

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-K**

(Mark One)

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

For the fiscal year ended September 30, 2020

OR

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

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

Commission File Number: 1-34155

**FIRST SAVINGS FINANCIAL GROUP, INC.**

(Exact name of registrant as specified in its charter)

<b>Indiana</b> (State or other jurisdiction of incorporation or organization)	<b>37-1567871</b> (I.R.S. Employer Identification No.)
<b>702 North Shore Drive, Suite 300, Jeffersonville, Indiana</b> (Address of principal executive offices)	<b>47130</b> (Zip Code)

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

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

<b>Common Stock, par value \$0.01 per share</b> (Title of each class)	<b>FSFG</b> (Trading symbol(s))	<b>NASDAQ Stock Market, LLC</b> (Name of each exchange on which registered)
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Securities registered pursuant to Section 12(g) of the Act: **None**

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

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

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

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

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

Large Accelerated Filer

Accelerated Filer

Non-accelerated Filer

Smaller Reporting Company

Emerging Growth Company

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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

The aggregate market value of the voting and non-voting common equity held by nonaffiliates was \$73.3 million, based upon the closing price of \$38.95 per share as quoted on the NASDAQ Stock Market as of the last business day of the registrant's most recently completed second fiscal quarter ended March 31, 2020.

The number of shares outstanding of the registrant's common stock as of December 7, 2020 was 2,374,472.

**DOCUMENTS INCORPORATED BY REFERENCE**

**Portions of the Proxy Statement for the 2021 Annual Meeting of Stockholders are incorporated by reference in Part III of this Form 10-K.**

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*This annual report contains forward-looking statements that are based on assumptions and may describe future plans, strategies and expectations of First Savings Financial Group, Inc. These forward-looking statements are generally identified by use of the words “believe,” “expect,” “intend,” “anticipate,” “estimate,” “project” or similar expressions. First Savings Financial Group’s ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Factors which could have a material adverse effect on the operations of First Savings Financial Group and its subsidiary include, but are not limited to, the effects of COVID-19, changes in interest rates, national and regional economic conditions, legislative and regulatory changes, monetary and fiscal policies of the U.S. government, including policies of the U.S. Treasury and the Federal Reserve Board, the quality and composition of the loan or investment portfolios, demand for loan products, deposit flows, competition, demand for financial services in First Savings Financial Group’s market area, changes in real estate market values in First Savings Financial Group’s market area, changes in relevant accounting principles and guidelines and inability of third party service providers to perform. Additional factors that may affect our results are discussed in Item 1A to this Annual Report on Form 10-K titled “Risk Factors” below.*

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

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

## PART I

### Item 1. BUSINESS

#### General

First Savings Financial Group, Inc., an Indiana corporation, was incorporated in May 2008 and serves as the holding company for First Savings Bank (the “Bank” or “First Savings Bank”). First Savings Financial Group’s principal business activity is the ownership of the outstanding common stock of First Savings Bank. First Savings Financial Group does not own or lease any property but instead uses the premises, equipment and other property of First Savings Bank with the payment of appropriate rental fees, as required by applicable law and regulations, under the terms of an expense allocation agreement. Accordingly, the information set forth in this annual report including the consolidated financial statements and related financial data contained herein, relates primarily to the Bank.

First Savings Bank converted from a federally-chartered savings bank to an Indiana-chartered commercial bank and became a member the Federal Reserve System effective December 19, 2014. As a result of the Bank’s charter conversion, First Savings Financial Group converted to a bank holding company and simultaneously elected financial holding company status effective December 19, 2014.

On February 9, 2018, the Company acquired Dearmin Bancorp, Inc. (“Dearmin”) and its majority owned subsidiary, The First National Bank of Odon (“FNBO”), a full service community bank located in Odon, Indiana. The acquisition expanded the Company’s presence into Daviess County, Indiana. See Note 2 of the Notes to Consolidated Financial Statements beginning on page F-1 of this annual report.

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

Our website address is [www.fsbbank.net](http://www.fsbbank.net). Information on our website is not, and should not be considered a part of, this annual report.

#### Market Area

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

#### Competition

We face significant competition for the attraction of deposits and origination of loans. Our most direct competition for deposits has historically come from the several financial institutions operating in our primary market area and from other financial service companies such as securities and mortgage brokerage firms, credit unions and insurance companies. We also face competition for investors’ funds from money market funds, mutual funds and other corporate and government securities. At June 30, 2020, which is the most recent date for which data is available from the FDIC, we held approximately 21.86%, 18.01%, 3.35%, 25.19%, 100.00% and 21.69% of the FDIC-insured deposits in Clark, Daviess, Floyd, Harrison, Crawford and Washington Counties, Indiana, respectively. This data does not reflect deposits held by credit unions with which we also compete. In addition, banks owned by large national and regional holding companies and other community-based banks also operate in our primary market area. Some of these institutions are larger than us and, therefore, may have greater resources.

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

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

### **Lending Activities**

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

The largest segments of our loan portfolio are commercial real estate loans and residential real estate mortgage loans, which are primarily one- to four-family residential loans, and, to a lesser extent, multi-family real estate and commercial business loans. We also originate residential and commercial construction loans, land and land development loans, and consumer loans. We generally originate loans for investment purposes, although, depending on the interest rate environment and our asset/liability management goals, we may sell into the secondary market the 25-year and 30-year fixed-rate residential mortgage loans that we originate, as well as the portion of loans guaranteed by the U.S. Small Business Administration ("SBA") that we originate under its 7(a) program. We do not offer, have not offered and have not purchased or acquired Alt-A, sub-prime or no-documentation loans.

***One- to Four-Family Residential Loans.*** Our origination of residential mortgage loans enables borrowers to purchase or refinance existing homes located in Clark, Floyd, Harrison, Crawford, Washington and Daviess Counties, Indiana, and the surrounding areas.

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

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

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

We generally do not make conventional loans with loan-to-value ratios exceeding 80%, including that for non-owner occupied residential real estate loans whose loan-to-value ratios generally may not exceed 75%, or 65% where the borrower has more than five non-owner occupied loans outstanding. Loans with loan-to-value ratios in excess of 80% generally require private mortgage insurance. However, the total balance of residential mortgage loans secured by one-to-four family residential properties with loan-to-value ratios exceeding 90% amounted to \$33.0 million, of which some do not have private mortgage insurance or government guaranty. We generally require all properties securing mortgage loans to be appraised by a board-approved independent appraiser. We also generally require title insurance on all first mortgage loans with principal balances of \$250,000 or more. Borrowers must obtain hazard insurance, and flood insurance is required for all loans located in flood hazard areas.

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

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

During 2013, we began a commercial real estate lending program that is focused on loans to high net worth individuals that are secured by low loan-to-value, single-tenant commercial properties that are generally leased to investment grade national-brand retailers, the borrowers and collateral properties for which are outside of our primary market area (“NNN Finance Program”). This program is designed to diversify the Company’s geographic and credit risk profile given the geographic dispersion of the loans and collateral, and the investment grade credit of the national-brand lessees. The terms of the loans are generally consistent with the aforementioned terms of in-market commercial real estate loans; however, these cannot exceed 70% loan-to-value and loan maturities cannot exceed the expiration of the underlying leases. In addition, the Company has established guidelines with respect to concentrations by state, lessee and industry of lessees as a percentage of regulatory capital. The average size of these loans originated was \$1.2 million and the portfolio balance was \$334.6 million at September 30, 2020.

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

**Land and Land Development Loans.** On a limited basis, we originate loans to developers for the purpose of developing vacant land in our primary market area, typically for residential subdivisions. Land development loans are generally interest-only loans for a term of 18 to 24 months. We generally require a maximum loan-to-value ratio of 75% of the appraisal market value upon completion of the project. We generally do not require any cash equity from the borrower if there is sufficient indicated equity in the collateral property. Development plats and cost verification documents are required from borrowers before approving and closing the loan. Our loan officers are required to personally visit the proposed development site and the sites of competing developments. We also originate loans to individuals secured by undeveloped land held for investment purposes.

**Multi-Family Real Estate Loans.** We offer multi-family mortgage loans that are generally secured by properties in our primary market area. Multi-family loans are secured by first mortgages and generally are originated with a maximum loan-to-value ratio of 80% and generally require specified debt service coverage ratios depending on the characteristics of the project. Rates and other terms on such loans generally depend on our assessment of the credit risk after considering such factors as the borrower's financial condition and credit history, loan-to-value ratio, debt service coverage ratio and other factors.

**Consumer Loans.** Although we offer a variety of consumer loans, our consumer loan portfolio consists primarily of home equity loans, both fixed rate amortizing term loans with terms up to 15 years and adjustable rate lines of credit with interest rates equal to a margin above the prime lending rate. We also offer auto and truck loans, personal loans and small boat loans. Consumer loans typically have shorter maturities and higher interest rates than traditional one-to four-family lending. We typically do not make home equity loans with loan-to-value ratios exceeding 90%, including any first mortgage loan balance. The procedures for underwriting consumer loans include an assessment of the applicant's payment history on other debts and ability to meet existing obligations and payments on the proposed loan. Although the applicant's creditworthiness is a primary consideration, the underwriting process also includes a comparison of the value of the collateral, if any, to the proposed loan amount.

**Commercial Business Loans.** We typically offer commercial business loans to small businesses located in our primary market area. Commercial business loans are generally secured by equipment and general business assets. Key loan terms and covenants vary depending on the collateral, the borrower's financial condition, credit history and other relevant factors, and personal guarantees are typically required as part of the loan commitment.

#### **Loan Underwriting Risks**

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

**Non-Owner Occupied Residential Real Estate Loans.** Loans secured by rental properties represent a unique credit risk to us and, as a result, we adhere to special underwriting guidelines. Of primary concern in non-owner occupied real estate lending is the consistency of rental income of the property. Payments on loans secured by rental properties often depend on the maintenance of the property and the payment of rent by its tenants. Payments on loans secured by rental properties often depend on successful operation and management of the properties. As a result, repayment of such loans may be subject to adverse conditions in the real estate market or the economy. To monitor cash flows on rental properties, we require borrowers and loan guarantors, if any, to provide annual financial statements and we consider and review a rental income cash flow analysis of the borrower and consider the net operating income of the property, the borrower's expertise, credit history and profitability, and the value of the underlying property. We generally require collateral on these loans to be a first mortgage along with an assignment of rents and leases. If the borrower holds loans on more than four rental properties, a loan officer or collection officer is generally required to inspect these properties annually to determine if they are being properly maintained and rented. We have generally limited these loan relationships to an aggregate total of \$500,000.

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

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

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

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

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

We generally do not sell whole loans, other than long-term fixed rate residential mortgage loans that we originate, or participation interests in loans originated by us. We also generally do not purchase whole loans or participation interests in loans originated by other financial institutions. However, in order to manage certain risk factors or supplement our lending portfolio, we may sell or purchase whole loans or participation interests in loans from time to time depending on various factors. At September 30, 2020, \$68.0 million of loans included sold participation interests of \$32.7 million, for a net position of \$35.3 million outstanding in our portfolio. At September 30, 2020, acquired participation interests of loans totaled \$6.7 million.



