or 29.4%, for the three-month period ended June 30, 2020 as compared to the same period in 2019. Average interest-earning assets increased \$327.1 million and average interest-bearing liabilities increased \$274.0 million when comparing the two periods. The tax-equivalent net interest margin was 3.70% for 2020 compared to 3.72% for 2019.

Total interest income increased \$2.3 million, or 17.5%, when comparing the two periods due primarily to an increase in the average balance of interest-earning assets of \$327.1 million, from \$1.09 billion for 2019 to \$1.42 billion for 2020, partially offset by a decrease in the average tax equivalent yield on interest-earning assets from 4.88% for 2019 to 4.41% for 2020. The majority of the increase in average interest-earning assets was attributable to loans. The average balance of loans increased \$333.0 million, or 38.8%, compared to 2019.

Total interest expense decreased \$623,000, or 19.5%, due to a decrease in the average cost of interest-bearing liabilities from 1.43% for 2019 to 0.88% for 2020, partially offset by an increase in the average balance of interest-bearing liabilities of \$274.0 million, from \$884.5 million for 2019 to \$1.16 billion for 2020.



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Average Balance Sheets. The following table presents information regarding average balances of assets and liabilities, the total dollar amounts of interest income and dividends from average interest-earning assets, the total dollar amounts of interest expense on average interest-bearing liabilities, and the resulting annualized average yields and costs for the three-month periods ended June 30, 2020 and 2019. 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. Average balances presented are daily averages. 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 have been adjusted to a tax equivalent basis using a federal marginal tax rate of 21%.

	Three Months Ended June 30,				
	2020		2019		
	Average Balance	Interest and Dividends	Yield/ Cost	Average Balance	Interest and Dividend
	<i>(Dollars in thousands)</i>				
Assets:					
Interest-bearing deposits with banks	\$ 25,985	\$ 37	0.57 %	\$ 38,332	\$
Loans	1,191,097	13,460	4.52	858,068	1
Investment securities	178,611	1,947	4.36	163,185	
Agency mortgage-backed securities	8,660	69	3.19	21,993	
FRB and FHLB stock	16,804	168	4.00	12,505	
Total interest-earning assets	1,421,157	15,681	4.41	1,094,083	1
Noninterest-earning assets	110,772			80,566	
Total assets	\$ 1,531,929			\$ 1,174,649	
Liabilities and equity:					
NOW accounts	\$ 200,933	\$ 109	0.22 %	\$ 176,824	\$
Money market deposit accounts	118,923	126	0.42	114,261	
Savings accounts	130,760	24	0.07	121,192	
Time deposits	319,786	1,052	1.32	272,459	
Total interest-bearing deposits	770,402	1,311	0.68	684,736	
Repurchase agreements	—	—	0.00	1,354	
Fed funds purchased	1,978	2	0.40	—	
FHLB borrowings	292,168	846	1.16	178,707	
Federal Reserve PPPLF borrowings	74,218	66	0.36	—	
Subordinated debt	19,769	318	6.43	19,701	
Total interest-bearing liabilities	1,158,535	2,543	0.88	884,498	
Noninterest-bearing deposits	214,907			166,844	
Other noninterest-bearing liabilities	30,413			12,727	
Total liabilities	1,403,855			1,064,069	
Total stockholders' equity	128,629			110,503	
Noncontrolling interest in subsidiary	(555)			77	
Total equity	128,074			110,580	
Total liabilities and equity	\$ 1,531,929			\$ 1,174,649	
Net interest income (taxable equivalent basis)		13,138			1
Less: taxable equivalent adjustment		(337)			
Net interest income		\$ 12,801			\$
Interest rate spread			3.53 %		
Net interest margin			3.70 %		
Average interest-earning assets to average interest-bearing liabilities			122.67 %		

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Rate/Volume Analysis. The following table sets forth the effects of changing rates and volumes on our net interest income on a tax equivalent basis for the three-month periods ended June 30, 2020 and 2019. 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.

