

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

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2010

OR

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

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

Commission File No. 1-34155

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

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

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

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

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

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

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

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

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

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

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

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FIRST SAVINGS FINANCIAL GROUP, INC.

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

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

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

See notes to consolidated financial statements.

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

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

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

**OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX**

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

See notes to consolidated financial statements.

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

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



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

See notes to consolidated financial statements.

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

1. Presentation of Interim Information

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

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

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

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

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

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

2. Investment Securities

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

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

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

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

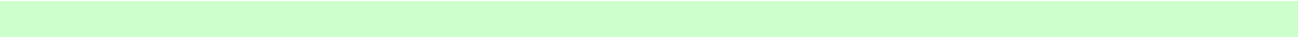
Agency bonds and notes, agency mortgage-backed securities and agency collateralized mortgage obligations (CMO) include securities issued by the Government National Mortgage Association (GNMA), a U.S. government agency, and the Federal National Mortgage Association (FNMA), the Federal Home Loan Mortgage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

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

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

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

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



|                                     |    |    |        |    |       |
|-------------------------------------|----|----|--------|----|-------|
| Total securities available for sale | 60 | \$ | 52,097 | \$ | 1,529 |
|-------------------------------------|----|----|--------|----|-------|

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

At December 31, 2010, the Company did not have any securities held to maturity with an unrealized loss or securities that had been in a continuous loss position for more than twelve months. Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

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

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

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

The Company evaluates the existence of a potential credit loss component related to the decline in fair value of the privately-issued CMO portfolio each quarter using an independent third party analysis. At December 31, 2010, the Company held ten privately-issued CMO securities with an aggregate amortized cost of \$2.1 million and fair value of \$2.8 million that have been downgraded to a substandard regulatory classification due to a downgrade of the security's credit quality rating by various rating agencies. Based on the independent third party analysis, the Bank expects to collect the contractual principal and interest cash flows for these securities and, as a result, no other-than-temporary impairment has been recognized on the privately-issued CMO portfolio. While management does not anticipate a credit-related impairment loss at December 31, 2010, additional deterioration in market and economic conditions may have an adverse impact on the credit quality in the future.

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

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





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

## 3. Loans and Allowance for Loan Losses

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

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

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

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

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

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An analysis of the allowance for loan losses and recorded investment in loans as of and for the three months ended December 31, 2010 is as follows:

|  | Residential Commercial |               | Land & Land Commercial |               | Commercial   |               | Consumer      |             | Unallocated |             | Total           |
|--|------------------------|---------------|------------------------|---------------|--------------|---------------|---------------|-------------|-------------|-------------|-----------------|
|  | Real Estate            | Real Estate   | Multifamily            | Construction  | Development  | Business      | Consumer      | Unallocated | Unallocated | Unallocated | Total           |
|  | (In thousands)         |               |                        |               |              |               |               |             |             |             |                 |
| <b>Allowance for Loan Losses:</b>                      |                        |               |                        |               |              |               |               |             |             |             |                 |
| <b>B e g i n n i n g</b>                               |                        |               |                        |               |              |               |               |             |             |             |                 |
| balance  | \$ 1,242               | \$ 600        | \$ 369                 | \$ 218        | \$ 62        | \$ 891        | \$ 429        | \$ -        | \$ -        | \$ -        | \$ 3,811        |
| Provisions   | 174                    | 301           | 181                    | (77)          | (33)         | (161)         | (33)          | -           | -           | -           | 352             |
| Charge-offs  | (213)                  | (5)           | -                      | (8)           | -            | -             | (52)          | -           | -           | -           | (278)           |
| Recoveries   | -                      | -             | -                      | -             | -            | 57            | 17            | -           | -           | -           | 74              |
| <b>Ending balance</b>                                  | <b>\$ 1,203</b>        | <b>\$ 896</b> | <b>\$ 550</b>          | <b>\$ 133</b> | <b>\$ 29</b> | <b>\$ 787</b> | <b>\$ 361</b> | <b>\$ -</b> | <b>\$ -</b> | <b>\$ -</b> | <b>\$ 3,959</b> |
| <b>Ending allowance balance attributable to loans:</b> |                        |               |                        |               |              |               |               |             |             |             |                 |
| <b>Individually evaluated for impairment</b>           |                        |               |                        |               |              |               |               |             |             |             |                 |
|  | \$ 69                  | \$ 249        | \$ -                   | \$ 59         | \$ -         | \$ -          | \$ 23         | \$ -        | \$ -        | \$ -        | \$ 400          |
| <b>Collectively evaluated for impairment</b>           |                        |               |                        |               |              |               |               |             |             |             |                 |
|  | 1,134                  | 647           | 550                    | 74            | 29           | 787           | 338           | -           | -           | -           | 3,559           |
| <b>Acquired with deteriorated credit quality</b>       |                        |               |                        |               |              |               |               |             |             |             |                 |
|  | -                      | -             | -                      | -             | -            | -             | -             | -           | -           | -           | -               |
| <b>Ending balance</b>                                  | <b>\$ 1,203</b>        | <b>\$ 896</b> | <b>\$ 550</b>          | <b>\$ 133</b> | <b>\$ 29</b> | <b>\$ 787</b> | <b>\$ 361</b> | <b>\$ -</b> | <b>\$ -</b> | <b>\$ -</b> | <b>\$ 3,959</b> |
| <b>Recorded Investment in Loans:</b>                   |                        |               |                        |               |              |               |               |             |             |             |                 |
| <b>Individually evaluated for impairment</b>           |                        |               |                        |               |              |               |               |             |             |             |                 |
|  | \$ 2,674               | \$ 1,482      | \$ -                   | \$ 613        | \$ 397       | \$ 162        | \$ 315        | \$ -        | \$ -        | \$ -        | \$ 5,643        |
| <b>Collectively evaluated for impairment</b>           |                        |               |                        |               |              |               |               |             |             |             |                 |
|  | 167,474                | 54,797        | 19,537                 | 21,939        | 8,091        | 30,556        | 35,046        | -           | -           | -           | 337,440         |

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|   |            |           |           |           |          |           |           |            |
|---|------------|-----------|-----------|-----------|----------|-----------|-----------|------------|
| Acquired with<br>deteriorated<br>credit quality | 777        | \$ 561    | -         | 49        | -        | 53        | 44        | 1,484      |
| Ending balance                                  | \$ 170,925 | \$ 56,840 | \$ 19,537 | \$ 22,601 | \$ 8,488 | \$ 30,771 | \$ 35,405 | \$ 344,567 |