Beginning in April 2015, the Bank hired a management team, business development officers (loan officers), underwriters and supporting staff that are seasoned and experienced in SBA lending in order to enhance the Company's proficiency in SBA 7(a) program loan originations and sales. The Bank continues to hire additional business development officers and appropriate supporting staff in order to grow this lending platform. The primary purpose of this lending platform is to originate SBA 7(a) program loans, the borrowers and collateral for which are outside of our primary market area, and sell the amounts guaranteed by the SBA in the secondary market. This lending platform is also designed to diversify the Company's geographic and interest rate risk profile with respect to the retained unguaranteed amounts given the geographic dispersion of the loans and collateral, and their floating rate structure. The Company originated SBA loans with a total commitment of \$257.3 million during the year ended September 30, 2020, of which \$183.4 million represented loans originated under the SBA's Paycheck Protection Program ("PPP"). At September 30, 2020, \$493.5 million of SBA loans included sold guaranteed portions of \$209.1 million, for a net position of \$284.4 million outstanding in our portfolio. The amount outstanding in the Bank's portfolio at September 30, 2020 included \$22.1 million in SBA loans held for sale, \$180.6 million of PPP loans, \$11.3 million in the unguaranteed portion of SBA loans not yet sold, \$11.5 million in the guaranteed portion of SBA loans not yet sold and \$58.9 million in the unguaranteed portion of SBA loans sold. All SBA loans held for sale were carried at the lower of cost or fair market value at September 30, 2020 and 2019.

**Mortgage Banking.** Beginning in April 2018, the Bank hired a management team, business development officers (loan officers), underwriters and supporting staff that are seasoned and experienced in the origination and sale of one- to four-family residential real estate loans on a nationwide basis. The Bank continues to hire additional business development officers and appropriate supporting staff in order to grow this lending platform. The primary purpose of this lending platform is to originate one- to four-family residential real estate loans, the borrowers and collateral for which are outside of our primary market area, and sell the whole loans in the secondary market. The Company originated \$3.61 billion and sold \$3.44 billion of one- to four-family residential real estate loans within this lending platform during the year ended September 30, 2020. The amount outstanding in the Bank's portfolio at September 30, 2020 included \$263.4 million in loans held for sale, including \$208.5 million recorded at market value and \$54.9 million carried at the lower of cost or fair market value.

Beginning in 2019, the Bank began to augment its mortgage banking originations by purchasing whole loans from third party originators. The Bank's Third Party Origination ("TPO") program has expanded significantly in 2020 and accounted for the majority of the Bank's activity in the mortgage banking division in 2020. Loans purchased from third party originators generally have a higher cost and result in a lower profit margin for the Bank upon the sale of loans. Our decision to sell or purchase loans is based on prevailing market interest rate conditions, interest rate risk management considerations, regulatory lending restrictions and liquidity needs.

The residential mortgage industry is highly competitive, and we compete with other community banks, regional banks, national banks, credit unions, financial service companies and online mortgage companies. Due to the highly competitive nature of the residential mortgage industry, we expect to continue to face competitive pressures related to changing market conditions that could reduce our margins and mortgage banking revenue. The mortgage volume industry-wide could decline, which could result in a significant decline in our mortgage banking revenue. Our mortgage banking office leases are generally short-term in nature and the compensation arrangements provide scalability to our business model. See Note 29, "Segment Reporting," for details regarding the financial performance of the mortgage banking segment.

**Loan Approval Procedures and Authority.** Our conventional lending activities follow written, non-discriminatory underwriting standards and loan origination procedures established by our Board of Directors and management. Certain of our employees have been granted individual lending limits, which vary depending on the individual, the type of loan and whether the loan is secured or unsecured. Generally, all loan requests for non-SBA 7(a) program lending relationships that exceed the individual officer lending limits, which is generally \$300,000 secured or \$25,000 unsecured, require committee or Board of Directors approval. Loans resulting in aggregated lending relationships in excess of individual office lending limits but less than \$4.0 million require approval by the Officer Loan Committee and loans resulting in aggregated lending relationships in excess of \$4.0 million but less than \$8.0 million require approval of the Board Credit Committee. The Board Credit Committee consists of the President, Chief Lending Officer, Chief of Credit Administration and four independent Board members, and the Officer Loan Committee consists of members of senior management and certain other officers designated by the Board of Directors. Loans resulting in aggregated lending relationships in excess of \$8.0 million require approval by the Board of Directors.

Our SBA 7(a) program lending activities also follow underwriting standards and loan origination procedures established by our Board of Directors and management. Certain of our employees have been granted individual lending limits, which is \$2.0 million for the aggregate loan balance, of which 75% or greater is guaranteed by the SBA. Generally, all SBA 7(a) program loan requests for

lending relationships that exceed the individual officer lending limits require approval by the SBA Officer Loan Committee. The SBA Officer Loan Committee consists of the President, Chief Financial Officer, Chief Lending Officer, Chief of Credit Administration, Chief of SBA Lending, Senior SBA Lending Officer and a senior commercial lending officer. The aggregated lending relationships for the SBA 7(a) program may not exceed \$5.0 million according to SBA guidelines and therefore no loan requests require approval by the Board of Directors given that the portion of SBA 7(a) program loans that are not guaranteed by the SBA may not exceed \$1.25 million.

**Loans to One Borrower.** The maximum amount that we may lend to one borrower and the borrower's related entities is limited, by regulation, to generally 15% of our stated capital and reserves. At September 30, 2020, our regulatory limit on loans to one borrower was \$24.1 million. At that date, our largest lending relationship was for a commitment of \$14.0 million, of which \$13.6 million was outstanding, and was performing according to its original terms at that date.

**Loan Commitments.** We issue commitments for commercial loans conditioned upon the occurrence of certain events. Commitments to originate loans are legally binding agreements to lend to our customers. Generally, our loan commitments expire after 30 days.

### **Investment Activities**

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

At September 30, 2020, our investment portfolio consisted primarily of U.S. government agency and sponsored enterprises securities, mortgage backed securities and collateralized mortgage obligations issued by U.S. government agencies and sponsored enterprises, municipal bonds, privately-issued collateralized mortgage obligations and asset-backed securities, and pass-through asset-backed securities guaranteed by the SBA.

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

### **Deposit Activities and Other Sources of Funds**

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

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

**Borrowings.** We use advances from the FHLB to supplement our investable funds. First Savings Bank is a member of the Federal Home Loan Bank System, which consists of 12 regional Federal Home Loan Banks. The Federal Home Loan Bank System functions as a central reserve bank providing credit for member financial institutions. First Savings Bank, as a member of the FHLB, is

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required to acquire and hold shares of capital stock in the FHLB and is authorized to apply for advances on the security of such stock and certain of our mortgage loans and other assets (principally securities which are obligations of the U.S., U.S. government agencies or U.S. government-sponsored enterprises), provided certain standards related to creditworthiness have been met. Advances are made under several different programs, each having its own interest rate and range of maturities. Depending on the program, limitations on the amount of advances are based either on a fixed percentage of an institution's net worth or on the FHLB's assessment of the institution's creditworthiness. During 2020, we also utilized the Federal Reserve Bank's PPP Liquidity Facility ("PPPLF") to fund certain PPP loans. We have three federal funds purchased line of credit facilities with other financial institutions that are subject to continued borrower eligibility and are intended to support short-term liquidity needs. We also utilize brokered certificates of deposit and reciprocal time deposits as sources of borrowings and may use broker repurchase agreements and internet certificates of deposit from time to time, depending on our liquidity needs and pricing of these facilities versus other funding alternatives.

**Employees and Human Capital Resources**

We believe that the success of a business is largely due to the quality of its employees, the development of each employee's full potential, and the Company's ability to provide timely and satisfying rewards. We encourage and support the development of our employees and, whenever possible, strive to fill vacancies from within. We invest in learning and development including tuition reimbursement for courses, degree programs and fees paid for certifications. As of September 30, 2020, we had 621 full-time employees and 75 part-time employees, none of whom is represented by a collective bargaining unit.

**Subsidiaries**

The Company has two wholly-owned subsidiaries, First Savings Bank and First Savings Insurance Risk Management, Inc. (the "Captive"). The Bank has three subsidiaries, Southern Indiana Financial Corporation, Q2 Business Capital, LLC, and First Savings Investments, Inc. The Captive, an insurance subsidiary of the Company, is a Nevada corporation that provides property and casualty insurance to the Company, the Bank and the Bank's active subsidiaries. In addition, the Captive provides reinsurance to ten other third-party insurance captives for which insurance may not be currently available or economically feasible in the insurance marketplace. Southern Indiana Financial Corporation is an independent insurance agency, offering various types of annuities and life insurance policies, but is currently inactive.

On April 25, 2017, the Bank formed Q2 Business Capital, LLC ("Q2"), which is an Indiana limited liability company that specializes in the origination and servicing of SBA loans. The Bank owns 51% of Q2 and has the option to purchase the minority interest. In accordance with Q2's operating agreement, the Bank was allocated the first \$1.7 million of cumulative net income of Q2 and subsequent profits and losses are allocated 51% to the Bank and 49% to Q2's minority members.

**REGULATION AND SUPERVISION**

**General**

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

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

## Regulation of First Savings Bank

**Business Activities.** The activities of Indiana banks, such as First Savings Bank, are governed by Indiana and federal laws and regulations. Those laws and regulations delineate the nature and extent of the business activities in which banks may engage

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

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

**Capital Requirements.** Federal regulations require FDIC insured depository institutions, including state chartered Federal Reserve System member banks, to meet several minimum capital standards: a common equity Tier 1 capital to risk-based assets ratio of 4.5%, a Tier 1 capital to risk-based assets ratio of 6.0%, a total capital to risk-based assets of 8% and a 4% Tier 1 capital to total assets leverage ratio.

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

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

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

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

As of September 30, 2020, First Savings Bank met all applicable capital adequacy requirements in effect at that date.

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

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

**Insurance of Deposit Accounts.** First Savings Bank’s deposits are insured up to applicable limits by the Deposit Insurance Fund of the FDIC. Currently, deposit insurance per account owner is \$250,000. Under the FDIC’s existing risk-based assessment system, insured institutions are assigned to one of four risk categories based on supervisory evaluations, regulatory capital levels and certain other factors, with less risky institutions paying lower assessments. An institution’s assessment rate depends upon the category to which it is assigned and certain specified adjustments. The assessment rates (inclusive of adjustments) currently range from two and one half to 45 basis points of total capital less tangible assets, depending upon the particular institution’s risk category. The rate schedules will automatically adjust in the future when the Deposit Insurance Fund reaches certain milestones. No institution may pay a dividend if in default of the federal deposit insurance assessment.

The Dodd-Frank Act increased the minimum target Deposit Insurance Fund ratio from 1.15% of estimated insured deposits to 1.35% of estimated insured deposits. The FDIC announced that the 1.35% ratio was reached as of September 30, 2018. As of September 30, 2020, the FDIC had announced that the ratio had declined to 1.30% due largely to consequences of the COVID-19 pandemic. The FDIC adopted a plan to restore the fund to the 1.35% ratio within eight years but did not change its assessment schedule.

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

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

**Limitation on Dividends.** Indiana law authorizes a bank’s board of directors to declare dividends out of profits as deemed expedient. However, application to and the prior approval of the INDFI and FRB is required before payment of a dividend if total dividends for the calendar year exceed net income for the year to date plus the amount of retained net income for the preceding two

years. Federal law specifies that a bank may not pay a dividend if it fails to satisfy any applicable federal capital requirement after the dividend.

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

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

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

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

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

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

**Assessments.** Indiana banks are required to pay assessments to the INDFI to fund the agency's operations. The assessments paid to the INDFI by First Savings Bank for the year ended September 30, 2020 totaled \$85,000.