	Three Months Ended June 30, 2020 Compared to Three Months Ended June 30, 2019	
	Increase (Decrease)	
	Rate	Due to Volume
<i>(In thousands)</i>		
Interest income:		
Interest-bearing deposits with banks	\$ (126)	\$ (42)
Loans	(1,457)	3,993
Investment securities	(103)	173
Agency mortgage-backed securities	16	(99)
FRB and FHLB stock	(83)	55
Total interest-earning assets	<u>(1,753)</u>	<u>4,080</u>
Interest expense:		
Deposits	(831)	194
Repurchase agreements	—	(1)
Fed funds purchased	—	2
Borrowings from FHLB	(521)	469
Federal Reserve PPPLF borrowings	32	34
Subordinated debt	(2)	1
Total interest-bearing liabilities	<u>(1,322)</u>	<u>699</u>
Net increase (decrease) in net interest income (tax equivalent basis)	<u>\$ (431)</u>	<u>\$ 3,381</u>

Provision for Loan Losses. The provision for loan losses was \$3.0 million for the three-month period ended June 30, 2020 compared to \$337,000, for the same period in 2019. Gross loans increased approximately \$210.5 million for the three-month period ended June 30, 2020 compared to an increase of approximately \$33.9 million for the three-month period ended June 30, 2019. The increase in loans for 2020 includes PPP loans totaling \$180.5 million at June 30, 2020, which are 100% guaranteed by the SBA.

The Company recognized net charge-offs of \$31,000 for the three-month period ended June 30, 2020 compared to net charge-offs of \$655,000 for the same period in 2019. The increase in the provision for loan losses for 2020 was primarily due to increased nonperforming assets as well as changes to qualitative factors within the allowance for loan losses calculation related to economic uncertainties surrounding COVID-19.



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Noninterest Income. Noninterest income increased \$33.7 million for the three-month period ended June 30, 2020 as compared to the same period in 2019. The increase was due primarily to an increase in mortgage banking income of \$33.5 million. The increase in mortgage banking income was due to production from the secondary-market residential mortgage lending segment that commenced operations in April 2018. Additional details regarding the financial performance of the mortgage banking and SBA lending segments are included in Note 13 to the consolidated financial statements.

Noninterest Expense. Noninterest expense increased \$18.5 million for the three-month period ended June 30, 2020 as compared to the same period in 2019. The increase was due primarily to increases in compensation and benefits and advertising of \$15.2 million and \$1.1 million, respectively. The increase in compensation and benefits expense is attributable to the addition of new employees primarily to support the growth of the Company's mortgage banking and SBA lending activities and routine salary and benefits adjustments. The increase in advertising is primarily due to the mortgage banking segment.

Income Tax Expense. The Company recognized income tax expense of \$5.5 million for the three-month period ended June 30, 2020 as compared to income tax expense of \$748,000 for the same period in 2019. The effective tax rate increased from 13.1% for the quarter ended June 30, 2019 to 26.2% for the quarter ended June 30, 2020 primarily due to increases in pre-tax income and nondeductible expenses.

Results of Operations for the Nine Months Ended June 30, 2020 and 2019

Overview. The Company reported net income of \$18.2 million, or \$7.66 per diluted share, for the nine-month period ended June 30, 2020 compared to net income of \$10.9 million, or \$4.58 per diluted share, for the nine-month period ended June 30, 2019.

Net Interest Income. Net interest income increased \$5.3 million, or 18.0%, for the nine-month period ended June 30, 2020 as compared to the same period in 2019. Average interest-earning assets increased \$223.5 million and average interest-bearing liabilities increased \$195.9 million when comparing the two periods. The tax-equivalent net interest margin was 3.75% for 2020 compared to 3.87% for 2019.

Total interest income increased \$5.6 million, or 15.2%, when comparing the two periods due primarily to an increase in the average balance of interest-earning assets of \$223.5 million, from \$1.04 billion for 2019 to \$1.26 billion for 2020, partially offset by a decrease in the average tax equivalent yield on interest-earning assets from 4.88% for 2019 to 4.62% for 2020. The majority of the increase in average interest-earning assets was attributable to loans. The average balance of loans increased \$224.1 million, or 27.7%, compared to 2019.

Total interest expense increased \$364,000, or 4.7%, due to an increase in the average balance of interest-bearing liabilities of \$195.9 million, from \$829.7 million for 2019 to \$1.03 billion for 2020, partially offset by a decrease in the average cost of interest-bearing liabilities from 1.26% for 2019 to 1.07% for 2020.



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Average Balance Sheets. The following table presents information regarding average balances of assets and liabilities, the total dollar amounts of interest income and dividends from average interest-earning assets, the total dollar amounts of interest expense on average interest-bearing liabilities, and the resulting annualized average yields and costs for the nine-month periods ended June 30, 2020 and 2019. 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. Average balances presented are daily averages. 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 have been adjusted to a tax equivalent basis using a federal marginal tax rate of 21%.