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The following table presents impaired loans individually evaluated for impairment by class of loans as of December 31, 2010:

|  | Recorded<br>Investment | Unpaid<br>Principal<br>Balance | Related<br>Allowance | Average<br>Recorded<br>Investment | Interest<br>Income<br>Recognized | Interest<br>Recognized –<br>Cash Method |
|--|------------------------|--------------------------------|----------------------|-----------------------------------|----------------------------------|---|
| (In thousands)                                   |                        |                                |                      |                                   |                                  |   |
| <b>Loans with no related allowance recorded:</b> |                        |                                |                      |                                   |                                  |   |
| Residential real estate                          | \$ 2,335               | \$ 2,318                       | \$ -                 | \$ 2,348                          | \$ 9                             | \$ 10                                   |
| Commercial real estate                           | 987                    | 981                            | -                    | 1,078                             | 2                                | -                                       |
| Multifamily                                      | -                      | -                              | -                    | -                                 | -                                | -                                       |
| Construction                                     | 354                    | 351                            | -                    | 487                               | 1                                | -                                       |
| Land and land development                        | 397                    | 397                            | -                    | 199                               | -                                | 1                                       |
| Commercial business                              | 162                    | 161                            | -                    | 253                               | 1                                | 1                                       |
| Consumer   | 214                    | 213                            | -                    | 242                               | 1                                | -                                       |
|  | 4,449                  | 4,421                          | -                    | 4,607                             | 14                               | 12                                      |
| <b>Loans with an allowance recorded:</b>         |                        |                                |                      |                                   |                                  |   |
| Residential real estate                          | 339                    | 338                            | 69                   | 652                               | -                                | -                                       |
| Commercial real estate                           | 495                    | 495                            | 249                  | 247                               | -                                | -                                       |
| Multifamily                                      | -                      | -                              | -                    | -                                 | -                                | -                                       |
| Construction                                     | 259                    | 259                            | 59                   | 200                               | -                                | -                                       |
| Land and land development                        | -                      | -                              | -                    | -                                 | -                                | -                                       |
| Commercial business                              | -                      | -                              | -                    | -                                 | -                                | -                                       |
| Consumer   | 101                    | 101                            | 23                   | 98                                | -                                | -                                       |
|  | 1,194                  | 1,193                          | 400                  | 1,197                             | -                                | -                                       |
| <b>Total:</b>                                    |                        |                                |                      |                                   |                                  |   |
| Residential real estate                          | 2,674                  | 2,656                          | 69                   | 3,000                             | 9                                | 10                                      |
| Commercial real estate                           | 1,482                  | 1,476                          | 249                  | 1,325                             | 2                                | -                                       |
| Multifamily                                      | -                      | -                              | -                    | -                                 | -                                | -                                       |
| Construction                                     | 613                    | 610                            | 59                   | 687                               | 1                                | -                                       |
| Land and land development                        | 397                    | 397                            | -                    | 199                               | -                                | -                                       |
| Commercial business                              | 162                    | 161                            | -                    | 253                               | 1                                | 1                                       |
| Consumer   | 315                    | 314                            | 23                   | 340                               | 1                                | 1                                       |
|  | \$ 5,643               | \$ 5,614                       | \$ 400               | \$ 5,804                          | \$ 14                            | \$ 12                                   |

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Nonperforming loans consists of nonaccrual loans and loans over 90 days past due and still accruing interest. The following table presents the recorded investment in nonperforming loans by class of loans at December 31, 2010:

|                           | Loans 90+<br>Days   |                            | Total<br>Nonperforming<br>Loans |
|---------------------------|---------------------|----------------------------|---------------------------------|
|                           | Nonaccrual<br>Loans | Past Due<br>Still Accruing |                                 |
|                           | (In thousands)      |                            |                                 |
| Residential real estate   | \$ 2,176            | \$ 498                     | \$ 2,674                        |
| Commercial real estate    | 1,391               | 91                         | 1,482                           |
| Multifamily               | -                   | -                          | -                               |
| Construction              | 482                 | 131                        | 613                             |
| Land and land development | 397                 | -                          | 397                             |
| Commercial business       | 53                  | 109                        | 162                             |
| Consumer                  | 263                 | 52                         | 315                             |
| <b>Total</b>              | <b>\$ 4,762</b>     | <b>\$ 881</b>              | <b>\$ 5,643</b>                 |

The following table presents the aging of the recorded investment in past due loans at December 31, 2010 by class of loans:

|                           | 30-59<br>Days<br>Past Due | 60-89<br>Days<br>Past Due | 90+<br>Days<br>Past Due | Total<br>Past Due | Current           | Total<br>Loans    |
|---------------------------|---------------------------|---------------------------|-------------------------|-------------------|-------------------|-------------------|
|                           | (In thousands)            |                           |                         |                   |                   |                   |
| Residential real estate   | \$ 5,212                  | \$ 2,132                  | \$ 1,971                | \$ 9,315          | \$ 161,610        | \$ 170,925        |
| Commercial real estate    | 716                       | 53                        | 1,163                   | 1,932             | 54,908            | 56,840            |
| Multifamily               | 32                        | -                         | -                       | 32                | 19,505            | 19,537            |
| Construction              | 374                       | -                         | 613                     | 987               | 21,614            | 22,601            |
| Land and land development | -                         | -                         | 397                     | 397               | 8,091             | 8,488             |
| Commercial business       | 116                       | 86                        | 162                     | 364               | 30,407            | 30,771            |
| Consumer                  | 916                       | 108                       | 79                      | 1,103             | 34,302            | 35,405            |
| <b>Total</b>              | <b>\$ 7,366</b>           | <b>\$ 2,379</b>           | <b>\$ 4,385</b>         | <b>\$ 14,130</b>  | <b>\$ 330,437</b> | <b>\$ 344,567</b> |

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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, public information, and current economic trends, among other factors. The Company classifies loans based on credit risk at least quarterly. The Company uses the following regulatory definitions for risk ratings:

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

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

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

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans. As of December 31, 2010, and based on the most recent analysis performed, the recorded investment in loans by risk category is as follows:

|                    | Residential<br>Real Estate | Commercial<br>Real Estate | Commercial<br>Multi-family | Land and<br>Construction | Land and<br>Development | Commercial<br>Business | Commercial<br>Consumer | Total             |
|--------------------|----------------------------|---------------------------|----------------------------|--------------------------|-------------------------|------------------------|------------------------|-------------------|
|                    | (In thousands)             |                           |                            |                          |                         |                        |                        |                   |
| Pass               | \$ 163,691                 | \$ 49,125                 | \$ 17,197                  | \$ 21,528                | \$ 7,467                | \$ 29,421              | \$ 34,684              | \$ 323,113        |
| Special<br>Mention | 1,189                      | 5,399                     | 336                        | 187                      | 624                     | 1,090                  | 105                    | 8,930             |
| Substandard        | 5,008                      | 1,503                     | 2,004                      | 837                      | 397                     | 260                    | 521                    | 10,530            |
| Doubtful           | 1,037                      | 813                       | -                          | 49                       | -                       | -                      | 95                     | 1,994             |
| Loss               | -                          | -                         | -                          | -                        | -                       | -                      | -                      | -                 |
| <b>Total</b>       | <b>\$ 170,925</b>          | <b>\$ 56,840</b>          | <b>\$ 19,537</b>           | <b>\$ 22,601</b>         | <b>\$ 8,488</b>         | <b>\$ 30,771</b>       | <b>\$ 35,405</b>       | <b>\$ 344,567</b> |

The Company does not have any classes of loans that are considered to be subprime.