**Federal Home Loan Bank System.** First Savings Bank is a member of the Federal Home Loan Bank System, which consists of 12 regional Federal Home Loan Banks. The Federal Home Loan Bank System provides a central credit facility primarily for member institutions. First Savings Bank, as a member of the FHLB, is required to acquire and hold shares of capital stock in the FHLB. First Savings Bank was in compliance with this requirement with an investment in FHLB capital stock at September 30, 2020 of \$15.7 million.

**Federal Reserve Board System.** The FRB regulations require banks to maintain reserves against their transaction accounts (primarily Negotiable Order of Withdrawal (NOW) and regular checking accounts). For 2020, the regulations generally require that reserves be maintained against aggregate transaction accounts as follows: for that portion of transaction accounts aggregating \$127.5 million or less (which may be adjusted by the Federal Reserve Board) the reserve requirement is 3.0% and the amounts greater than \$127.5 million require a 10.0% reserve (which may be adjusted annually by the Federal Reserve Board between 8.0% and 14.0%). The first \$16.9 million of otherwise reservable balances (which may be adjusted by the Federal Reserve Board) are exempted from the reserve requirements. As of September 30, 2020, First Savings Bank was in compliance with this requirement.

#### **CARES Act**

In response to the COVID-19 pandemic, the Coronavirus Aid, Relief and Economic Security (“CARES”) Act was signed into law on March 27, 2020. Among other things, the CARES Act includes the following provisions impacting financial institutions like First Savings Bank:

- The CARES Act allows banks to elect to suspend requirements under accounting principles generally accepted in the United States of America (“GAAP”) for loan modifications related to the COVID-19 pandemic (for loans that were not more than 30 days past due as of December 31, 2019) that would otherwise be categorized as a TDR, including impairment for accounting purposes, until the earlier of 60 days after the termination date of the national emergency or December 31, 2020. Federal banking agencies are required to defer to the determination of the banks making such suspension.
- The CARES Act authorizes the SBA’s Paycheck Protection Program. The PPP authorizes for small business loans to pay payroll and group health costs, salaries and commissions, mortgage and rent payments, utilities, and interest on other debt. The loans are provided through participating financial institutions, such as First Savings Bank, that process loan applications and service the loans.

#### **Other Regulations**

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

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

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

- Right to Financial Privacy Act, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records;
- Electronic Funds Transfer Act and Regulation E promulgated thereunder, which govern automatic deposits to and withdrawals from deposit accounts and customers' rights and liabilities arising from the use of automated teller machines and other electronic banking services; and
- Check Clearing for the 21st Century Act (also known as "Check 21"), which gives "substitute checks," such as digital check images and copies made from that image, the same legal standing as the original paper check.

### **Holding Company Regulation**

**General.** As a bank holding company that has elected financial holding company status within the meaning of the Bank Holding Company Act of 1956, as amended, First Savings Financial Group is subject to FRB regulation, examination, supervision and reporting requirements. In addition, the FRB has enforcement authority over First Savings Financial Group and its non-savings institution subsidiaries. Among other things, this authority permits the FRB to restrict or prohibit activities that are determined to be a serious risk to First Savings Bank. The INDFI also has examination and enforcement authority since First Savings Financial Group controls an Indiana bank.

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

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

The Gramm-Leach-Bliley Act of 1999 authorized a bank holding company that meets specified conditions, including being "well capitalized" and "well managed," to opt to become a "financial holding company" and thereby engage in a broader array of financial activities than previously permitted. First Savings Financial Group has elected to become a financial holding company because of the activities of the Captive.

Bank holding companies are generally subject to consolidated capital requirements established by the FRB. The Dodd-Frank Act required the FRB to amend its consolidated minimum capital requirements for bank holding companies to make them no less stringent than those applicable to insured depository institutions themselves.

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

A bank holding company is generally required to give the FRB prior written notice of any purchase or redemption of then outstanding equity securities if the gross consideration for the purchase or redemption, when combined with the net consideration paid for all such purchases or redemptions during the preceding 12 months, is equal to 10% or more of the company's consolidated net worth.



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The FRB may disapprove such a purchase or redemption if it determines that the proposal would constitute an unsafe and unsound practice, or violate any law, regulation, FRB order or directive, or any condition imposed by, or written agreement with, the FRB. There is an exception to this approval requirement for well-capitalized bank holding companies that meet certain other conditions.

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

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

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

#### **Federal Securities Laws**

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

### **INCOME TAXATION**

#### **Federal Taxation**

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

On December 22, 2017, H.R.1, commonly known as the Tax Cuts and Jobs Act (the "Tax Act"), was signed into law. Among other things, the Act reduced the Company's corporate federal tax rate from 34% to 21% effective January 1, 2018. The Company files federal income tax returns on a September 30 fiscal year basis, so in accordance with Internal Revenue Code regulations, the Company's federal income tax rate for the year ended September 30, 2018 was based on a blended rate of 24.5%. As a result of the Tax Act, the Company was required to re-measure, through income tax expense, deferred tax assets and liabilities using the enacted rate at which the

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Company expects them to be recovered or settled. The re-measurement of the net deferred tax asset resulted in an income tax benefit of approximately \$145,000 for the year ended September 30, 2018.

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

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

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

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

The amount of additional taxable income triggered by a non-dividend distribution is an amount that, when reduced by the tax attributable to the income, is equal to the amount of the distribution. Therefore, if First Savings Bank makes a non-dividend distribution to First Savings Financial Group, approximately one and one-quarter times the amount of the distribution not in excess of the amount of the reserves would be includable in income for federal income tax purposes, assuming a 21% federal corporate income tax rate. First Savings Bank does not intend to pay dividends that would result in a recapture of any portion of its bad debt reserves.

#### State Taxation

**Indiana.** Effective July 1, 2013, Indiana amended its tax code to provide for reductions in the franchise tax rate. For the Company’s tax year ended September 30, 2020, Indiana imposed a 6.25% franchise tax based on a financial institution’s adjusted gross income as defined by statute. The Indiana franchise tax rate will be reduced to 6.00%, 5.50%, 5.00%, and 4.90% for the Company’s tax years ending September 30, 2021, 2022, 2023, and 2024 and years thereafter, respectively. In computing Indiana taxable income, deductions for municipal interest, state and local income taxes and certain accelerated depreciation permitted for federal tax purposes are disallowed.

The Company and its subsidiaries also file income and franchise tax returns in various other states where they are deemed to have tax nexus.

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

**Item 1A. RISK FACTORS**

**Risks Related to COVID-19**

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

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

*Credit Risk* – Our risks of timely loan repayment and the value of collateral supporting the loans are affected by the strength of our borrowers' businesses. Concern about the spread of COVID-19 has caused and is likely to continue to cause business shutdowns, limitations on commercial activity and financial transactions, labor shortages, supply chain interruptions, increased unemployment and commercial property vacancy rates, reduced profitability and ability for property owners to make mortgage payments, and overall economic and financial market instability, all of which may cause our customers to be unable to make scheduled loan payments.

Hotel and restaurant operators and others in the leisure, hospitality and travel industries, among other industries, have been particularly harmed by COVID-19. See "*Item 7 – Management's Discussion and Analysis for Financial Condition and Results of Operations*" for information about the Company's outstanding loans to borrowers in the hotel and restaurant industries. If the effects of COVID-19 result in widespread and sustained repayment shortfalls on loans in our portfolio, we could incur significant delinquencies, foreclosures and credit losses, particularly if the available collateral is insufficient to cover our credit exposure. The future effects of COVID-19 on economic activity could negatively affect the collateral values associated with our existing loans, the ability to liquidate the real estate collateral securing our residential and commercial real estate loans, our ability to maintain loan origination volume and to obtain additional financing, the future demand for or profitability of our lending and services, and the financial condition and credit risk of our customers. Further, in the event of delinquencies, regulatory changes and policies designed to protect borrowers may slow or prevent us from making our business decisions or may result in a delay in our taking certain remediation actions, such as foreclosure. In addition, we have unfunded commitments to extend credit to customers. During a challenging economic environment, our customers depend more on our credit commitments and increased borrowings under these commitments could adversely impact our liquidity. Furthermore, in an effort to support our communities during the pandemic, we are participating in the Paycheck Protection Program under the CARES Act whereby loans to small businesses are made and those loans are subject to the regulatory requirements that would require forbearance of loan payments for a specified time or that would limit our ability to pursue all available remedies in the event of a loan default. If the borrower under the PPP loan fails to qualify for loan forgiveness, we are at the heightened risk of holding these loans at unfavorable interest rates as compared to the loans to customers that we would have otherwise extended credit.

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

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

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

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

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

**Risks Related to Our Lending Activities**

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

At September 30, 2020, \$799.0 million, or 72.0%, of our loan portfolio consisted of commercial real estate loans and commercial business loans. Subject to market conditions, we intend to increase our origination of these loans. Commercial real estate loans generally expose a lender to greater risk of non-payment and loss than one- to four-family residential mortgage loans because repayment of the loans often depends on the successful operation of the property and the income stream of the borrowers. Commercial real estate loans also typically involve larger loan balances to single borrowers or groups of related borrowers both at origination and at maturity because many of our commercial real estate loans are not fully-amortizing, but result in “balloon” balances at maturity. Commercial business loans expose us to additional risks since they typically are made on the basis of the borrower’s ability to make repayments from the cash flow of the borrower’s business and are secured by non-real estate collateral that may depreciate over time. In addition, some of our commercial borrowers have more than one loan outstanding with us. Consequently, an adverse development with respect to one loan or one credit relationship may expose us to a greater risk of loss compared to an adverse development with respect to a one- to four-family residential mortgage loan. At September 30, 2020, nonperforming commercial real estate loans totaled \$7.6 million. At September 30, 2020 nonperforming commercial business loans totaled \$2.4 million. For more information about the credit risk we face, see “*Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations — Risk Management.*”

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

At September 30, 2020, \$25.7 million, or 2.3% of our loan portfolio consisted of construction loans, and land and land development loans, and \$5.0 million, or 19.4% of the construction loan portfolio (excluding undisbursed commitments and portions participated to other financial institutions), consisted of speculative construction loans at that date. Speculative construction loans are loans made to builders who have not identified a buyer for the completed property at the time of loan origination. Subject to market conditions, we intend to continue to emphasize the origination of construction loans and land and land development loans. These loan types generally expose a lender to greater risk of nonpayment and loss than residential mortgage loans because the repayment of such loans often depends on the successful operation or sale of the property and the income stream of the borrowers and such loans typically involve larger balances to a single borrower or groups of related borrowers. In addition, many borrowers of these types of loans have more than one loan outstanding with us so an adverse development with respect to one loan or credit relationship can expose us to significantly greater risk of non-payment and loss. Furthermore, we may need to increase our allowance for loan losses through future charges to income as the portfolio of these types of loans grows, which would adversely affect our earnings. For more information about the credit risk we face, see “*Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations — Risk Management.*”

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

At September 30, 2020, \$26.6 million, or 13.9% of our residential mortgage loan portfolio and 2.4% of our total loan portfolio, consisted of loans secured by non-owner occupied residential properties. Loans secured by non-owner occupied properties generally expose a lender to greater risk of non-payment and loss than loans secured by owner occupied properties because repayment of such loans depend primarily on the tenant’s continuing ability to pay rent to the property owner, who is our borrower, or, if the property owner is unable to find a tenant, the property owner’s ability to repay the loan without the benefit of a rental income stream. In addition, the physical condition of non-owner occupied properties is often below that of owner occupied properties due to lax property maintenance standards, which has a negative impact on the value of the collateral properties. Furthermore, some of our non-owner occupied residential loan borrowers have more than one loan outstanding with us. At September 30, 2020, we had seven non-owner occupied residential loan relationships, each having an outstanding balance over \$500,000, with aggregate outstanding balances of \$6.4 million. Consequently, an adverse development with respect to one credit relationship may expose us to a greater risk of loss compared to an adverse development with respect to an owner occupied residential mortgage loan. At September 30, 2020, the Bank had one nonperforming non-owner occupied residential loan totaling \$21,000. At September 30, 2020, the Bank did not have any non-owner occupied residential properties held as real estate owned. For more information about the credit risk we face, see “*Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations — Risk Management.*”

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

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

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

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

**Our SBA lending program is dependent upon the federal government and we face specific risks associated with originating SBA loans.**

Our SBA lending program is dependent upon the federal government. As an SBA Preferred Lender, we enable our clients to obtain SBA loans without being subject to the potentially lengthy SBA approval process necessary for lenders that are not SBA Preferred Lenders. The SBA periodically reviews the lending operations of participating lenders to assess, among other things, whether the lender exhibits prudent risk management. When weaknesses are identified, the SBA may request corrective actions or impose enforcement actions, including revocation of the lender’s Preferred Lender status. If we lose our status as a Preferred Lender, we may lose some or all of our customers to lenders who are SBA Preferred Lenders. Also, any changes to the SBA program, including changes to the level of guarantee provided by the federal government on SBA loans, could adversely affect our business and earnings.