	Nine Months Ended June 30,				
	2020		2019		
	Average Balance	Interest and Dividends	Yield/ Cost	Average Balance	Interest and Dividend
<i>(Dollars in thousands)</i>					
Assets:					
Interest-bearing deposits with banks	\$ 40,219	\$ 395	1.31 %	\$ 34,951	\$
Loans	1,031,776	37,165	4.80	807,691	3
Investment securities	164,579	5,455	4.42	160,291	
Agency mortgage-backed securities	10,870	228	2.80	25,286	
FRB and FHLB stock	15,273	473	4.13	10,957	
Total interest-earning assets	1,262,717	43,716	4.62	1,039,176	3
Noninterest-earning assets	105,576			72,809	
Total assets	\$ 1,368,293			\$ 1,111,985	
Liabilities and equity:					
NOW accounts	\$ 190,659	\$ 386	0.27 %	\$ 177,430	\$
Money market deposit accounts	115,287	674	0.78	112,616	
Savings accounts	124,353	73	0.08	119,930	
Time deposits	300,938	3,552	1.57	266,178	
Total interest-bearing deposits	731,237	4,685	0.85	676,154	
Repurchase agreements	—	—	0.00	1,353	
Fed funds purchased	704	3	0.57	—	
FHLB borrowings	249,257	2,492	1.33	132,550	
Federal Reserve PPPLF borrowings	24,649	66	0.36	—	
Subordinated debt	19,752	955	6.45	19,684	
Total interest-bearing liabilities	1,025,599	8,201	1.07	829,741	
Noninterest-bearing deposits	190,237			165,493	
Other noninterest-bearing liabilities	27,118			11,131	
Total liabilities	1,242,954			1,006,365	
Total stockholders' equity	125,483			104,639	
Noncontrolling interest in subsidiary	(144)			981	
Total equity	125,339			105,620	
Total liabilities and equity	\$ 1,368,293			\$ 1,111,985	
Net interest income (taxable equivalent basis)		35,515			3
Less: taxable equivalent adjustment		(912)			
Net interest income		\$ 34,603			\$ 2
Interest rate spread			3.55 %		
Net interest margin			3.75 %		
Average interest-earning assets to average interest-bearing liabilities			123.12 %		

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Rate/Volume Analysis. The following table sets forth the effects of changing rates and volumes on our net interest income on a tax equivalent basis for the nine-month periods ended June 30, 2020 and 2019. 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.

	Nine Months Ended June 30, 2020 Compared to Nine Months Ended June 30, 2019	
	Increase (Decrease)	
	Rate	Due to Volume
<i>(In thousands)</i>		
Interest income:		
Interest-bearing deposits with banks	\$ (254)	\$ 70
Loans	(2,139)	8,327
Investment securities	(170)	146
Agency mortgage-backed securities	6	(302)
FRB and FHLB stock	(143)	157
Total interest-earning assets	<u>(2,700)</u>	<u>8,398</u>
Interest expense:		
Deposits	(672)	378
Repurchase agreements	—	(3)
Fed funds purchased	—	3
Borrowings from FHLB	(822)	1,418
Federal Reserve PPPLF borrowings	—	66
Subordinated debt	(7)	3
Total interest-bearing liabilities	<u>(1,501)</u>	<u>1,865</u>
Net increase (decrease) in net interest income (tax equivalent basis)	<u>\$ (1,199)</u>	<u>\$ 6,533</u>

Provision for Loan Losses. The provision for loan losses was \$5.2 million for the nine-month period ended June 30, 2020 compared to \$992,000, for the same period in 2019. Gross loans increased approximately \$278.7 million (including \$180.5 million of PPP loans) for the nine-month period ended June 30, 2020 compared to an increase of approximately \$92.9 million for the nine-month period ended June 30, 2019.

The Company recognized net charge-offs of \$590,000 for the nine-month period ended June 30, 2020, of which \$353,000 was related to unguaranteed portions of SBA loans. The Company recognized net charge-offs of \$699,000 for the same period in 2019, of which \$645,000 was related to unguaranteed portions of SBA loans. The increase in the provision for loan losses for 2020 was primarily due to increased nonperforming assets as well as changes to qualitative factors within the allowance for loan losses calculation related to economic uncertainties surrounding COVID-19.



FIRST SAVINGS FINANCIAL GROUP, INC.
PART I - ITEM 2

MANAGEMENT'S DISCUSSION AND
ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS

Noninterest Income. Noninterest income increased \$49.9 million for the nine-month period ended June 30, 2020 as compared to the same period in 2019. The increase was due primarily to an increase in mortgage banking income of \$49.2 million. The increase in mortgage banking income is due to production from the secondary-market residential mortgage lending segment that commenced operations in April 2018. Additional details regarding the financial performance of the mortgage banking and SBA lending segments are included in Note 13 to the consolidated financial statements.