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## 4. Supplemental Disclosure for Earnings Per Share

Basic earnings per share are computed by dividing income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflect the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity.

| (Dollars in thousands, except per share data)    | Three Months Ended<br>December 31, |           |
|--|------------------------------------|-----------|
|  | 2010                               | 2009      |
| <b>Basic</b>                                     |                                    |           |
| <b>Earnings:</b>                                 |                                    |           |
| Net income                                       | \$ 1,084                           | \$ 892    |
| <b>Shares:</b>                                   |                                    |           |
| Weighted average common shares outstanding       | 2,156,683                          | 2,348,048 |
| Net income per common share, basic               | \$ 0.50                            | \$ 0.38   |
| <b>Diluted</b>                                   |                                    |           |
| <b>Earnings:</b>                                 |                                    |           |
| Net income                                       | \$ 1,084                           | \$ 892    |
| <b>Shares:</b>                                   |                                    |           |
| Weighted average common shares outstanding       | 2,156,683                          | 2,348,048 |
| Add: Dilutive effect of outstanding options      | 14,385                             | -         |
| Add: Dilutive effect of restricted stock         | 9,350                              | -         |
| Weighted average shares outstanding, as adjusted | 2,180,418                          | 2,348,048 |
| Net income per common share, diluted             | \$ 0.50                            | \$ 0.38   |



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5. Comprehensive Income

Comprehensive income is defined as the change in equity (net assets) of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners. Comprehensive income for the Company includes net income and other comprehensive income representing the net unrealized gains and losses on securities available for sale. The following tables set forth the components of other comprehensive income and the allocated tax amounts for the three-month periods ended December, 2010 and 2009:

|   | Three Months Ended<br>December 31, |        |
|---|------------------------------------|--------|
|   | 2010                               | 2009   |
| (In thousands)  |                                    |        |
| <b>Unrealized gains (losses) on securities:</b>                             |                                    |        |
| Unrealized holding gains (losses) arising during the period                 | \$ (2,403)                         | \$ 334 |
| Income tax (expense) benefit  | 817                                | (132)  |
| Net of tax amount   | (1,586)                            | 202    |
| Less: reclassification adjustment for realized gains included in net income | (68)                               | -      |
| Income tax expense  | 23                                 | -      |
| Net of tax amount   | (45)                               | -      |
| Other comprehensive income (loss), net of tax                               | \$ (1,631)                         | \$ 202 |

6. Supplemental Disclosures of Cash Flow Information

|  | Three Months Ended<br>December 31, |          |
|--|------------------------------------|----------|
|  | 2010                               | 2009     |
| (In thousands)   |                                    |          |
| <b>Cash payments for:</b>  |                                    |          |
| Interest   | \$ 1,740                           | \$ 2,244 |
| Taxes  | 75                                 | 40       |
| Transfers from loans to foreclosed real estate                       | 836                                | 105      |
| Proceeds from sales of foreclosed real estate financed through loans | 83                                 | 260      |

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

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

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

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

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

A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below. These valuation methodologies were applied to all of the Company’s financial assets carried at fair value or the lower of cost or fair value. The table below presents the balances of financial assets measured at fair value on a recurring and nonrecurring basis as of December 31, 2010 and September 30, 2010. The Company had no liabilities measured at fair value as of December 31, 2010 and September 30, 2010.

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|                                      | Level 1 | Carrying Value |         | Total      |
|--------------------------------------|---------|----------------|---------|------------|
|                                      |         | Level 2        | Level 3 |            |
| (In thousands)                       |         |                |         |            |
| <b>December 31, 2010:</b>            |         |                |         |            |
| Assets Measured - Recurring Basis    |         |                |         |            |
| Securities available for sale:       |         |                |         |            |
| Agency bonds and notes               | \$ -    | \$ 32,258      | \$ -    | \$ 32,258  |
| Agency mortgage-backed               | -       | 11,996         | -       | 11,996     |
| Agency CMO                           | -       | 22,186         | -       | 22,186     |
| Privately-issued CMO                 | -       | 12,717         | -       | 12,717     |
| Municipal                            | -       | 40,894         | -       | 40,894     |
| Equity securities                    | 88      | -              | -       | 88         |
| Total securities available for sale  | \$ 88   | \$ 120,051     | \$ -    | \$ 120,139 |
| Interest rate cap contract           | -       | 123            | -       | 123        |
| Assets Measured - Nonrecurring Basis |         |                |         |            |
| Impaired loans                       | -       | 5,214          | -       | 5,214      |
| Loans held for sale                  | -       | 1,539          | -       | 1,539      |
| Foreclosed real estate               | -       | 1,793          | -       | 1,793      |
| <b>September 30, 2010:</b>           |         |                |         |            |
| Assets Measured - Recurring Basis    |         |                |         |            |
| Securities available for sale:       |         |                |         |            |
| Agency bonds and notes               | \$ -    | \$ 25,705      | \$ -    | \$ 25,705  |
| Agency mortgage-backed               | -       | 14,141         | -       | 14,141     |
| Agency CMO                           | -       | 22,488         | -       | 22,488     |
| Privately-issued CMO                 | -       | 12,688         | -       | 12,688     |
| Municipal                            | -       | 34,877         | -       | 34,877     |
| Equity securities                    | 77      | -              | -       | 77         |
| Total securities available for sale  | \$ 77   | \$ 109,899     | \$ -    | \$ 109,976 |
| Interest rate cap contract           | -       | 77             | -       | 77         |
| Assets Measured - Nonrecurring Basis |         |                |         |            |
| Impaired loans                       | -       | 5,637          | -       | 5,637      |
| Loans held for sale                  | -       | 1,884          | -       | 1,884      |
| Foreclosed real estate               | -       | 1,331          | -       | 1,331      |

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



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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.

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

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

**Impaired Loans.** Impaired loans are carried at the present value of estimated future cash flows using the loan's existing rate or the fair value of collateral if the loan is collateral dependent. Impaired loans are evaluated and valued at the time the loan is identified as impaired at the lower of cost or market value. For collateral dependent impaired loans, market value is measured based on the value of the collateral securing these loans and is classified as Level 2 in the fair value hierarchy. 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. Impaired loans are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly, based on the same factors identified above.

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

**Foreclosed Real Estate Held for Sale.** Foreclosed real estate held for sale is reported at the lower of carrying value or fair value less estimated costs to dispose of the property using Level 2 inputs. The fair values are determined by real estate appraisals using valuation techniques consistent with the market approach using recent sales of comparable properties. In cases where such inputs are unobservable, the balance is reflected within the Level 3 hierarchy.

There were no transfers into or out of the Company's Level 3 financial assets for the three-month period ended December 31, 2010. In addition, there were no transfers into or out of Levels 1 and 2 of the fair value hierarchy during the three-month period ended December 31, 2010.