We generally sell the guaranteed portion of our SBA 7(a) program loans in the secondary market. These sales have resulted in premium income for us at the time of sale and created a stream of future servicing income. We may not be able to continue originating these loans or selling them in the secondary market. Furthermore, even if we are able to continue originating and selling SBA 7(a) program loans in the secondary market, we might not continue to realize premiums upon the sale of the guaranteed portion of these loans. When we sell the guaranteed portion of our SBA 7(a) program loans, we incur credit risk on the non-guaranteed portion of the loans, and if a customer defaults on the non-guaranteed portion of a loan, we share any loss and recovery related to the loan pro-rata with the SBA. If the SBA establishes that a loss on an SBA guaranteed loan is attributable to significant technical deficiencies in the manner in which the loan was originated, funded or serviced by us, the SBA may seek recovery of the principal loss related to the deficiency from us, which could adversely affect our business and earnings.

The laws, regulations and standard operating procedures that are applicable to SBA loan products may change in the future. We cannot predict the effects of these changes on our business and profitability. Because government regulation greatly affects the business and financial results of all commercial banks and bank holding companies, changes in the laws, regulations and procedures applicable to SBA loans could adversely affect our business and earnings.

**Decreased residential mortgage origination volume and pricing decisions of competitors may adversely affect our profitability.**

Our mortgage banking operation originates and sells residential mortgage loans. Changes in interest rates, housing prices, applicable government regulations and pricing decisions by our loan competitors may adversely affect demand for our residential mortgage loan products and the revenue realized on the sale of loans and, ultimately, reduce our net income. New regulations, increased regulatory reviews, and/or changes in the structure of the secondary mortgage markets which we utilize to sell mortgage loans may increase costs and make it more difficult to operate a residential mortgage origination business. Our revenue from the mortgage banking business was \$117.9 million in the year ended September 30, 2020. This revenue could significantly decline in future periods if interest rates were to rise and the other risks highlighted in this paragraph were realized, which may adversely affect our profitability.

**We may be required to repurchase mortgage loans or indemnify buyers against losses in some circumstances.**

When residential mortgage loans are sold, whether as whole loans or pursuant to a securitization, we are required to make customary representations and warranties to purchasers, guarantors and insurers about the mortgage loans and the manner in which they were originated. We may be required to repurchase or substitute mortgage loans, or indemnify buyers against losses, in the event we breach certain representations or warranties in connection with the sale of such loans. If repurchase and indemnity demands increase, are valid claims and are in excess of our provision for potential losses, our liquidity, results of operations or financial condition may be materially and adversely affected.

**The value of our residential mortgage loan servicing rights and SBA loan servicing rights is subjective by nature and may be vulnerable to inaccuracies or other events outside our control.**

The value of our loan servicing rights can fluctuate. The assets could decrease if prepayment speeds or delinquency rates of the underlying loans increase, or if the costs to service the loans increase. The value of the assets could also decline if there is a lack of liquidity in the loan servicing rights market. Similarly, the value may decrease in interest rates decrease or change in a non-parallel manner or are otherwise volatile. All of these factors are largely out of our control. Estimates must be developed and assumptions and judgments must be made when valuing these assets. An inaccurate valuation, or changes to the valuation due to factors outside of our control, could negatively impact our ability to realize the full value of these assets. As a result, our balance sheet may not precisely represent the fair market value of these and other financial assets.

**Recessionary conditions could result in increases in our level of nonperforming loans and/or reduce demand for our products and services, which would lead to lower revenue, higher loan losses and lower earnings.**

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

**Risks Related to Competition**

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

We face intense competition both in making loans and attracting deposits. This competition has made it more difficult for us to make new loans and attract deposits. Price competition for loans and deposits might result in us earning less on our loans and paying more on our deposits, which would reduce net interest income. Competition also makes it more difficult to grow loans and deposits. At June 30, 2020, which is the most recent date for which data is available from the FDIC, we held approximately 21.86%, 18.01%, 3.35%, 25.19%, 100.00% and 21.69% of the FDIC-insured deposits in Clark, Daviess, Floyd, Harrison, Crawford and Washington Counties, Indiana, respectively. Some of the institutions with which we compete have substantially greater resources and lending limits than we have and may offer services that we do not provide. We expect competition to increase in the future as a result of legislative, regulatory and technological changes and the continuing trend of consolidation in the financial services industry. Our profitability depends upon our continued ability to compete successfully in our primary market area. See “Item 1. Business — Market Area” and “Item 1. Business — Competition” for more information about our primary market area and the competition we face.

### **Risks Related to Changes in Market Interest Rates**

#### **Changing interest rates may hurt our earnings and asset value.**

Our net interest income is the interest we earn on loans and investments less the interest we pay on our deposits and borrowings. Our net interest margin is the difference between the yield we earn on our assets and the interest rate we pay for deposits and our other sources of funding. Changes in interest rates—up or down—could adversely affect our net interest margin and, as a result, our net interest income. Although the yield we earn on our assets and our funding costs tend to move in the same direction in response to changes in interest rates, one can rise or fall faster than the other, causing our net interest margin to expand or contract. Our liabilities tend to be shorter in duration than our assets, so they may adjust faster in response to changes in interest rates. As a result, when interest rates rise, our funding costs may rise faster than the yield we earn on our assets, causing our net interest margin to contract until the yield catches up. Changes in the slope of the “yield curve”—or the spread between short-term and long-term interest rates—could also reduce our net interest margin. Normally, the yield curve is upward sloping, meaning short-term rates are lower than long-term rates. Because our liabilities tend to be shorter in duration than our assets, when the yield curve flattens or even inverts, we could experience pressure on our net interest margin as our cost of funds increases relative to the yield we can earn on our assets. Also, interest rate decreases can lead to increased prepayments of loans and mortgage-backed securities as borrowers refinance their loans to reduce borrowing costs. Under these circumstances, we are subject to reinvestment risk as we may have to redeploy such repayment proceeds into lower yielding investments, which would likely hurt our income. At September 30, 2020, approximately \$395.3 million, or 35.6% of the total loan portfolio, consisted of fixed-rate loans with maturity dates after September 30, 2021. This investment in fixed-rate loans exposes the Company to increased levels of interest rate risk.

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

### **Risks Related to Our Liquidity Position**

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

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

### **Risks Related to Mergers and Acquisitions and Other Expansionary Activities**

#### **Market expansion and acquisitions may not produce revenue enhancements or cost savings at levels or within timeframes originally anticipated and may result in unforeseen integration difficulties and dilution to existing shareholder value.**

We have acquired, and expect to continue to acquire, other financial institutions or parts of those institutions in the future, and we may engage in de novo branch expansion. We may also consider and enter into new lines of business or offer new products or services. We may incur substantial costs to expand, and we can give no assurance such expansion will result in the levels of profits we seek. There can be no assurance that integration efforts for any mergers or acquisitions will be successful. Also, we may issue equity securities in connection with acquisitions, which could cause ownership and economic dilution to our current shareholders. There is no assurance that, following any mergers or acquisitions, our integration efforts will be successful or that, after giving effect to the acquisition, we will achieve profits comparable to, or better than, our historical experience.



Market expansion and acquisitions involve a number of expenses and risks, including:

- the time and costs of associated with identifying and evaluating potential new markets, hiring experienced local management and opening new offices, and the time lags between these activities and the generation of sufficient assets and deposits to support the costs of the expansion;
- the time and costs associated with identifying potential acquisition and merger targets;
- the accuracy of the estimates and judgments used to evaluate credit, operations, management and market risks with respect to a target institution;
- the diversion of our management’s attention to the negotiation of a transaction, and the integration of the operations and personnel of the combined businesses;
- our ability to finance an acquisition and possible dilution to our existing shareholders;
- closing delays and expenses related to the resolution of lawsuits filed by shareholders of targets;
- entry into new markets where we lack experience;
- introduction of new products and services into our business;
- the risk of loss of key employees and customers; and
- incurrence and possible impairment of goodwill associated with an acquisition and possible adverse short-term effects on our results of operations.

Future acquisitions could be material to the Company and it may issue additional shares of stock to pay for those acquisitions, which would dilute current shareholder’s ownership interests.

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

Goodwill represents the amount of consideration exchanged over the fair value of net assets we acquired in the purchase of another financial institution. We review goodwill for impairment at least annually, or more frequently if events or changes in circumstances indicate the carrying value of the asset might be impaired. At September 30, 2020, our goodwill totaled \$9.8 million. While we have recorded no such impairment charges since we initially recorded the goodwill, there can be no assurance that our future evaluations of goodwill will not result in findings of impairment and related write-downs, which may have a material adverse effect on our financial condition and results of operations.

#### **Risks Related to Our Investment Portfolio**

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

Our investment portfolio consists primarily of U.S. government agency and sponsored enterprises securities, mortgage backed securities and collateralized mortgage obligations issued by U.S. government agencies and sponsored enterprises, municipal bonds, and privately-issued collateralized mortgage obligations and asset-backed securities. We must evaluate these securities for other-than-temporary impairment loss (“OTTI”) on a periodic basis. The privately-issued collateralized mortgage obligations and asset-backed securities exhibit signs of weakness, which may necessitate an OTTI charge in the future should the financial condition of the pools deteriorate further. Any future OTTI charges could have a significant adverse effect our earnings.

### **Risks Related to Our Operations**

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

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

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

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

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

We are inherently exposed to risks caused by the use of computer, internet and telecommunications systems, and susceptible to fraudulent activity that may be committed against us or our clients, which may result in financial losses to us or our clients, privacy breaches against our clients or damage to our reputation. These risks include fraud by employees, customers and other outside entities targeting us and/or our customers, and such fraudulent activity may take many forms, including internet fraud, check fraud, electronic fraud, wire fraud, phishing, and other dishonest acts. In recent periods, there has been a rise in electronic fraudulent activity within the financial services industry, especially in the commercial banking sector, due to cyber criminals targeting commercial bank accounts. Consistent with industry trends, we have also experienced an increase in attempted electronic fraudulent activity in recent periods. Given such increase in electronic fraudulent activity and the growing level of use of electronic, internet-based and networked systems to conduct business directly or indirectly with our clients, certain fraud losses may not be avoidable regardless of the preventative and detection systems in place.

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

resources to continue to modify or enhance our protective measures or to investigate and remediate any information security vulnerabilities.