Noninterest Expense. Noninterest expense increased \$40.6 million for the nine-month period ended June 30, 2020 as compared to the same period in 2019. The increase was due primarily to increases in compensation and benefits and advertising of \$32.4 million and \$3.4 million, respectively. The increase in compensation and benefits expense is attributable to the addition of new employees primarily to support the growth of the Company's mortgage banking and SBA lending activities and routine salary and benefits adjustments. The increase in advertising is primarily due to the mortgage banking segment.

Income Tax Expense. The Company recognized income tax expense of \$5.4 million for the nine-month period ended June 30, 2020, compared to \$1.7 million for the same period in 2019. The effective tax rate increased from 13.3% for 2019 to 23.0% for 2020 primarily due to increases in pre-tax income and nondeductible expenses.

Liquidity and Capital Resources

Liquidity Management. Liquidity is the ability to meet current and future financial obligations of a short-term nature. The Bank's primary sources of funds are customer deposits, proceeds from loan repayments, maturing securities and FHLB borrowings. While loan repayments and maturities are a predictable source of funds, deposit flows and mortgage prepayments are greatly influenced by market interest rates, general economic conditions and competition. At June 30, 2020, the Bank had cash and cash equivalents of \$27.5 million and securities available-for-sale with a fair value of \$203.8 million. If the Bank requires funds beyond its ability to generate them internally, it has additional borrowing capacity with the FHLB, borrowing capacity on a federal funds purchased line of credit facility with another financial institution and additional collateral eligible for repurchase agreements.

The Bank's primary investing activity is the origination of commercial real estate and one-to-four family mortgage loans and, to a lesser extent, consumer, multi-family, commercial business and residential and commercial real estate construction loans. The Bank also invests in U.S. government agency and sponsored enterprises securities, mortgage-backed securities and collateralized mortgage obligations issued by U.S. government agencies and sponsored enterprises, and municipal bonds.

The Bank must maintain an adequate level of liquidity to ensure the availability of sufficient funds to support loan growth and deposit withdrawals, to satisfy financial commitments and to take advantage of investment opportunities. Historically, the Bank has been able to retain a significant amount of its deposits as they mature. If these maturing deposits do not remain with the Bank, we will be required to seek other sources of funds, including other certificates of deposit and borrowings.

The Company is a separate legal entity from the Bank and must provide for its own liquidity to pay its operating expenses and other financial obligations, to pay any dividends and to repurchase any of its outstanding common stock. The Company's primary source of income is dividends received from the Bank and the Captive. The amount of dividends that the Bank may declare and pay to the Company in any calendar year cannot exceed net income for that year to date plus retained net income (as defined) for the preceding two calendar years. At June 30, 2020, the Company (unconsolidated basis) had liquid assets of \$5.0 million.



**FIRST SAVINGS FINANCIAL GROUP, INC.
PART I - ITEM 2**

**MANAGEMENT'S DISCUSSION AND
ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS**

Capital Management. The Bank is required to maintain specific amounts of capital pursuant to regulatory requirements. As of June 30, 2020, the Bank was in compliance with all regulatory capital requirements that were effective as of such date, with Tier 1 capital (to average total assets), common equity Tier 1 capital (to risk-weighted assets), Tier 1 capital (to risk-weighted assets) and total capital (to risk-weighted assets) ratios of 9.36%, 11.24%, 11.24% and 12.49%, respectively. The regulatory requirements at that date were 5.0%, 6.5%, 8.0% and 10.0%, respectively, in order to be categorized as "well capitalized" under applicable regulatory guidelines. At June 30, 2020, the Bank was considered "well-capitalized" under applicable regulatory guidelines.

Off-Balance Sheet Arrangements

In the normal course of operations, the Company engages in a variety of financial transactions that, in accordance with GAAP, are not recorded on the Company's financial statements. These transactions involve, to varying degrees, elements of credit, interest rate and liquidity risk. Such transactions are primarily used to manage customers' requests for funding and take the form of loan commitments and letters of credit. A further presentation of the Company's off-balance sheet arrangements is presented in the Company's Annual Report on Form 10-K for the year ended September 30, 2019.

For the nine-month period ended June 30, 2020, the Company did not engage in any off-balance sheet transactions reasonably likely to have a material effect on the Company's consolidated financial condition, results of operations or cash flows.