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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 estimated fair values of the Company's financial instruments are as follows:

|   | December 31, 2010  |                | September 30, 2010 |                |
|---|--------------------|----------------|--------------------|----------------|
|   | Carrying<br>Amount | Fair<br>Value  | Carrying<br>Amount | Fair<br>Value  |
|   | (In thousands)     |                |                    |                |
| <b>Financial assets:</b>  |                    |                |                    |                |
| Cash and due from banks   | \$ 8,412           | \$ 8,412       | \$ 10,184          | \$ 10,184      |
| Interest-bearing deposits in banks                                    | 3,065              | 3,065          | 1,094              | 1,094          |
| Securities available for sale   | 120,139            | 120,139        | 109,976            | 109,976        |
| Securities held to maturity   | 3,586              | 3,784          | 3,929              | 4,144          |
| <b>Loans, net</b>   | <b>339,094</b>     | <b>352,804</b> | <b>343,615</b>     | <b>357,508</b> |
| Loans held for sale   | 1,539              | 1,539          | 1,884              | 1,884          |
| Federal Home Loan Bank stock  | 4,049              | 4,049          | 4,170              | 4,170          |
| Accrued interest receivable   | 2,430              | 2,430          | 2,392              | 2,392          |
| <b>Financial liabilities:</b>   |                    |                |                    |                |
| Deposits  | 374,024            | 379,855        | 366,161            | 371,869        |
| Short-term repurchase agreements                                      | 1,314              | 1,314          | 1,312              | 1,312          |
| Long-term repurchase agreements                                       | 15,402             | 15,468         | 15,509             | 15,602         |
| Borrowings from Federal Home<br>Loan Bank                             | 67,784             | 68,616         | 67,159             | 68,531         |
| Accrued interest payable  | 415                | 415            | 427                | 427            |
| Advance payments by borrowers<br>for taxes and insurance              | 148                | 160            | 252                | 273            |
| <b>Derivative financial instruments<br/>included in other assets:</b> |                    |                |                    |                |
| Interest rate cap   | 123                | 123            | 77                 | 77             |
| <b>Off-balance-sheet financial instruments:</b>                       |                    |                |                    |                |
| Asset related to commitments<br>to extend credit                      | -                  | 323            | -                  | 265            |

The carrying amounts in the preceding table are included in the consolidated balance sheets under the applicable captions. The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate that value:

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

#### Cash and Cash Equivalents

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

#### Debt and Equity Securities

For marketable equity securities, the fair values are based on quoted market prices. For debt securities, the Company obtains fair value measurements from an independent pricing service and the fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, U.S. government and agency yield curves, live trading levels, trade execution data, market consensus prepayment speeds, credit information, and the security's terms and conditions, among other factors. For Federal Home Loan Bank (FHLB) stock, a restricted equity security, the carrying amount is a reasonable estimate of fair value because it is not marketable.

#### Loans

The fair value of loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and terms. The carrying amount of accrued interest receivable approximates its fair value.

#### Deposits

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

#### Borrowed Funds

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

#### Derivative Financial Instruments

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

#### Off-Balance-Sheet Financial Instruments

Commitments to extend credit were evaluated and fair value was estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments, the fair value estimate considers the difference between current



interest rates and the committed rates.

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FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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8. Defined Benefit Plan

The Bank sponsored a defined benefit pension plan (“Plan”) that covered substantially all employees. Contributions were intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future. The Bank’s funding policy was to contribute the larger of the amount required to fully fund the Plan’s current liability or the amount necessary to meet the funding requirements as defined by the Internal Revenue Code.

Effective June 30, 2008, the Bank curtailed the accrual of benefits for active participants in the defined benefit pension plan. As a result of the curtailment, each active participant’s pension benefit was determined based on the participant’s compensation and duration of employment as of June 30, 2008, and compensation and employment after that date was not taken into account in determining pension benefits under the plan. In April 2010, the Bank received approval from the Internal Revenue Service to terminate the plan. The termination of the plan and the settlement of the plan obligations resulted in the allocation of excess plan assets to the active plan participants in April 2010. The breakdown of net periodic benefit expense for the three months ended December 31, 2009 follows. No net periodic benefit expense was recognized for the three months ended December 31, 2010.

(In thousands)

|   |       |
|---|-------|
| Net periodic benefit expense:                 |       |
| Service cost                                  | \$ -  |
| Interest cost on projected benefit obligation | 74    |
| Expected return on plan assets                | (35)  |
| Amortization of unrecognized gain             | -     |
| Net loss on settlement                        | (1)   |
| Net periodic benefit expense                  | \$ 38 |

The Bank made no contributions to the Plan for the three-month periods ended December 31, 2010 and 2009.

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

9. Employee Stock Ownership Plan

On October 6, 2008, the Company established a leveraged employee stock ownership plan (ESOP) covering substantially all employees. The ESOP trust acquired 203,363 shares of Company common stock at a cost of \$10.00 per share financed by a term loan with the Company. The employer loan and the related interest income are not recognized in the consolidated financial statements as the debt is serviced from Company contributions. Dividends payable on allocated shares are charged to retained earnings and are satisfied by the allocation of cash dividends to participant accounts. Dividends payable on unallocated shares are not considered dividends for financial reporting purposes. Shares held by the ESOP trust are allocated to participant accounts based on the ratio of the current year principal and interest payments to the total of the current year and future years' principal and interest to be paid on the employer loan. Compensation expense is recognized based on the average fair value of shares released for allocation to participant accounts during the year with a corresponding credit to stockholders' equity. Compensation expense recognized for the three-month periods ended December 31, 2010 and 2009 amounted to \$67,000 and \$189,000, respectively. Company common stock held by the ESOP trust at December 31, 2010 was as follows:

|                               |              |
|-------------------------------|--------------|
| Allocated shares              | 58,137       |
| Unearned shares               | 145,226      |
| Total ESOP shares             | 203,363      |
| <br>                          |              |
| Fair value of unearned shares | \$ 2,149,345 |

10. Stock Based Compensation Plans

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

FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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In April 2010, the Company funded a trust, administered by an independent trustee, which acquired 101,681 common shares in the open market at a price per share of \$13.60 for a total cost of \$1.4 million. These acquired common shares were granted to directors, officers and key employees in the form of restricted stock in May 2010 at a price per share of \$13.25 for a total of \$1.3 million. The difference between the purchase price and grant price of the common shares issued as restricted stock, totaling \$41,000, was recognized by the Company as a reduction of additional paid in capital. The vesting period of the restricted stock is five years beginning one year after the date of grant of the awards. Compensation expense is measured based on the fair market value of the restricted stock at the grant date and is recognized ratably over the period during which the shares are earned (the vesting period). Compensation expense related to restricted stock recognized for the three-month period ended December 31, 2010 amounted to \$65,000. No compensation expense for restricted stock was recognized for the comparable period in 2009. A summary of the Company's nonvested restricted shares is as follows:

|                                | Number<br>of<br>Shares | Weighted<br>Average<br>Grant Date<br>Fair Value |
|--------------------------------|------------------------|---|
| Nonvested at October 1, 2010   | 98,092                 | \$ 13.25  |
| Granted                        | -                      | -   |
| Vested                         | -                      | -   |
| Forfeited                      | -                      | -   |
| Nonvested at December 31, 2010 | 98,092                 | \$ 13.25  |

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

FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES  
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A summary of stock option activity under the plan as of December 31, 2010, and changes during the three-month period then ended is presented below.

|   | Number<br>of<br>Shares | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Term | Aggregate<br>Intrinsic<br>Value |
|---|------------------------|--|---|---------------------------------|
| (Dollars in thousands, except per share data) |                        |  |   |                                 |
| Outstanding at October 1, 2010                | 254,204                | \$ 13.25                                 |   |                                 |
| Granted                                       | -                      | -  |   |                                 |
| Exercised                                     | -                      | -  |   |                                 |
| Forfeited or expired                          | -                      | -  |   |                                 |
| Outstanding at end of year                    | 254,204                | \$ 13.25                                 | 9.4   | \$ 394                          |
| Exercisable at December 31, 2010              | 8,972                  | \$ 13.25                                 | 0.6   | \$ 14                           |

The Company recognized compensation expense related to stock options of \$64,000 for the three-month period ended December 31, 2010. No compensation expense related to stock options was recognized for the comparable period in 2009. At December 31, 2010, there was \$663,000 of unrecognized compensation expense related to nonvested stock options, which will be recognized over the remaining vesting period.