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

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

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

The Dodd-Frank Act has created a new federal agency to administer consumer protection and fair lending laws, a function that was formerly performed by the depository institution regulators. The Dodd-Frank Act contains various other provisions designed to enhance the regulation of depository institutions including the implementation of more stringent capital adequacy rules. The full impact of the Dodd-Frank Act on our business and operations will not be known for years until regulations implementing the statute are written and adopted. The Dodd-Frank Act may have a material impact on our operations, particularly through increased regulatory burden and compliance costs. Any future legislative changes could have a material impact on our profitability, the value of assets held for investment or collateral for loans. Future legislative changes could require changes to business practices or force us to discontinue businesses and potentially expose us to additional costs, liabilities, enforcement action and reputational risk.

In addition to the enactment of the Dodd-Frank Act, the federal regulatory agencies have taken stronger supervisory actions against financial institutions that have experienced increased loan losses and other weaknesses as a result of the recent economic crisis. The actions include entering into written agreements and cease and desist orders that place certain limitations on operations. Federal bank regulators have also been using with more frequency their ability to impose individual minimum capital requirements on banks, which requirements may be higher than those required under the Dodd-Frank Act or that would otherwise qualify a bank as being "well capitalized" under applicable prompt corrective action regulations. If we were to become subject to a regulatory agreement or higher individual minimum capital requirements, such action may have a negative impact on our ability to execute our business plan, as well as our ability to grow, pay dividends or engage in mergers and acquisitions and may result in restrictions in our operations. For a further discussion, see "*Item 1. Business – Regulation and Supervision.*"

**We rely heavily on our management team and the unexpected loss of any of those personnel could adversely affect our operations, and we depend on our ability to attract and retain key personnel.**

We are a customer-focused and relationship-driven organization. We expect our future growth to be driven in a large part by the relationships maintained with our customers by our executive and other senior officers. Although we are party to non-compete and non-solicitation agreements with certain executive, senior and other officers, the unexpected loss of any of our key employees could have an adverse effect on our business, results of operations and financial condition.

The implementation of our business strategy will also require us to continue to attract, hire, motivate and retain skilled personnel to develop new customer relationships as well as new financial products and services. The market for qualified employees in the businesses in which we operate is competitive and we may not be successful in attracting, hiring or retaining key personnel. Our inability to attract, hire or retain key personnel could have a material adverse effect on our business, results of operations and financial condition.

**We identified material weaknesses in our internal control over financial reporting at September 30, 2019 and determined that our disclosure controls and procedures were not effective. Failure to remediate the identified material weaknesses and maintain effective internal control over financial reporting and disclosure controls and procedures in future periods could have a material adverse effect on our financial statements.**

Management maintains and regularly monitors, reviews and updates the Company's internal control over financial reporting and disclosure controls and procedures as required by The Sarbanes-Oxley Act and related rules and regulations. Any system of controls, however well designed and operated, is based in part on certain assumptions and can provide only reasonable assurances that the controls will be effective. Any failure or circumvention of our controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on our business, results of operations and financial condition.

As previously disclosed in the Company's Annual Report on Form 10-K for the year ended September 30, 2019, the Company identified material weaknesses in internal control over financial reporting within the mortgage banking segment over the valuation of interest rate lock commitments and loans held for sale, and the accrual of incentive compensation. Management, under the direction of the Audit Committee, has implemented remedial measures throughout 2020 to address the material weaknesses. The Company's remediation plan included reevaluating the Company's accounting policies and practices, allocating additional resources to the mortgage banking segment, engaging a third party consulting firm to independently review the accounting and monthly closing process for the mortgage banking segment, improving the documentation and review of significant assumptions utilized in the valuation of interest rate lock commitments and loans held for sale, and additional training for relevant personnel.

Management has concluded that the material weaknesses have been fully remediated at September 30, 2020. However, if the remedial measures are insufficient, or if additional material weaknesses occur in the future, we may not be able to report our financial results in an accurate and timely manner, prevent or detect fraud, or provide reliable financial information pursuant to our reporting obligations, which could have a material adverse effect on our business, financial condition, and results of operations. For further discussion, see *Part II - Item 9A – Controls and Procedures*.

#### **Risks Related to an Investment in Our Common Stock**

**Our ability to pay dividends is subject to certain limitations and restrictions, and there is no guarantee that we will be able to continue paying the same level of dividends in the future that we paid in 2020 or that we will be able to pay future dividends at all.**

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

**The trading volume of our stock varies and you may not be able to resell your shares at or above the price you paid for them.**

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

**Insiders have substantial control over us, and this control may limit our shareholders' ability to influence corporate matters and may delay or prevent a third party from acquiring control over us.**

As of December 7, 2020, our directors, executive officers, and their related entities and persons currently beneficially own, in the aggregate, approximately 14.30% of our outstanding common stock. The significant concentration of stock ownership may adversely affect the trading price of our common stock due to investors' perception that conflicts of interest may exist or arise. In addition, these

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shareholders will be able to exercise influence over all matters requiring shareholder approval, including the election of directors and approval of corporate transactions, such as a merger or other sale of our company or its assets. This concentration of ownership could limit your ability to influence corporate matters and may have the effect of delaying or preventing a change in control, including a merger, consolidation or other business combination involving us, or discouraging a potential acquirer from making a tender offer or otherwise attempting to obtain control, even if that change in control would benefit our other shareholders. For information regarding the ownership of our outstanding stock by our directors, executive officers, and their related entities and persons, see “Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters”.

**Item 1B. UNRESOLVED STAFF COMMENTS**

None.

**Item 2. PROPERTIES**

We conduct our business through our main office and branch offices. The following table sets forth certain information relating to these facilities as of September 30, 2020.

<b>Location</b>	<b>Year Opened</b>	<b>Owned/ Leased</b>
<b>Main Office:</b>		
Jeffersonville Main Office 702 North Shore Drive, Suite 300 Jeffersonville, IN 47130	2019	Owned
<b>Branch Offices:</b>		
Clarksville Office 501 East Lewis & Clark Parkway Clarksville, Indiana	1968	Owned
Jeffersonville – 10 <sup>th</sup> Street Office 3538 E 10 <sup>th</sup> Street Jeffersonville, Indiana	2020	Owned
Charlestown Office 1100 Market Street Charlestown, Indiana	1993	Owned
Georgetown Office 1000 Copperfield Drive Georgetown, Indiana	2003	Owned
Jeffersonville - Court Avenue Office 202 East Court Avenue Jeffersonville, Indiana	1986	Owned
Sellersburg Office 125 Hunter Station Way Sellersburg, Indiana	1995	Owned
Corydon Office 900 Hwy 62 NW Corydon, Indiana	1996	Owned
Salem Office 1336 S Jackson Street Salem, Indiana	1995	Owned
English Office 200 Indiana Avenue English, Indiana	1925	Owned
Marengo Office 165 E State Rd 64 Marengo, Indiana	1984	Owned
Lanesville Office 7340 Main Street NE Lanesville, Indiana	1948	Owned
Elizabeth Office 8160 Beech Street SE Elizabeth, Indiana	1975	Owned
New Albany Office 2218 State Street New Albany, Indiana	2013	Leased
Odon Office 501 West Main Street Odon, Indiana	1982	Owned
Montgomery Office 478 West Meyers Street Montgomery, Indiana	1992	Owned

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The Company purchased an 8.097 acre parcel of land in Jeffersonville, Indiana, in July 2013 upon which it intended to construct an office building, relocate its corporate headquarters, and subsequently divest of additional unused acreage in future years. However, in October 2018, the Company acquired an office building for \$7.5 million in Jeffersonville, Indiana, to which it has relocated its corporate headquarters. As of September 30, 2020, the 8.097 acre parcel of land, which has a carrying value of approximately \$1.7 million, is listed for sale and is included in other real estate owned, held for sale, on the balance sheet of the Consolidated Financial Statements.

The Company also rents additional office space and equipment under operating lease agreements that expire at different dates through August 2028. See Note 19 of the Notes to Consolidated Financial Statements beginning on page F-1 of this annual report for additional information regarding the Company's operating leases.

**Item 3. LEGAL PROCEEDINGS**

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

**Item 4. MINE SAFETY DISCLOSURES**

Not applicable.

**PART II**

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

**Market for Common Equity and Related Stockholder Matters**

The Company’s common stock is listed on the NASDAQ Capital Market (“NASDAQ”) under the trading symbol “FSG.” As of December 7, 2020, the Company had approximately 243 holders of record and 2,374,472 shares of common stock outstanding. The figure of shareholders of record does not reflect the number of persons whose shares are in nominee or “street” name accounts through brokers. See Item 1, “*Business—Regulation and Supervision—Limitation on Capital Distributions*” and Note 23 of the Notes to Consolidated Financial Statements beginning on page F-1 of this annual report for information regarding dividend restrictions applicable to the Company. The Company currently intends to maintain a policy of paying regular quarterly cash dividends; however, the Company cannot guarantee that it will pay dividends or that if paid, it will not reduce or eliminate dividends in the future.

**Purchases of Equity Securities**

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

Period	(a) Total number of shares purchased	(b) Average price paid per share	(c) Total number of shares purchased as part of publicly announced plans or programs (1)	(d) Maximum number of shares that may yet be purchased under the plans or programs
July 1, 2020 through July 31, 2020	—	—	—	44,802
August 1, 2020 through August 31, 2020	—	—	—	44,802
September 1, 2020 through September 30, 2020	—	—	—	44,802
<b>Total</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>44,802</b>

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

**Equity Compensation Plan Information**

The following table sets forth information as of September 30, 2020 about Company common stock that may be issued under the Company’s equity compensation plans. All plans were approved by the Company’s stockholders.

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	68,403	\$ 48.11	7,255
Equity compensation plans not approved by security holders	N/A	N/A	N/A
<b>Total</b>	<b>68,403</b>	<b>\$ 48.11</b>	<b>7,255</b>



In December 2009 the Company adopted the 2010 Equity Incentive Plan (“2010 Plan”), which the Company’s shareholders approved in February 2010. The 2010 Plan provided for the award of stock options and restricted stock. The aggregate number of shares of the Company’s common stock available for issuance under the Plan may not exceed 355,885 shares, consisting of 254,204 stock options and 101,681 shares of restricted stock. As of September 30, 2020, grants outstanding under the 2010 Plan included 101,681 restricted shares, 186,507 incentive stock options and 67,697 non-statutory stock options to directors, officers and key employees. The restricted shares and stock options granted vest ratably over five years and, once vested, the stock options are exercisable in whole or in part for a period up to ten years from the date of the award.

In December 2015 the Company adopted the 2016 Equity Incentive Plan (“2016 Plan”), which the Company’s shareholders approved in February 2016. The 2016 Plan provides for the award of stock options and restricted stock. The aggregate number of shares of the Company’s common stock available for issuance under the Plan may not exceed 88,000 shares, consisting of 66,000 stock options and 22,000 shares of restricted stock. As of September 30, 2020, grants outstanding under the 2016 Plan included 22,000 restricted shares, 51,145 incentive stock options and 7,600 non-statutory stock options to directors, officers and key employees. The restricted shares and stock options granted vest ratably over five years and, once vested, the stock options are exercisable in whole or in part for a period up to ten years from the date of the award.