**FIRST SAVINGS FINANCIAL GROUP, INC.
PART I – ITEM 3**

**QUANTITATIVE AND QUALITATIVE DISCLOSURES
ABOUT MARKET RISK**

Qualitative Aspects of Market Risk. Market risk is the risk that the estimated fair value of our assets, liabilities, and derivative financial instruments will decline as a result of changes in interest rates or financial market volatility, or that our net income will be significantly reduced by interest rate changes.

The Company’s principal financial objective is to achieve long-term profitability while reducing its exposure to fluctuating market interest rates by operating within acceptable limits established for interest rate risk and maintaining adequate levels of funding and liquidity. The Company has sought to reduce the exposure of its earnings to changes in market interest rates by attempting to manage the mismatch between asset and liability maturities and interest rates. In order to reduce the exposure to interest rate fluctuations, the Company has developed strategies to manage its liquidity, shorten its effective maturities of certain interest-earning assets and decrease the interest rate sensitivity of its asset base. Management has sought to decrease the average maturity of its assets by emphasizing the origination of short-term residential mortgage, commercial mortgage and commercial business loans, all of which are retained by the Company for its portfolio. The Company relies on retail deposits as its primary source of funds. Management believes the primary use of retail deposits, complimented with a modest allocation of brokered certificates of deposit and FHLB borrowings, reduce the effects of interest rate fluctuations because they generally represent a more stable source of funds.

Quantitative Aspects of Market Risk. Potential cash flows, sales, or replacement value of many of our assets and liabilities, especially those that earn or pay interest, are sensitive to changes in the general level of interest rates. This interest rate risk arises primarily from our normal business activities of gathering deposits and extending loans. Many factors affect our exposure to changes in interest rates, such as general economic and financial conditions, customer preferences, historical pricing relationships, and re-pricing characteristics of financial instruments. Our earnings can also be affected by the monetary and fiscal policies of the U.S. Government and its agencies, particularly the Federal Reserve Board. Furthermore, the Company does not engage in hedging activities or purchase high-risk derivative instruments and also is not subject to foreign currency exchange rate risk or commodity price risk.

An element in our ongoing process is to measure and monitor interest rate risk using a Net Interest Income at Risk simulation to model the interest rate sensitivity of the balance sheet and to quantify the impact of changing interest rates on the Company. The model quantifies the effects of various possible interest rate scenarios on projected net interest income over a one-year horizon. The model assumes a semi-static balance sheet and measures the impact on net interest income relative to a base case scenario of hypothetical changes in interest rates over twelve months and provides no effect given to any steps that management might take to counter the effect of the interest rate movements. The scenarios include prepayment assumptions, changes in the level of interest rates, the shape of the yield curve, and spreads between market interest rates in order to capture the impact from re-pricing, yield curve, option, and basis risks.

Results of our simulation modeling, which assumes an immediate and sustained parallel shift in market interest rates, project that the Company’s net interest income could change as follows over a one-year horizon, relative to our base case scenario.

Immediate Change in the Level of Interest Rates	At June 30, 2020		At September 30, 2019	
	One Year Horizon		One Year Horizon	
	Dollar Change	Percent Change	Dollar Change	
			<i>(Dollars in thousands)</i>	
300bp	\$ 1,494	3.12 %	\$ (4,945)	
200bp	1,234	2.58	(2,197)	
100bp	1,075	2.24	(993)	
(100)bp	(2,263)	(4.73)	750	
(200)bp	(3,413)	(7.13)	(616)	



**FIRST SAVINGS FINANCIAL GROUP, INC.
PART I – ITEM 3**

**QUANTITATIVE AND QUALITATIVE DISCLOSURES
ABOUT MARKET RISK**

At June 30, 2020, our simulated exposure to an increase in interest rates shows that an immediate and sustained increase in rates of 1.00% will increase our net interest income by \$1.1 million, or 2.24%, over a one year horizon compared to a flat interest rate scenario. Furthermore, rate increases of 2.00% and 3.00% would cause net interest income to increase by 2.58% and 3.12%, respectively. An immediate and sustained decrease in rates of 1.00% will decrease our net interest income by \$2.3 million, or 4.73%, over a one year horizon compared to a flat interest rate scenario while a rate decrease of 2.00% would cause our net interest income to decrease by 7.13%. All estimated changes presented in the above table are within the policy guidelines approved by the Company's Board of Directors.