#### 11. Income Taxes

Prior to October 1, 1996, the Bank was permitted by the Internal Revenue Code to deduct from taxable income an annual addition to a statutory bad debt reserve subject to certain limitations. Retained earnings at December 31, 2010 and September 30, 2010 include \$4.6 million of cumulative deductions for which no deferred federal income tax liability has been recorded. Reduction of these reserves for purposes other than tax bad debt losses or adjustments arising from carryback of net operating losses would create income for tax purposes subject to the then current corporate income tax rate. The unrecorded deferred liability on these amounts was approximately \$1.5 million at December 31, 2010 and September 30, 2010.

Federal legislation enacted in 1996 repealed the use of the qualified thrift reserve method of accounting for bad debts for tax years beginning after December 31, 1995. As a result, the Bank discontinued the calculation of the annual addition to the statutory bad debt reserve using the percentage-of-taxable-income method and adopted the experience reserve method for banks. Under this method, the Bank computes its federal tax bad debt deduction based on actual loss experience over a period of years. The legislation also provided that the Bank will not be required to recapture its pre-1988 statutory bad debt reserves if it ceases to meet the qualifying thrift definitional tests and if the Bank continues to qualify as a "bank" under existing provisions of the Internal Revenue Code.



FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES  
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Recapture of the Bank's tax bad debt reserves is triggered if the Bank meets the definition of a "large bank" as defined in the Internal Revenue Code. Under the Internal Revenue Code, if a bank's average adjusted assets exceeds \$500 million for any tax year it is considered a "large bank" and must utilize the specific charge-off method to compute bad debt deductions. This would result in the recapture of the Bank's tax bad debt reserve described above for tax purposes over one or more years. Management anticipates that the Bank will exceed \$500 million in average adjusted assets for the tax year ending September 30, 2011, which will result in a charge against earnings of approximately \$1.5 million, representing the unrecognized federal income tax liability, in the fourth quarter of the fiscal year.

12. Recent Accounting Pronouncements

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

In June 2009, the FASB issued two standards which change the way entities account for securitizations and special-purpose entities: Statement of Financial Accounting Standards (SFAS) No. 166, Accounting for Transfers of Financial Assets, (ASC Topic 860) and SFAS No. 167, Amendments to FASB Interpretation No. 46(R), (ASC Topic 810). SFAS No. 166 is a revision to SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, and requires more information about transfers of financial assets, including securitization transactions, and where entities have continuing exposure to the risks related to transferred financial assets. This statement eliminates the concept of a "qualifying special-purpose entity," changes the requirements for derecognizing financial assets, and requires additional disclosures. SFAS No. 167 is a revision to FASB Interpretation No. 46 (Revised December 2003), Consolidation of Variable Interest Entities, and changes how a reporting entity determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination of whether a reporting entity is required to consolidate another entity is based on, among other things, the other entity's purpose and design and the reporting entity's ability to direct the activities of the other entity that most significantly impact the other entity's economic performance. These new standards require a number of new disclosures. SFAS No. 167 requires a reporting entity to provide additional disclosures about its involvement with variable interest entities and any significant changes in risk exposure due to that involvement. A reporting entity will be required to disclose how its involvement with a variable interest entity affects the reporting entity's financial statements. SFAS No. 166 enhances information reported to users of financial statements by providing greater transparency about transfers of financial assets and an entity's continuing involvement in transferred financial assets. These statements are effective at the beginning of a reporting entity's first fiscal year beginning after November 15, 2009. Early application is not permitted. The adoption of these statements did not have a material effect on the Company's consolidated financial position or results of operations.

FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES  
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In January 2010, the FASB issued Accounting Standards Update (ASU) No. 2010-06, Improving Disclosures about Fair Value Measurements. This ASU amends ASC Topic 820 to provide users of financial statements with additional information regarding fair value. New disclosures required by the ASU include disclosures of significant transfers between Level 1 and Level 2 and the reasons for such transfers, disclosure of the reasons for transfers in or out of Level 3 and that significant transfers into Level 3 be disclosed separately from significant transfers out of Level 3, and disclosure of the valuation techniques used in connection with Level 2 and Level 3 valuations and the reason for any changes in valuation methods. This ASU will generally be effective for interim and annual periods beginning after December 15, 2009. However, disclosures of purchases, sales, issuances, and settlements in the roll forward activity in Level 3 fair value measurements will be effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. As this ASU applies only to disclosures, the adoption of this ASU had no impact on the Company's consolidated financial position or results of operations.

In July 2010, the FASB issued ASU No. 2010-20, Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses. The guidance requires additional disclosure to facilitate financial statement users' evaluation of the following: (1) the nature of credit risk inherent in the entity's loan portfolio, (2) how that risk is analyzed and assessed in arriving at the allowance for loan losses, and (3) the changes and reasons for those changes in the allowance for loan losses. For public companies, increased disclosures as of the end of a reporting period are effective for periods ending on or after December 15, 2010. Increased disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. ASU No. 2011-01 issued in January 2011 delayed the effective date of the disclosures about troubled debt restructurings required by ASU No. 2010-20 for public companies, so that the new disclosures about troubled debt restructurings could be coordinated with additional guidance for determining what constitutes a troubled debt restructuring expected to be issued in 2011. As this ASU applies only to disclosures, the adoption of this ASU had no impact on the Company's consolidated financial position or results of operations.

In December 2010, the FASB issued ASU No. 2010-28, When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero Carrying Amounts, which amended ASC Topic 350, Intangibles-Goodwill and Other. The guidance modifies the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. For public companies, this amendment is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2010. The adoption of this ASU is not expected to have any impact on the Company's consolidated financial position or results of operations.



FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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In December 2010, the FASB issued ASU No. 2010-29, Business Combinations (Topic 805), Disclosure of Supplementary Pro Forma Information for Business Combinations. The guidance specifies that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. The guidance also expands the supplemental pro forma disclosures under Topic 805 to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. This amendment is effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. Early adoption is permitted. As this ASU only applies to disclosures, the adoption of this ASU is not expected to have any impact on the Company's consolidated financial position or results of operations.