**Item 6. SELECTED FINANCIAL DATA**

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

(In thousands)	At September 30,				
	2020	2019	2018	2017	2016
<b>Financial Condition Data:</b>					
Total assets	\$ 1,764,625	\$ 1,222,579	\$ 1,034,406	\$ 891,133	\$ 796,516
Cash and cash equivalents	33,726	41,432	42,274	34,259	29,342
Trading account securities	—	—	—	7,175	9,255
Securities available-for-sale	201,965	177,302	184,373	178,099	174,493
Securities held-to-maturity	2,102	2,336	2,607	2,878	3,166
Loans held for sale	285,525	96,070	32,125	25,635	5,471
Loans, net	1,090,063	810,658	704,271	586,456	518,611
Deposits	1,048,076	834,384	811,112	669,382	579,467
Borrowings from FHLB	310,858	222,544	90,000	118,065	121,633
Other borrowings	194,631	23,729	21,013	1,348	1,345
Stockholders’ equity	157,272	121,053	98,813	93,115	86,580

(In thousands)	For the Year Ended September 30,				
	2020	2019	2018	2017	2016
<b>Operating Data:</b>					
Interest income	\$ 59,929	\$ 50,995	\$ 42,159	\$ 33,917	\$ 29,456
Interest expense	10,538	10,906	6,337	4,457	4,167
Net interest income	49,391	40,089	35,822	29,460	25,289
Provision for loan losses	7,962	1,463	1,353	1,301	637
Net interest income after provision for loan losses	41,429	38,626	34,469	28,159	24,652
Noninterest income	131,121	43,854	13,295	8,625	3,372
Noninterest expense	125,808	62,390	33,006	24,951	22,435
Income before income taxes	46,742	20,090	14,758	11,833	5,589
Income tax expense (benefit)	12,661	3,095	2,422	2,520	(2,322)
Net income	34,081	16,995	12,336	9,313	7,911
Less: net income attributable to noncontrolling interests	727	818	1,434	—	—
Net income attributable to First Savings Financial Group	33,354	16,177	10,902	9,313	7,911
Less: Preferred stock dividends declared	—	—	—	—	62
Net income available to common shareholders	\$ 33,354	\$ 16,177	\$ 10,902	\$ 9,313	\$ 7,849

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	For the Year Ended September 30,				
	2020	2019	2018	2017	2016
<b>Per Share Data:</b>					
Net income per common share, basic	\$ 14.15	\$ 6.99	\$ 4.83	\$ 4.20	\$ 3.57
Net income per common share, diluted	14.04	6.82	4.60	3.97	3.41
Dividends per common share	0.67	0.63	0.59	0.55	0.51
	At or For the Year Ended September 30,				
	2020	2019	2018	2017	2016
<b>Performance Ratios:</b>					
Return on average assets	2.27 %	1.42 %	1.11 %	1.10 %	1.03 %
Return on average equity	26.06	15.65	12.80	10.56	9.04
Return on average common stockholders' equity	25.46	15.00	11.37	10.56	9.73
Interest rate spread (1)	3.56	3.63	3.82	3.84	3.71
Net interest margin (2)	3.75	3.88	3.99	3.95	3.81
Other expenses to average assets	8.58	5.48	3.35	2.96	2.93
Efficiency ratio (3)	69.70	74.32	67.20	65.51	78.28
Efficiency ratio (excluding nonrecurring items) (4)	69.86	74.51	63.96	64.69	68.20
Average interest-earning assets to average interest-bearing liabilities	122.68	124.96	125.02	120.21	117.86
Dividend payout ratio	4.77	9.10	12.32	13.20	14.03
Average equity to average assets	8.92	9.54	9.77	10.45	11.45
<b>Capital Ratios:</b>					
Total capital (to risk-weighted assets):					
Consolidated	13.37 %	13.85 %	14.50 %	12.69 %	11.82 %
Bank	12.75	12.88	12.92	12.22	11.33
Tier 1 capital (to risk-weighted assets):					
Consolidated	10.58	10.70	10.84	11.53	10.66
Bank	11.53	11.81	11.75	11.05	10.16
Common equity Tier 1 capital (to risk-weighted assets):					
Consolidated	10.58	10.70	10.84	11.53	10.66
Bank	11.53	11.81	11.75	11.05	10.16
Tier 1 capital (to average adjusted total assets):					
Consolidated	8.53	8.39	8.39	9.14	8.43
Bank	9.37	9.34	9.10	8.79	8.09

(1) Represents the difference between the weighted average yield on average interest-earning assets and the weighted average cost on average interest-bearing liabilities. Tax exempt income is reported on a tax equivalent basis using a federal marginal tax rate of 21% for 2020 and 2019, a blended federal marginal tax rate of 24.5% for 2018 and 34% for years 2017 and 2016.

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- (2) Represents net interest income as a percent of average interest-earning assets. Tax exempt income is reported on a tax equivalent basis using a federal marginal tax rate of 21% for 2020 and 2019, a blended federal tax rate of 24.5% for 2018 and 34% for years 2017 and 2016.
- (3) Represents other expenses divided by the sum of net interest income and other income.
- (4) Represents other expenses, excluding nonrecurring items as discussed below, divided by the sum of net interest income and other income, excluding income (loss) on tax credit investment discussed below. The efficiency ratio for 2020 and 2019 excludes the income from tax credit investments of \$426,000 and \$210,000 respectively. The efficiency ratio for 2018 excludes the income from tax credit investments of \$585,000, expenses of \$1.3 million associated with the acquisition of and merger with Dearmin and FNBO, and expenses of \$661,000 associated with the initial operations of the secondary-market residential mortgage lending division. The efficiency ratio for 2017 excludes the loss on tax credit investment of \$226,000 and expenses of \$166,000 associated with the acquisition of and merger with Dearmin and FNBO. The efficiency ratio for 2016 excludes the loss on tax credit investment of \$4.2 million. This is a non-GAAP financial measure that management believes is useful to investors in understanding the Company's performance.

	<b>At or For the Year Ended September 30,</b>				
	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
<b>Asset Quality Ratios:</b>					
Allowance for loan losses as a percent of total loans	1.54 %	1.22 %	1.31 %	1.36 %	1.35 %
Allowance for loan losses as a percent of nonperforming loans	125.05	193.82	218.18	206.64	182.76
Net charge-offs to average outstanding loans during the period	0.09	0.09	0.02	0.06	0.03
Nonperforming loans as a percent of total loans	1.23	0.63	0.60	0.66	0.74
Nonperforming assets as a percent of total assets	0.95	1.02	1.31	1.33	1.49
<b>Other Data:</b>					
Number of full service branch offices	15	15	16	14	14
Number of deposit accounts	44,852	44,343	43,368	33,594	33,407
Number of loans	8,074	7,759	7,228	5,679	5,409

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

### **Overview**

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

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

**Expenses.** The noninterest expenses we incur in operating our business consist of salaries and employee benefits expenses, occupancy expenses, data processing expenses, professional service fees, federal deposit insurance premiums, advertising, net losses on foreclosed real estate and other miscellaneous expenses. Salaries and employee benefits consist primarily of: salaries and wages paid to our employees; payroll taxes; and expenses for health insurance, retirement plans and other employee benefits. We also recognize annual employee compensation expenses related to our equity incentive plans as the equity incentive awards vest. Occupancy expenses, which are the fixed and variable costs of buildings and equipment, consist primarily of depreciation charges, furniture and equipment expenses, maintenance, real estate taxes, office lease expense and costs of utilities. Depreciation of premises and equipment is computed using the straight-line method based on the useful lives of the related assets, which range from three to 40 years. Data processing expenses are the fees we pay to third parties for processing customer information, deposits and loans. Professional fees expense represents the fees we pay to third parties for legal, accounting, investment advisory and other consulting services. Federal deposit insurance premiums are payments we make to the FDIC to insure of our deposit accounts. Other expenses include expenses for office supplies, postage, telephone, insurance, regulatory assessments and other miscellaneous operating expenses.

### **Critical Accounting Policies**

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

**Allowance for Loan Losses.** The allowance for loan losses is the amount estimated by management as necessary to cover probable incurred losses in the loan portfolio at the balance sheet date. The allowance is established through the provision for loan losses, which is charged to income. Determining the amount of the allowance for loan losses necessarily involves a high degree of judgment. Among the material estimates required to establish the allowance are: loss exposure at default; the amount and timing of future cash flows on impacted loans; value of collateral; and determination of loss factors to be applied to the various elements of the portfolio. All of these estimates are susceptible to significant change. Management reviews the level of the allowance at least quarterly and establishes the provision for loan losses based upon an evaluation of the portfolio, past loss experience, current economic conditions and other factors related to the collectability of the loan portfolio. Although we believe that we use the best information available to establish the allowance for loan losses, future adjustments to the allowance may be necessary if economic or other conditions differ substantially from the assumptions used in making the evaluation. In addition, the banking regulators, as an integral part of their examination process, periodically review our allowance for loan losses and may require us to recognize adjustments to the allowance based on their judgments about information available to them at the time of their examination. A large loss could deplete the allowance and require increased provisions to replenish the allowance, which would adversely affect earnings. See Note 1 of the Notes to Consolidated Financial Statements beginning on page F-1 of this annual report for additional information regarding the methodology used to determine the allowance for loan losses.

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

**Deferred Tax Assets.** Income tax expense involves estimates related to the valuation allowance on deferred tax assets. A valuation allowance reduces deferred tax assets to the amount management believes is more likely than not to be realized. In evaluating the realization of deferred tax assets, management considers the likelihood that sufficient taxable income of appropriate character will be generated within carryback and carryforward periods, including consideration of available tax planning strategies. See Note 18 of the Notes to Consolidated Financial Statements beginning on page F-1 of this annual report for additional information.

## **Balance Sheet Analysis**

**Cash and Cash Equivalents.** At September 30, 2020 and 2019, cash and cash equivalents totaled \$33.7 million and \$41.4 million, respectively. The Bank is required to maintain reserve balances on hand and with the Federal Reserve Bank, which are unavailable for investment but are interest-bearing.

**Loans.** Our primary lending activity is the origination of loans secured by real estate. We originate one to four family mortgage loans, multifamily loans, commercial real estate loans, commercial business loans and construction loans. To a lesser extent, we originate various consumer loans including home equity lines of credit. Net loans increased \$279.4 million, from \$810.7 million at September 30, 2019 to \$1.09 billion at September 30, 2020.

At September 30, 2020, residential mortgage loans totaled \$191.8 million, or 17.3% of total loans, compared to \$197.5 million, or 24.1% of total loans at September 30, 2019. We generally originate loans for investment purposes, although, depending on the interest rate environment, we typically sell 25-year and 30-year fixed rate residential mortgage loans that we originate into the secondary market in order to limit exposure to interest rate risk and to earn noninterest income. Management intends to continue offering short-term adjustable rate residential mortgage loans and generally sell long-term fixed rate mortgage loans in the secondary market.

Commercial real estate loans, including in-market commercial real estate loans, single tenant net lease loans, and SBA real commercial real estate loans, totaled \$531.7 million, or 47.9% of total loans at September 30, 2020, compared to \$440.3 million, or 53.7% of total loans at September 30, 2019. The increase in commercial real estate loans is primarily due to increases in single tenant net lease loans and SBA commercial real estate loans which increased \$111.2 million and \$9.4 million, respectively, during the year

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ended September 30, 2020. Management intends to continue to focus on pursuing commercial real estate loan opportunities, both within our primary market area as well as through the single tenant net lease and SBA loan programs, to further diversify the loan portfolio.

Multi-family real estate loans totaled \$42.4 million, or 3.8% of total loans at September 30, 2020, compared to \$38.2 million, or 4.7% of total loans at September 30, 2019. These loans are primarily secured by apartment buildings and other multi-tenant developments in our primary market area.