FIRST SAVINGS FINANCIAL GROUP, INC.
PART I - ITEM 4

CONTROLS AND PROCEDURES

Controls and Procedures

Evaluation of Disclosure Controls and Procedures. As of June 30, 2020, (the "Evaluation Date"), the Company performed an evaluation, under the supervision of and with the participation of our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended. Disclosure controls and procedures are controls and procedures designed to ensure that information required to be disclosed by us in reports filed or submitted under the Securities Exchange Act of 1934, as amended (the "Exchange Act") is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Based on the evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that as of the Evaluation Date, our disclosure controls and procedures were not effective due to the material weaknesses disclosed in our Annual Report on Form 10-K for the year ended September 30, 2019 filed with the SEC on December 16, 2019 (the "2019 Form 10-K").

Changes in Internal Controls. There have been no changes in our internal controls over financial reporting that occurred during the quarter ended June 30, 2020, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. As disclosed in our 2019 Form 10-K, management implemented additional controls and procedures described therein starting in the fourth quarter of 2019 in order to remediate the material weaknesses identified, and will continue to take steps as necessary that management and the Audit Committee believe will remediate the control deficiencies. Specifically, since the material weaknesses were identified management has updated its procedures to periodically test the estimate of direct loan origination costs and other assumptions used to calculate the fair value of interest rate lock commitments and loans held for sale, changed its methods of accruing and paying incentive compensation for the mortgage banking segment, and undertaken a process to review and update the compensation agreements for employees within the mortgage banking segment. In addition, management has engaged a consulting firm to independently review the assumptions used to value interest rate lock commitments and loans held for sale, as well as review the accounting and monthly closing processes for the mortgage banking segment to identify areas where efficiency can be improved. However, the identified control deficiencies that led to the material weaknesses in internal control over financial reporting will not be considered fully addressed until the new and additional controls, processes and procedures have been in operation for a sufficient period of time to allow the Company's management to conclude, through testing, that the controls are operating effectively and the material weaknesses have been fully remediated. Management expects the remediation of the material weaknesses will be completed by September 30, 2020.



FIRST SAVINGS FINANCIAL GROUP, INC.
PART II

OTHER INFORMATION

Item 1. Legal Proceedings

The Company is not a party to any legal proceedings. Periodically, there have been various claims and lawsuits involving the Bank, mainly as a plaintiff, such as claims to enforce liens, condemnation proceedings on properties in which the Bank holds security interests, claims involving the making and servicing of real property loans and other issues incident to the Bank's business. The Bank is not a party to any pending legal proceedings that it believes would have a material adverse effect on its financial condition or results of operations.

Item 1A. Risk Factors

In addition to the risk factor disclosed below and other information set forth in this report, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended September 30, 2019 which could materially affect our business, financial condition or future results. There have been no material changes to the risk factors described in our Annual Report on Form 10-K, except as described below. However, these are not the only risks that we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or results of operations.

The COVID-19 pandemic has adversely impacted our business and financial results and that of many of our customers, and the ultimate impact will depend on future developments, which are highly uncertain, cannot be predicted and are largely outside of our control, including the scope and duration of the pandemic and actions taken by governmental authorities in response to the pandemic.

The COVID-19 pandemic has created extensive disruptions to the global and U.S. economies and to the lives of individuals throughout the world. Governments, businesses, and the public are taking unprecedented actions to contain the spread of COVID-19 and to mitigate its effects, including quarantines, travel bans, shelter-in-place orders, closures of businesses and schools, fiscal and monetary stimulus, and legislation designed to deliver financial aid and other relief. While the scope, duration, and full effects of COVID-19 are rapidly evolving and not fully known, the pandemic and the efforts to contain it have disrupted global economic activity, adversely affected the functioning of financial markets, impacted market interest rates, increased economic and market uncertainty, and disrupted trade and supply chains. If these effects continue for a prolonged period or result in sustained economic stress or recession, many of the risk factors identified in our Form 10-K could be exacerbated and the effects of COVID-19 could have a material adverse impact on us in a number of ways as described in more detail below.