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

MANAGEMENT'S DISCUSSION AND  
ANALYSIS OF FINANCIAL CONDITION AND  
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Safe Harbor Statement for Forward-Looking Statements

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

Forward-looking statements are not guarantees of future performance. Numerous risks and uncertainties could cause or contribute to the Company's actual results, performance and achievements being materially different from those expressed or implied by the forward-looking statements. Factors that may cause or contribute to these differences include, without limitation, general economic conditions, including changes in market interest rates and changes in monetary and fiscal policies of the federal government; legislative and regulatory changes; the quality and composition of the loan and investment securities portfolio; loan demand; deposit flows; competition; the ability to successfully integrate the operations of Community First; and changes in accounting principles and guidelines. Additional factors that may affect our results are discussed herein and in our Annual Report on Form 10-K for the year ended September 30, 2010 under "Part II, Item 1A. Risk Factors." These factors should be considered in evaluating the forward-looking statements and undue reliance should not be placed on such statements. Except as required by applicable law or regulation, the Company assumes no obligation and disclaims any obligation to update any forward-looking statements.

Critical Accounting Policies

During the three-month period ended December 31, 2010, 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, 2010.

Comparison of Financial Condition at December 31, 2010 and September 30, 2010

Cash and Cash Equivalents. Cash and cash equivalents increased from \$11.3 million at September 30, 2010 to \$11.5 million at December 31, 2010, primarily due to an increase of \$2.0 million in interest-bearing deposits with banks, which more than offset a decrease of \$1.8 million in cash and due from banks.

Loans. Net loans receivable decreased \$4.5 million, from \$343.6 million at September 30, 2010 to \$339.1 million at December 31, 2010, primarily due to decreases in residential permanent and construction loans of \$4.4 million, consumer loans of \$1.6 million and multi-family residential mortgage loans of \$880,000, which more than offset an increase in nonresidential permanent loans of \$2.7 million. The decrease in residential mortgage loans is primarily due to loan payoffs that have not been replaced by new originations as the Bank has increased its secondary market mortgage loan sales activity. In addition, the Bank has increased its commercial lending personnel and has continued to emphasize the origination of commercial loans in fiscal 2011 in order to further diversify the loan portfolio.



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

MANAGEMENT'S DISCUSSION AND  
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**Securities Available for Sale.** Securities available for sale increased \$10.1 million from \$110.0 million at September 30, 2010 to \$120.1 million at December 31, 2010 due primarily to purchases of \$20.8 million, partially offset by sales of \$3.9 million, maturities and calls of \$619,000 and principal repayments of \$4.0 million. The increase in securities available for sale, primarily in U.S. government agency and sponsored enterprises securities and municipal securities, was primarily funded by an increase in deposits.

**Securities Held to Maturity.** Investment securities held-to-maturity decreased \$343,000 from \$3.9 million at September 30, 2010 to \$3.6 million at December 31, 2010 due primarily to principal repayments on mortgage-backed securities.

**Deposits.** Total deposits increased \$7.8 million from \$366.2 million at September 30, 2010 to \$374.0 million at December 31, 2010 primarily due to increases in noninterest-bearing demand deposit accounts of \$2.0 million and certificates of deposit of \$7.1 million during the period. The increase in certificates of deposit is due primarily to \$6.9 million of brokered certificates of deposit. Management determined that utilizing a certain level of brokered deposits with differing maturities as a funding source alternative to local customer certificates of deposit and FHLB advances was advantageous given the lower interest rate environment for brokered funds.

**Borrowings.** Borrowings from FHLB increased \$625,000 from \$67.2 million at September 30, 2010 to \$67.8 million at December 31, 2010. Management has increased the level of FHLB advances to take advantage of historically low interest rates, provide short-term liquidity and provide funding for purchases of available for sale securities.

**Stockholders' Equity.** Stockholders' equity decreased \$1.0 million from \$55.2 million at September 30, 2010 to \$54.2 million at December 31, 2010. The decrease was due primarily to a \$1.6 million decrease in accumulated other comprehensive income as a result of net unrealized losses on available for sale securities during the quarter, and the open market repurchase of \$665,000 of common stock recorded as treasury stock, which more than offset \$1.1 million of retained net earnings. During the quarter ended December 31, 2009, the Company declared a special dividend of \$0.08 per share, totaling \$193,000, which was paid to shareholders of record as of the close of business on January 4, 2010.

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

MANAGEMENT'S DISCUSSION AND  
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Results of Operations for the Three Months Ended December 31, 2010 and 2009

**Overview.** The Company reported net income of \$1.1 million, or \$0.50 per diluted share, for the three-month period ended December 31, 2010, compared to net income of \$892,000, or \$0.38 per diluted share, for the same period in 2009. The Company recognized a nonrecurring pretax charge of \$104,000 for severance compensation for the early retirement of several officers during the quarter ended December 31, 2010.

**Net Interest Income.** Net interest income increased \$149,000, or 3.0%, for the three months ended December 31, 2010 compared to the same period in 2009. Average interest-earning assets increased \$16.9 million and average interest-bearing liabilities increased \$16.3 million when comparing the two periods, and the tax-equivalent interest rate spread was 4.38% for both periods.

Total interest income decreased \$95,000, or 1.4%, when comparing the two periods due primarily to a decrease in the average tax-equivalent yield on interest-earning assets from 6.04% for 2009 to 5.75% for 2010, which more than offset an increase in the average balance of interest-earning assets of \$16.9 million from \$442.9 million in 2009 to \$459.8 million in 2010. The average balance of investment securities increased \$30.7 million while the average balance of loans decreased \$14.1 million when comparing the two periods.

Total interest expense decreased \$244,000, or 14.6%, due primarily to a decrease in the average cost of interest-bearing liabilities from 1.66% in 2009 to 1.37% in 2010, which more than offset an increase in the average balance of interest-bearing liabilities of \$16.3 million from \$400.9 million in 2009 to \$417.2 million in 2010. The average cost of interest-bearing liabilities decreased for 2010 primarily as a result of lower market interest rates as compared to 2009, the repricing of certificates of deposit at lower market interest rates as they matured and the utilization of lower-cost FHLB advances and brokered deposits as alternative sources of funding. The average balances of deposits and borrowings increased \$11.9 million and \$4.4 million, respectively, when comparing the two periods.

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

MANAGEMENT'S DISCUSSION AND  
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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. The yields and costs for the periods indicated are derived by dividing income or expense by the average balances of assets or liabilities, respectively, for the periods presented. Nonaccrual loans are included in average balances only. Loan fees are included in interest income on loans and are not material. Tax exempt income on loans and investment securities has been calculated on a tax equivalent basis using a federal marginal tax rate of 34%.