Residential construction loans totaled \$9.4 million, or 0.8% of total loans at September 30, 2020, of which \$5.0 million were speculative construction loans. At September 30, 2019, residential construction loans totaled \$12.5 million, or 1.5% of total loans, of which \$4.5 million were speculative loans.

Commercial construction loans totaled \$6.9 million, or 0.6% of total loans, at September 30, 2020 compared to \$3.3 million, or 0.4% of total loans at September 30, 2019. The increase is due to new projects financed during the year.

Land and land development loans totaled \$9.4 million, or 0.9% of total loans at September 30, 2020, compared to \$10.5 million, or 1.3% of total loans at September 30, 2019. These loans are primarily secured by vacant lots to be improved for residential and nonresidential development, and farmland.

Commercial business loans, including in-market commercial business loans and SBA commercial business loans, totaled \$267.3 million, or 24.1% of total loans, at September 30, 2020 compared to \$73.0 million, or 8.9% of total loans, at September 30, 2019. In-market commercial business loans increased \$7.0 million during the year due primarily to increased commercial business lending opportunities in our primary market area. SBA commercial business loans increased \$187.3 million during the year primarily due to our participation in the SBA's PPP loan program as PPP loans totaled \$180.6 million at September 30, 2020. Management intends to continue to focus on pursuing commercial business loan opportunities, both within our primary market area as well as through various SBA loan programs, to further diversify the loan portfolio.

Consumer loans totaled \$50.6 million, or 4.6% of total loans, at September 30, 2020 compared to \$44.7 million, or 5.5% of total loans, at September 30, 2019. Consumer loans, including automobile loans, home equity lines of credit, unsecured loans and loans secured by deposits, has only slightly increased due to pay-downs, payoffs, charge-offs and management's decision to focus on other lending opportunities with less inherent credit risk.

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

(Dollars in thousands)	At September 30,			
	2020		2019	
	Amount	Percent	Amount	Percent
Real estate mortgage:				
Residential	\$ 191,781	17.29 %	\$ 197,472	24.08 %
Commercial	141,522	12.76	170,763	20.82
Single tenant net lease	334,636	30.16	223,392	27.24
SBA commercial real estate	55,508	5.00	46,123	5.62
Multi-family	42,368	3.82	38,226	4.66
Residential construction	9,361	0.84	12,545	1.53
Commercial construction	6,941	0.63	3,332	0.41
Land and land development	9,403	0.85	10,536	1.28
	<u>791,520</u>	<u>71.35</u>	<u>702,389</u>	<u>85.64</u>
Commercial business	60,513	5.45	53,557	6.53
SBA commercial business (1)	206,807	18.64	19,477	2.38
Consumer	50,576	4.56	44,661	5.45
Total loans	1,109,416	100.00 %	820,084	100.00 %
Deferred loan origination fees and costs, net	(2,327)		614	
Allowance for loan losses	(17,026)		(10,040)	
Loans, net	<u>\$ 1,090,063</u>		<u>\$ 810,658</u>	

(1) At September 30, 2020, includes PPP loans totalling \$180.6 million.

**Loan Maturity**

The following table sets forth certain information at September 30, 2020 regarding the dollar amount of loan principal repayments becoming due during the period indicated. The table does not include any estimate of prepayments which significantly shorten the average life of all loans and may cause our actual repayment experience to differ from that shown below. Demand loans having no stated schedule of repayments and no stated maturity are reported as due in one year or less.

Amounts due in:	At September 30, 2020				
	One Year or Less	More Than One Year to Five Years	More Than Five Years to Fifteen Years	More Than Fifteen Years	Total
(In thousands)					
Residential real estate (1)	\$ 22,906	\$ 45,996	\$ 93,963	\$ 71,284	\$ 234,149
Commercial real estate (2)	29,155	63,053	52,274	6,443	150,925
Single tenant net lease	34,478	137,200	162,402	556	334,636
SBA commercial real estate	1,642	7,626	22,064	24,176	55,508
Residential construction (3)	9,361	—	—	—	9,361
Commercial construction (3)	6,941	—	—	—	6,941
Commercial business	39,039	18,203	3,182	89	60,513
SBA commercial business	115,352	76,675	13,553	1,227	206,807
Consumer	9,701	16,308	17,282	7,285	50,576
Total	<u>\$ 268,575</u>	<u>\$ 365,061</u>	<u>\$ 364,720</u>	<u>\$ 111,060</u>	<u>\$ 1,109,416</u>

(1) Includes multifamily loans.

(2) Includes farmland, land and land development loans.

(3) Includes construction loans for which the Bank has committed to provide permanent financing.

**Fixed vs. Adjustable Rate Loans**

The following table sets forth the dollar amount of all loans at September 30, 2020 that are due after September 30, 2021, and have either fixed interest rates or adjustable interest rates. The amounts shown below exclude unearned loan origination fees.

(In thousands)	Fixed Rates	Adjustable Rates	Total
Residential real estate (1)	\$ 82,692	\$ 128,551	\$ 211,243
Commercial real estate (2)	36,500	85,270	121,770
Single tenant net lease	190,463	109,695	300,158
SBA commercial real estate	-	53,866	53,866
Commercial business	14,032	7,442	21,474
SBA commercial business	66,539	24,916	91,455
Consumer	5,062	35,813	40,875
Total	<u>\$ 395,288</u>	<u>\$ 445,553</u>	<u>\$ 840,841</u>

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

**Trading Account Securities.** Our trading account securities represent an investment in a managed brokerage account that invests in small and medium lot, investment grade municipal bonds. The brokerage account is managed by an investment advisory firm registered with the U.S. Securities and Exchange Commission. The Bank ceased its trading account securities activity and liquidated this portfolio as of June 30, 2018.

**Securities Available for Sale.** Our available for sale securities portfolio consists primarily of U.S. government agency and sponsored enterprises securities, mortgage backed securities and collateralized mortgage obligations issued by U.S. government agencies and sponsored enterprises, municipal bonds, privately-issued collateralized mortgage obligations and asset-backed securities, and pass-through asset-backed securities guaranteed by the SBA. Available for sale securities increased by \$24.7 million, from \$177.3 million at September 30, 2019 to \$202.0 million at September 30, 2020, due primarily to purchases of \$37.8 million and an increase in unrealized gains of \$4.8 million, partially offset by principal repayments of \$6.0 million, sales of \$3.2 million and maturities and calls of \$8.2 million.

**Securities Held to Maturity.** Our held to maturity securities portfolio consists of mortgage-backed securities issued by government sponsored enterprises and municipal bonds. Held to maturity securities decreased by \$234,000 from September 30, 2019 to September 30, 2020, due primarily to maturities and principal repayments.



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

(In thousands)	At September 30,					
	2020		2019		2018	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
<b>Securities available for sale:</b>						
Agency mortgage-backed securities	\$ 7,499	\$ 7,952	\$ 13,743	\$ 14,097	\$ 31,686	\$ 31,130
Agency CMO	9,398	9,805	8,834	9,048	10,754	10,441
Privately-issued CMO	886	958	1,242	1,382	1,434	1,579
Privately-issued asset-backed	884	960	1,022	1,178	1,538	1,884
SBA certificates	639	694	1,119	1,154	1,305	1,351
Municipal	168,472	181,596	141,995	150,443	137,144	137,988
Total	<u>\$ 187,778</u>	<u>\$ 201,965</u>	<u>\$ 167,955</u>	<u>\$ 177,302</u>	<u>\$ 183,861</u>	<u>\$ 184,373</u>
<b>Securities held to maturity:</b>						
Agency mortgage-backed securities	\$ 82	\$ 89	\$ 102	\$ 109	\$ 134	\$ 142
Municipal	2,020	2,296	2,234	2,561	2,473	2,754
Total	<u>\$ 2,102</u>	<u>\$ 2,385</u>	<u>\$ 2,336</u>	<u>\$ 2,670</u>	<u>\$ 2,607</u>	<u>\$ 2,896</u>

The following table sets forth the stated maturities and weighted average yields of debt securities at September 30, 2020. Weighted average yields on tax-exempt securities are presented on a tax equivalent basis using a federal marginal tax rate of 21.0%. Certain mortgage-backed securities and collateralized mortgage obligations have adjustable interest rates and will reprice annually within the various maturity ranges. These repricing schedules are not reflected in the table below. Weighted average yield calculations on investments available for sale do not give effect to changes in fair value that are reflected as a component of equity.

(Dollars in thousands)	One Year or Less		More than One Year to Five Years		More than Five Years to Ten Years		More than Ten Years		Total	
	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield
<b>Securities available for sale:</b>										
Agency mortgage-backed securities	\$ —	— %	\$ 19	5.69 %	\$ 1,457	3.47 %	\$ 6,476	3.22 %	\$ 7,952	3.27 %
Agency CMO	—	—	—	—	4,054	2.83	5,751	2.12	9,805	2.41
Privately-issued CMO	—	—	—	—	—	—	958	4.45	958	4.45
Privately-issued ABS	—	—	—	—	446	1.23	514	19.23	960	10.86
SBA certificates	—	—	—	—	694	3.99	—	—	694	3.99
Municipal	4,933	4.68	31,229	3.44	29,605	4.34	115,829	3.89	181,596	3.91
Total	<u>\$ 4,933</u>	4.68 %	<u>\$ 31,248</u>	3.44 %	<u>\$ 36,256</u>	4.09 %	<u>\$ 129,528</u>	3.85 %	<u>\$ 201,965</u>	3.85 %
<b>Securities held to maturity:</b>										
Agency mortgage-backed securities	\$ —	— %	\$ —	— %	\$ 59	5.28 %	\$ 23	2.25 %	\$ 82	4.43 %
Municipal	247	6.54	1,019	6.48	683	5.64	71	5.56	2,020	6.17
Total	<u>\$ 247</u>	6.54 %	<u>\$ 1,019</u>	6.48 %	<u>\$ 742</u>	5.61 %	<u>\$ 94</u>	4.74 %	<u>\$ 2,102</u>	6.10 %

**Deposits.** Deposit accounts, generally obtained from individuals and businesses throughout our primary market area, are our primary source of funds for lending and investments. Our deposit accounts are comprised of noninterest-bearing accounts, interest-bearing savings, checking and money market accounts and time deposits. Deposits increased \$213.7 million from \$834.4 million at September 30, 2019 to \$1.05 billion at September 30, 2020. The Bank recognized increases in money market deposit accounts of \$22.6 million, noninterest-bearing checking accounts of \$69.6 million, retail time deposits of \$22.0 million, interest-bearing checking accounts of \$44.8 million and savings accounts of \$22.2 million, when comparing the two years. Brokered certificates of deposit totaled \$54.7 million at September 30, 2020 compared to \$99.7 million at September 30, 2019. Reciprocal time deposits totaled \$77.4 million at September 30, 2020. We had no reciprocal time deposits at September 30, 2019. We have continued to promote relationship oriented

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deposit accounts but at times also utilize brokered certificates of deposit and reciprocal time deposits as a lower cost alternative to retail time deposits. In addition, we have continued to develop and promote cash management services including sweep accounts and remote deposit capture in order to increase the level of commercial deposit accounts. We believe that the development and promotion of these products has made us more competitive in attracting commercial deposits during recent periods.

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

(In thousands)	At September 30,		
	2020	2019	2018
Non-interest-bearing demand deposits	\$ 242,673	\$ 173,072	\$ 167,705
NOW accounts	218,581	173,746	173,543
Money market accounts	143,867	121,281	107,124
Savings accounts	142,609	120,393	120,995
Retail time deposits	168,276	146,227	123,007
Brokered time deposits	54,688	99,665	118,738
Reciprocal time deposits	77,382	—	—
Total	<u>\$ 1,048,076</u>	<u>\$ 834,384</u>	<u>\$ 811,112</u>

The following table indicates the amount of time deposits, by account, that are in excess of the FDIC insurance limit (currently \$250,000) by time remaining until maturity as of September 30, 2020.