FIRST SAVINGS FINANCIAL GROUP, INC.
PART II

OTHER INFORMATION

Credit Risk – Our risks of timely loan repayment and the value of collateral supporting the loans are affected by the strength of our borrowers' businesses. Concern about the spread of COVID-19 has caused and is likely to continue to cause business shutdowns, limitations on commercial activity and financial transactions, labor shortages, supply chain interruptions, increased unemployment and commercial property vacancy rates, reduced profitability and ability for property owners to make mortgage payments, and overall economic and financial market instability, all of which may cause our customers to be unable to make scheduled loan payments. Hotel and restaurant operators and others in the leisure, hospitality and travel industries, among other industries, have been particularly harmed by COVID-19. See "Part I – Item 2 – Management's Discussion and Analysis for Financial Condition and Results of Operations – Covid-19 Pandemic" for information about the Company's outstanding loans to borrowers in the hotel and restaurant industries. If the effects of COVID-19 result in widespread and sustained repayment shortfalls on loans in our portfolio, we could incur significant delinquencies, foreclosures and credit losses, particularly if the available collateral is insufficient to cover our credit exposure. The future effects of COVID-19 on economic activity could negatively affect the collateral values associated with our existing loans, the ability to liquidate the real estate collateral securing our residential and commercial real estate loans, our ability to maintain loan origination volume and to obtain additional financing, the future demand for or profitability of our lending and services, and the financial condition and credit risk of our customers. Further, in the event of delinquencies, regulatory changes and policies designed to protect borrowers may slow or prevent us from making our business decisions or may result in a delay in our taking certain remediation actions, such as foreclosure. In addition, we have unfunded commitments to extend credit to customers. During a challenging economic environment, our customers depend more on our credit commitments and increased borrowings under these commitments could adversely impact our liquidity. Furthermore, in an effort to support our communities during the pandemic, we are participating in the Paycheck Protection Program under the CARES Act whereby loans to small businesses are made and those loans are subject to the regulatory requirements that would require forbearance of loan payments for a specified time or that would limit our ability to pursue all available remedies in the event of a loan default. If the borrower under the PPP loan fails to qualify for loan forgiveness, we are at the heightened risk of holding these loans at unfavorable interest rates as compared to the loans to customers that we would have otherwise extended credit.

Strategic Risk – Our success may be affected by a variety of external factors that may affect the price or marketability of our products and services, changes in interest rates that may increase our funding costs, reduced demand for our financial products due to economic conditions and the various response of governmental and nongovernmental authorities. The COVID-19 pandemic has significantly increased economic and demand uncertainty and has led to disruption and volatility in the global capital markets. Furthermore, many of the governmental actions have been directed toward curtailing household and business activity to contain COVID-19. These actions have been rapidly expanding in scope and intensity. For example, in many of our markets, local governments have acted to temporarily close or restrict the operations of most businesses. The future effects of COVID-19 on economic activity could negatively affect the future banking products we provide, including a decline in originating loans.



FIRST SAVINGS FINANCIAL GROUP, INC.
PART II

OTHER INFORMATION

Operational Risk – Current and future restrictions on our workforce’s access to our facilities could limit our ability to meet customer servicing expectations and have a material adverse effect on our operations. We rely on business processes and branch activity that largely depend on people and technology, including access to information technology systems as well as information, applications, payment systems and other services provided by third parties. In response to COVID-19, we have modified our business practices with a portion of our employees working remotely from their homes to have our operations uninterrupted as much as possible. Further, technology in employees’ homes may not be as robust as in our offices and could cause the networks, information systems, applications, and other tools available to employees to be more limited or less reliable than in our offices. The continuation of these work-from-home measures also introduces additional operational risk, including increased cybersecurity risk from phishing, malware, and other cybersecurity attacks, all of which could expose us to risks of data or financial loss and could seriously disrupt our operations and the operations of any impacted customers.

Moreover, we rely on many third parties in our business operations, including the appraiser of the real property collateral, vendors that supply essential services such as loan servicers, providers of financial information, systems and analytical tools and providers of electronic payment and settlement systems, and local and federal government agencies, offices, and courthouses. In light of the developing measures responding to the pandemic, many of these entities may limit the availability and access of their services. If the third-party service providers continue to have limited capacities for a prolonged period or if additional limitations or potential disruptions in these services materialize, it may negatively affect our operations.

Interest Rate Risk/Market Value Risk – Our net interest income, lending and investment activities, deposits and profitability could be negatively affected by volatility in interest rates caused by uncertainties stemming from COVID-19. In March 2020, the Federal Reserve lowered the target range for the federal funds rate to a range from 0% to 0.25%, citing concerns about the impact of COVID-19 on financial markets and market stress in the energy sector. A prolonged period of extremely volatile and unstable market conditions could increase our funding costs and negatively affect market risk mitigation strategies. Higher income volatility from changes in interest rates and spreads to benchmark indices could cause a loss of future net interest income and a decrease in prevailing fair market values of our investment securities and other assets, including mortgage servicing rights and SBA loan servicing rights. Fluctuations in interest rates will impact both the level of income and expense recorded on many of our assets and liabilities and the market value of all interest-earning assets and interest-bearing liabilities, which in turn could have a material adverse effect on our net income, operating results, or financial condition.