|  | Three Months Ended December 31, |                                      |                |                    |                                      |                |
|--|---------------------------------|--------------------------------------|----------------|--------------------|--------------------------------------|----------------|
|  | Average<br>Balance              | 2010<br>Interest<br>and<br>Dividends | Yield/<br>Cost | Average<br>Balance | 2009<br>Interest<br>and<br>Dividends | Yield/<br>Cost |
| (Dollars in thousands)                 |                                 |                                      |                |                    |                                      |                |
| <b>Assets:</b>                         |                                 |                                      |                |                    |                                      |                |
| Interest-bearing deposits with banks   | \$ 3,986                        | \$ 3                                 | 0.30%          | \$ 3,677           | \$ 6                                 | 0.65%          |
| Loans                                  | 343,129                         | 5,273                                | 6.15           | 357,232            | 5,687                                | 6.37           |
| Investment securities                  | 92,094                          | 1,215                                | 5.28           | 38,265             | 696                                  | 7.28           |
| Mortgage-backed securities             | 16,486                          | 87                                   | 2.11           | 39,578             | 280                                  | 2.83           |
| Federal Home Loan Bank stock           | 4,112                           | 28                                   | 2.72           | 4,170              | 17                                   | 1.63           |
| Total interest-earning assets          | 459,807                         | 6,606                                | 5.75           | 442,922            | 6,686                                | 6.04           |
| Non-interest-earning assets            | 45,037                          |                                      |                | 40,834             |                                      |                |
| Total assets                           | \$ 504,844                      |                                      |                | \$ 483,756         |                                      |                |
| <b>Liabilities and equity:</b>         |                                 |                                      |                |                    |                                      |                |
| NOW accounts                           | \$ 68,184                       | \$ 94                                | 0.55           | \$ 58,683          | \$ 98                                | 0.67           |
| Money market deposit accounts          | 35,107                          | 66                                   | 0.75           | 33,364             | 99                                   | 1.19           |
| Savings accounts                       | 38,420                          | 28                                   | 0.29           | 35,961             | 31                                   | 0.34           |
| Time deposits                          | 198,524                         | 873                                  | 1.76           | 200,286            | 1,118                                | 2.23           |
| Total interest-bearing deposits        | 340,235                         | 1,061                                | 1.25           | 328,294            | 1,346                                | 1.64           |
| Borrowings (1)                         | 76,961                          | 363                                  | 1.89           | 72,585             | 321                                  | 1.77           |
| Total interest-bearing liabilities     | 417,196                         | 1,424                                | 1.37           | 400,879            | 1,667                                | 1.66           |
| Non-interest-bearing deposits          | 29,417                          |                                      |                | 27,757             |                                      |                |
| Other non-interest-bearing liabilities | 2,870                           |                                      |                | 2,190              |                                      |                |
| Total liabilities                      | 449,483                         |                                      |                | 430,826            |                                      |                |
| Total equity                           | 55,361                          |                                      |                | 52,930             |                                      |                |

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|   |            |            |
|---|------------|------------|
| Total liabilities and equity  | \$ 504,844 | \$ 483,756 |
| Net interest income   | \$ 5,182   | \$ 5,019   |
| Interest rate spread  | 4.38%      | 4.38%      |
| Net interest margin   | 4.51%      | 4.53%      |
| Average interest-earning assets<br>to average interest-bearing<br>liabilities | 110.21%    | 110.49%    |

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(1) Includes Federal Home Loan Bank borrowings and repurchase agreements.

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

|  | Three Months Ended December 31, 2010<br>Compared to<br>Three Months Ended December 31, 2009<br>Increase (Decrease) |               |               |
|--|--|---------------|---------------|
|  | Due to   |               |               |
|  | Volume   | Rate          | Net           |
|  | (In thousands)   |               |               |
| <b>Interest income:</b>                    |  |               |               |
| Interest-bearing deposits with banks       | \$ (4)   | \$ 1          | \$ (3)        |
| Loans                                      | (193)  | (221)         | (414)         |
| Investment securities                      | (126)  | 645           | 519           |
| Mortgage-backed securities                 | (59)   | (134)         | (193)         |
| Other interest-earning assets              | 11   | -             | 11            |
| <b>Total interest-earning assets</b>       | <b>(371)</b>   | <b>291</b>    | <b>(80)</b>   |
| <b>Interest expense:</b>                   |  |               |               |
| Deposits                                   | (337)  | 52            | (285)         |
| Borrowings (1)                             | 22   | 20            | 42            |
| <b>Total interest-bearing liabilities</b>  | <b>(315)</b>   | <b>72</b>     | <b>(243)</b>  |
| <b>Net increase in net interest income</b> | <b>\$ (56)</b>   | <b>\$ 219</b> | <b>\$ 163</b> |

(1) Includes Federal Home Loan Bank borrowings and repurchase agreements.

Provision for Loan Losses. The provision for loan losses was \$352,000 for the three months ended December 31, 2010 compared to \$358,000 for the same period in 2009.

Net charge-offs were \$204,000 for the three months ended December 31, 2010 compared to net charge-offs of \$120,000 for the same period in 2009.

Nonperforming loans decreased from \$6.1 million at December 31, 2009 to \$5.6 million at December 31, 2010. The recorded investment in nonperforming loans at December 31, 2010 includes nonaccrual loans of \$4.8 million and loans totaling \$881,000 that are over 90 days past due, but still accruing interest. These loans are still accruing interest because the estimated value of the collateral and collection efforts are deemed sufficient to ensure their full recovery.



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Gross loans receivable decreased \$15.6 million from \$359.4 million at December 31, 2009 to \$343.8 million at December 31, 2010, primarily due to decreases in residential permanent and construction loans of \$15.1 million, land and land development loans of \$2.7 million, commercial business loans of \$6.6 million and consumer loans of \$6.7 million, which more than offset increases in nonresidential permanent and construction loans of \$9.6 million and multi-family residential mortgage loans of \$5.8 million when comparing the two periods. The decreases in residential mortgage loans, commercial business loans and consumer loans are primarily due to loan payoffs that have not been replaced by new originations.

The allowance for loan losses was \$4.0 million at December 31, 2010 compared to \$3.8 million at September 30, 2010 and \$3.9 million at December 31, 2009. Management has deemed these amounts as adequate on those dates based on its best estimate of probable known and inherent loan losses. The consistent application of management's allowance for loan losses methodology resulted in an increase in the level of the allowance for loan losses consistent with changes in the loan portfolio and overall economic conditions.

**Noninterest Income.** Noninterest income increased \$129,000 for the three months ended December 31, 2010 as compared to the same period in 2009. The increase was due primarily to an increase in the net gains on sales of mortgage loans of \$97,000 for 2010 compared to 2009, and gains on the sales of securities available for sale of \$68,000 for 2010. There were no sales of securities available for sale in the quarter ended December 31, 2009. These increases more than offset a decrease in service charges on deposit accounts of \$50,000, which was due primarily to a decrease in overdraft fee income.

**Noninterest Expense.** Noninterest expenses increased \$73,000 for the three months ended December 31, 2010 as compared to the same period in 2009. The increase was due primarily to increases in compensation and benefits and data processing expenses of \$78,000 and \$49,000, respectively, which more than offset a decrease in occupancy and equipment expense of \$87,000. The increase in compensation and benefits was due primarily to the aforementioned \$104,000 of severance compensation for the early retirement of several officers recorded during the quarter ended December 31, 2010 and the increase in data processing expense is due primarily to an increase in deposit accounts. The decrease in occupancy and equipment expense when comparing the two periods is primarily due to depreciation expense recorded in 2009 on core operating system assets that were disposed of in connection with Bank's core processing conversion during the prior fiscal year.

**Income Tax Expense.** The Company recognized income tax expense of \$457,000 for the three months ended December 31, 2010, for an effective tax rate of 29.7%, compared to income tax expense of \$438,000, for an effective tax rate of 32.9%, for the same period in 2009. The effective tax rate decreased for 2010 compared to 2009 primarily due to an increase in tax exempt income for the 2010 period.

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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 advances. 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 December 31, 2010, the Bank had cash and cash equivalents of \$11.5 million and securities available-for-sale with a fair value of \$120.1 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 one-to-four family mortgage loans and, to a lesser extent, consumer, multi-family, commercial real estate, commercial business and residential 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.

The Company is a separate legal entity from the Bank and must provide for its own liquidity to pay its operating expenses and other financial obligations, to pay any dividends and to repurchase any of its outstanding common stock. The Company's primary source of income is dividends received from the Bank. The amount of dividends that the Bank may declare and pay to the Company in any calendar year, without the receipt of prior approval from the Office of Thrift Supervision ("OTS") but with prior notice to OTS, cannot exceed net income for that year to date plus retained net income (as defined) for the preceding two calendar years. At December 31, 2010, the Company had liquid assets of \$2.9 million.

**Capital Management.** The Bank is required to maintain specific amounts of capital pursuant to OTS regulatory requirements. As of December 31, 2010, the Bank was in compliance with all regulatory capital requirements that were effective as of such date, with tangible, core and risk-based capital ratios of 7.97%, 7.97% and 12.80%, respectively. The regulatory requirements at that date were 1.5%, 3.0% and 8.0%, respectively. At December 31, 2010, the Bank was considered "well-capitalized" under applicable regulatory guidelines.

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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, 2010.

For the three months ended December 31, 2010, the Company did not engage in any off-balance sheet transactions reasonably likely to have a material effect on the Company's 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.** The Bank’s principal financial objective is to achieve long-term profitability while reducing its exposure to fluctuating market interest rates. The Bank 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 Bank 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 Bank for its portfolio. The Bank 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 deposits 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.** The Bank does not maintain a trading account for any class of financial instrument nor does the Bank engage in hedging activities or purchase high-risk derivative instruments. Furthermore, the Bank is not subject to foreign currency exchange rate risk or commodity price risk.

The Bank uses interest rate sensitivity analysis to measure its interest rate risk by computing changes in net portfolio value (“NPV”) of its cash flows from assets, liabilities and off-balance sheet items in the event of a range of assumed changes in market interest rates. NPV represents the market value of portfolio equity and is equal to the market value of assets minus the market value of liabilities, with adjustments made for off-balance sheet items. This analysis assesses the risk of loss in market risk sensitive instruments in the event of a sudden and sustained 100 to 300 basis point increase or a sudden and sustained 100 basis point decrease in market interest rates with no effect given to any steps that management might take to counter the effect of that interest rate movement. Using data compiled by the OTS, the Bank receives a report that measures interest rate risk by modeling the change in NPV over a variety of interest rate scenarios.

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QUANTITATIVE AND QUALITATIVE DISCLOSURES  
ABOUT MARKET RISK

The following table is provided by the OTS and sets forth the change in the Bank's NPV at September 30, 2010 based on OTS assumptions that would occur in the event of an immediate change in interest rates, with no effect given to any steps that management might take to counteract that change. Given the timing of the release of this information by the OTS, information as of December 31, 2010 is unavailable for inclusion in this report.

| Change in Rates | At September 30, 2010  |                  |                   |                                 |                           |
|-----------------|------------------------|------------------|-------------------|---------------------------------|---------------------------|
|                 | Net Portfolio Value    |                  |                   | Net Portfolio Value as a        |                           |
|                 | Dollar<br>Amount       | Dollar<br>Change | Percent<br>Change | Percent of Present<br>NPV Ratio | Value of Assets<br>Change |
|                 | (Dollars in thousands) |                  |                   |                                 |                           |
| 300bp           | \$ 42,325              | \$ (12,651)      | (23)%             | 8.53%                           | (202)bp                   |
| 200bp           | 49,009                 | (5,967)          | (11)              | 9.67                            | (88)bp                    |
| 100bp           | 53,451                 | (1,525)          | (3)               | 10.37                           | (18)bp                    |
| Static          | 54,976                 | -                | -                 | 10.55                           | -bp                       |
| (100)bp         | 55,515                 | 539              | 1                 | 10.57                           | 2bp                       |

The preceding table indicates that the Bank's NPV would be expected to decrease in the event of a sudden and sustained 100 to 300 basis point increase in prevailing interest rates and increase slightly in the event of a sudden and sustained decrease of 100 basis points in rates. The expected decrease in the Bank's NPV given a larger increase in rates is primarily attributable to the relatively high percentage of fixed-rate loans in the Bank's loan portfolio. At December 31, 2010, approximately 66.4% of the loan portfolio consisted of fixed-rate loans.

Certain assumptions utilized by the OTS in assessing the interest rate risk of savings associations within its region were utilized in preparing the preceding tables. These assumptions relate to interest rates, loan prepayment rates, deposit decay rates and the market values of certain assets under differing interest rate scenarios, among others.

As with any method of measuring interest rate risk, certain shortcomings are inherent in the method of analysis presented in the foregoing table. For example, although certain assets and liabilities may have similar maturities or periods to repricing, they may react in different degrees to changes in market interest rates. Also, the interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types may lag behind changes in market rates. Additionally, certain assets, such as adjustable-rate mortgage loans, have features that restrict changes in interest rates on a short-term basis and over the life of the asset. Further, in the event of a change in interest rates, expected rates of prepayments on loans and early withdrawals from certificates of deposit could deviate significantly from those assumed in calculating the table.

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

CONTROLS AND PROCEDURES

Controls and Procedures

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

During the quarter ended December 31, 2010, there were no changes in the Company's internal control over financial reporting that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

FIRST SAVINGS FINANCIAL GROUP, INC.  
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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 affect on its financial condition or operations.

Item 1A. Risk Factors

In addition to the 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, 2010 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, 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 operating results.

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

The following table presents information regarding the Company's stock repurchase during the quarter ended December 31, 2010:

| Period                                     | (a)<br>Total number of shares<br>purchased | (b)<br>Average price<br>paid per share<br>(or unit) | (c)<br>Total number of shares<br>(or units) purchased<br>part of publicly<br>announced plans<br>or programs (1) | (d)<br>Maximum number (or<br>appropriate dollar value) of<br>shares (or units) that may yet<br>be purchased under the plans<br>or programs |
|--|--|---|---|--|
| October 1, 2010 through October 31, 2010   | —  | —   | —   | 120,747  |
| November 1, 2010 through November 30, 2010 | —  | —   | —   | 120,747  |
| December 1, 2010 through December 31, 2010 | 45,995                                     | \$ 14.45  | 45,995  | 74,752   |
| Total                                      | 45,995                                     | \$ 14.45  | 45,995  | 74,752   |

(1) On October 20, 2010, the Company announced that its Board of Directors authorized a stock repurchase program to acquire up to 120,747 shares, or 5.0% of the Company's outstanding common stock. Under the program, repurchases are to be conducted through open market purchases or privately negotiated transactions, and were to be made from time to time depending on market conditions and other factors.





FIRST SAVINGS FINANCIAL GROUP, INC.  
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OTHER INFORMATION

Item 3. Defaults upon Senior Securities

Not applicable.

Item 4. Reserved

Item 5. Other Information

None.

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

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.

FIRST SAVINGS FINANCIAL GROUP, INC.  
(Registrant)

Dated February 14, 2011

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

Dated February 14, 2011

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