Because there have been no comparable recent global pandemics that resulted in similar global impact, we do not yet know the full extent of COVID-19’s effects on our business, operations, or the global economy as a whole. Any future development will be highly uncertain and cannot be predicted, including the scope and duration of the pandemic, the effectiveness of our work-from-home arrangements, third party providers’ ability to support our operations, and any actions taken by governmental authorities and other third parties in response to the pandemic. The uncertain future development of this crisis could materially and adversely affect our business, operations, operating results, financial condition, liquidity or capital levels.



FIRST SAVINGS FINANCIAL GROUP, INC.
PART II

OTHER INFORMATION

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table presents information regarding the Company's stock repurchase activity during the quarter ended June 30, 2020:

Period	(a) Total number of shares (or units) purchased	(b) Average price paid per share (or unit)	(c) Total number of shares (or units) purchased as part of publicly announced plans or programs (1)	(d) Maximum number (or appropriate percentage) of shares (or units) that may be purchased under the plans or programs
April 1, 2020 through April 30, 2020	—	\$ —	—	44,800
May 1, 2020 through May 31, 2020	—	\$ —	—	44,800
June 1, 2020 through June 30, 2020	—	\$ —	—	44,800
Total	—	\$ —	—	44,800

(1) On November 10, 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, 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 are held in treasury.

Item 3. Defaults upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

FIRST SAVINGS FINANCIAL GROUP, INC.
PART II

OTHER INFORMATION

Item 6. Exhibits

31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
32.1	Section 1350 Certification of Chief Executive Officer
32.2	Section 1350 Certification of Chief Financial Officer
101	The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2020, formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Statements of Income, (ii) the Consolidated Statements of Comprehensive Income, (iii) the Consolidated Statement of Changes in Stockholders' Equity, (iv) the Consolidated Statement of Cash Flows and (v) related notes
104	The cover page of First Savings Financial Group, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2020, formatted in Inline XBRL (included within the Exhibit 101)

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated August 10, 2020

Dated August 10, 2020

FIRST SAVINGS FINANCIAL GROUP, INC.
(Registrant)

BY: /s/ Larry W. Myers
Larry W. Myers
President and Chief Executive Officer

BY: /s/ Anthony A. Schoen
Anthony A. Schoen
Chief Financial Officer

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Section 2: EX-31.1 (EXHIBIT 31.1)

Exhibit 31.1

CERTIFICATION

I, Larry W. Myers, certify that:

1. I have reviewed this quarterly report on Form 10-Q of First Savings Financial Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flow of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures at the end of the period covered by this report based on such evaluation;
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to report financial information and its financial statements, or to otherwise prevent the registrant from complying with any financial reporting requirements or securities laws or regulations; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 10, 2020

/s/ Larry W. Myers
Larry W. Myers
President and Chief Executive Officer

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Section 3: EX-31.2 (EXHIBIT 31.2)

Exhibit 31.2

CERTIFICATION

I, Anthony A. Schoen, certify that:

1. I have reviewed this quarterly report on Form 10-Q of First Savings Financial Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flow of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this annual report our conclusions about the effectiveness of the disclosure controls and pro the end of the period covered by this report based on such evaluation;
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit commi registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 10, 2020

/s/ Anthony A. Schoen
Anthony A. Schoen
Chief Financial Officer

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Section 4: EX-32.1 (EXHIBIT 32.1)

Exhibit 32.1

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of First Savings Financial Group, Inc. and Subsidiaries (the "Company") on Form 10-Q for the period ended June 30, 2020, as filed with the Securities and Exchange Commission (the "Report"), I, Larry W. Myers, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the period covered by the Report.

DATE: August 10, 2020

/s/ Larry W. Myers
Larry W. Myers
President and Chief
Executive Officer

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Section 5: EX-32.2 (EXHIBIT 32.2)

Exhibit 32.2

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of First Savings Financial Group, Inc. and Subsidiaries (the "Company") on Form 10-Q for the period ended June 30, 2020, as filed with the Securities and Exchange Commission (the "Report"), I, Anthony A. Schoen, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the period covered by the Report.

DATE: August 10, 2020

/s/ Anthony A. Schoen
Anthony A. Schoen
Chief Financial Officer

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