(In thousands)	Amount
Three months or less	\$ 9,352
Over three through six months	6,053
Over six through twelve months	7,843
Over twelve months	10,377
Total	<u>\$ 33,625</u>

Our uninsured deposits, which are the portion of deposit accounts that exceed the FDIC insurance limit (currently \$250,000), were approximately \$310.1 million and \$214.0 million at September 30, 2020 and 2019, respectively. These amounts were estimated based on the same methodologies and assumptions used for regulatory reporting purposes.

**Borrowings.** We use borrowings from the FHLB consisting of advances and borrowings under a line of credit arrangement to supplement our supply of funds for loans and investments. The outstanding balance of borrowings from the FHLB increased \$88.4 million, from \$222.5 million at September 30, 2019 to \$310.9 million at September 30, 2020. FHLB borrowings are primarily used to fund loan demand and to purchase available for sale securities.

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

(Dollars in thousands)	Year Ended September 30,		
	2020	2019	2018
Maximum amount of FHLB borrowings outstanding at any month-end during period	\$ 332,152	\$ 222,544	\$ 159,863
Average FHLB borrowings outstanding during period	260,222	143,480	121,691
Weighted average interest rate during period	1.29 %	1.87 %	1.66 %
Balance outstanding at end of period	\$ 310,858	\$ 222,544	\$ 90,000
Weighted average interest rate at end of period	1.10 %	1.64 %	1.63 %

On September 20, 2018, the Company entered into a subordinated note purchase agreement in the principal amount of \$20 million. The subordinated note initially bears a fixed interest rate of 6.02% per year through September 30, 2023, and thereafter a floating rate, reset quarterly, equal to the three-month LIBOR rate plus 310 basis points. All interest is payable quarterly and the subordinated note is scheduled to mature on September 30, 2028. The subordinated note is an unsecured subordinated obligation of the Company and may be repaid in whole or in part, without penalty, on or after September 30, 2023. The subordinated note is intended to qualify as

Tier 2 capital for the Company under regulatory guidelines. The subordinated note had a carrying value of \$19.8 million, net of unamortized debt issuance costs of \$203,000, at September 30, 2020.

The Bank has entered into federal funds purchased line of credit facilities with three other financial institutions that established lines of credit not to exceed the lesser of \$20 million or 25% of the Bank's equity capital, excluding reserves, \$22 million and \$15 million, respectively. At September 30, 2020, the Bank did not have any outstanding federal funds purchased under these lines of credit.

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

**Stockholders' Equity.** Stockholders' equity increased \$36.2 million, from \$121.1 million at September 30, 2019 to \$157.3 million at September 30, 2020. The increase is due to retained net income of \$31.9 million during the year ended September 30, 2020 and a \$3.9 million increase in accumulated other comprehensive income due to an increase in the market value of available-for-sale securities.

### Results of Operations for the Years Ended September 30, 2020, 2019 and 2018

**Overview.** The Company reported net income of \$33.4 million (\$14.04 per common share diluted) for the year ended September 30, 2020, compared to net income of \$16.2 million (\$6.82 per common share diluted) for the year ended September 30, 2019. The increase in net income was due to increases in net interest income of \$9.3 million and noninterest income of \$87.3 million, partially offset by an increase in noninterest expense of \$63.4 million.

Net income was \$16.2 million (\$6.82 per common share diluted) for the year ended September 30, 2019 compared to net income of \$10.9 million (\$4.60 per common share diluted) for the year ended September 30, 2018. The increase in net income for 2019 compared to 2018 was due to increases in net interest income of \$4.3 million and noninterest income of \$30.6 million, partially offset by an increase in noninterest expense of \$29.4 million.

**Net Interest Income.** For the year ended September 30, 2020, net interest income increased \$9.3 million or 23.2%, as compared to 2019, primarily as the result of an increase in the average balance of interest earning assets. The interest rate spread, the difference between the average tax-equivalent yield on interest-earning assets and the average cost of interest-bearing liabilities, decreased from 3.63% for 2019 to 3.56% for 2020 due primarily to a decrease in the average yield on interest-bearing assets from 4.91% for 2019 to 4.52% for 2020. This was partially offset by a decrease in the average cost of interest-bearing liabilities from 1.28% for 2019 to 0.96% for 2020.

For the year ended September 30, 2019, net interest income increased \$4.3 million or 11.9% as compared 2018, primarily as the result of an increase in the average balance of interest earning assets. The interest rate spread decreased from 3.82% for 2018 to 3.63% for 2019 due primarily to an increase in the average cost of interest-bearing liabilities from 0.85% for 2018 to 1.28% for 2019 and an increase in average interest-bearing liabilities from \$743.3 million for 2018 to \$849.6 million for 2019, which more than offset the effect of an increase in the average yield on interest-bearing assets from 4.67% for 2018 to 4.91% for 2019 and an increase in the average balance of interest-bearing assets from \$929.2 million for 2018 to \$1.06 billion for 2019.

For the year ended September 30, 2020, total interest income increased \$8.9 million, or 17.5%, as compared to 2019. The increase in total interest income is due primarily to increases in the average balance of interest earning assets of \$290.4 million, from \$1.06 billion for 2019 to \$1.35 billion for 2020, partially offset by a decrease in the average tax-equivalent yield on interest-earning assets, from 4.91% for 2019 to 4.52% for 2020. The increase in the average balance of interest-earning assets primarily relates to increases in the average balance of loans of \$283.7 million. For the year ended September 30, 2019, total interest income increased \$8.8 million, or 21.0%, from \$42.2 million for the year ended September 30, 2018 to \$51.0 million for the year ended September 30, 2019. The increase in total interest income is due primarily to increases in the average balance of interest earning assets of \$132.4 million, from \$929.2 million for 2018 to \$1.06 billion for 2019, and the average tax-equivalent yield on interest-earning assets, from 4.67% for 2018 to 4.91% for 2019. The increase in the average balance of interest-earning assets primarily relates to increases in the average balance of loans of \$130.2 million.

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Interest income on loans increased \$9.7 million, or 22.7%, from \$42.7 million for 2019 to \$52.4 million for 2020, due primarily to an increase in the average balance of loans outstanding of \$283.7 million, from \$828.8 million for 2019 to \$1.11 billion for 2020, partially offset by a decrease in the average tax-equivalent yield on loans from 5.16% for 2019 to 4.72% for 2020. Excluding PPP loans, which have a fixed interest rate of 1.00%, the average tax-equivalent yield on loans decreased from 5.16% for 2019 to 4.89% for 2020 and the average outstanding balance of loans increased \$209.8 million for 2020 compared to 2019. In 2019, interest income on loans increased \$8.6 million, or 25.3%, from \$34.1 million for 2018 to \$42.7 million for 2019, due primarily to an increase in the average balance of loans outstanding of \$130.2 million, from \$698.6 million for 2018 to \$828.8 million for 2019, and an increase in the average tax-equivalent yield on loans from 4.89% for 2018 to 5.16% for 2019. The increase in the average balance of loans outstanding for both 2020 and 2019 is due primarily to an increase in commercial real estate mortgage loans, as a result of increased SBA loan originations and single tenant net lease program originations.

Interest income on investment securities decreased \$301,000, or 4.4%, from \$6.8 million for 2019 to \$6.5 million for 2020, primarily due to a decrease in the average balance of investment securities of \$3.1 million, from \$182.0 million for 2019 to \$178.9 million for 2020. The average tax equivalent yield on investment securities decreased from 4.32% for 2019 to 4.29% for 2020. In 2019, interest income on investment securities decreased \$402,000, or 5.6%, from \$7.2 million for 2018 to \$6.8 million for 2019, primarily due to a decrease in the average balance of investment securities of \$10.6 million, from \$192.6 million for 2018 to \$182.0 million for 2019. The average tax equivalent yield on investment securities decreased slightly from 4.34% for 2018 to 4.32% for 2019 due primarily to the decrease in the federal marginal income tax rate from a blended rate of 24.5% for 2018 to a rate of 21.0% for 2019.

Total interest expense decreased \$368,000, or 3.4%, due primarily to a decrease in the average cost of funds from 1.28% for 2019 to 0.96% for 2020, partially offset by an increase in the average balance of interest-bearing liabilities of \$252.4 million, from \$849.6 million for 2019 to \$1.10 billion for 2020. The average balance of interest-bearing deposits increased \$73.8 million, or 10.8%, from \$685.4 million for 2019 to \$759.2 million for 2020, and the average cost of funds for deposits was 1.01% for 2019 compared to 0.75% for 2020. The average balance of borrowings from the Federal Home Loan Bank increased \$116.7 million, or 81.3%, from \$143.5 million for 2019 to \$260.2 million for 2020, and the average cost of Federal Home Loan Bank borrowings decreased from 1.87% for 2019 to 1.29% for 2020. Average other borrowings, which are comprised of subordinated debt, increased from \$19.7 million for 2019 to \$19.8 million for 2020. The average cost of other borrowings increased from 6.48% for 2019, net of amortization of debt issuance costs, to 6.63% for 2020, net of amortization of debt issuance costs. In 2019, total interest expense increased \$4.6 million, or 72.5%, due primarily to an increase in the average balance of interest-bearing liabilities of \$106.3 million, from \$743.3 million for 2018 to \$849.6 million for 2019, and an increase in the average cost of funds from 0.85% for 2018 to 1.28% for 2019. The average balance of interest-bearing deposits increased \$65.7 million, or 10.6%, from \$619.7 million for 2018 to \$685.4 million for 2019, and the average cost of funds for deposits was 0.69% for 2018 compared to 1.01% for 2019. The average balance of borrowings from the Federal Home Loan Bank increased \$21.8 million, or 17.9%, from \$121.7 million for 2018 to \$143.5 million for 2019, and the average cost of funds for Federal Home Loan Bank borrowings was 1.66% for 2018 compared to 1.87% for 2019. Average other borrowings, which are comprised of subordinated debt, increased from \$593,000 for 2018 to \$19.7 million for 2019. The average cost of other borrowings increased from 5.56% for 2018, net of amortization of debt issuance costs, to 6.48% for 2019, net of amortization of debt issuance costs.

**Average Balances and Yields.**

The following tables present information regarding average balances of assets and liabilities, the total dollar amounts of interest income and dividends from average interest-earning assets, the total dollar amounts of interest expense on average interest-bearing liabilities, and the resulting annualized average yields and costs. The yields and costs for the periods indicated are derived by dividing income or expense by the average balances of assets or liabilities, respectively, for the periods presented. Nonaccrual loans are included in average balances only. Loan fees are included in interest income on loans and totaled \$1.8 million, \$753,000 and \$723,000 for 2020, 2019 and 2018, respectively. Tax exempt income on loans and investment securities for the 2020, 2019 and 2018 periods has been adjusted to a tax equivalent basis using a federal marginal tax rate of 21.0%, 21.0% and 24.5%, respectively.

(Dollars in thousands)	Year Ended September 30,								
	2020			2019			2018		
	Average Balance	Interest and Dividends	Yield/ Cost	Average Balance	Interest and Dividends	Yield/ Cost	Average Balance	Interest and Dividends	Yield/ Cost
<b>Assets:</b>									
Interest-bearing deposits with banks	\$ 44,883	\$ 417	0.93 %	\$ 39,434	\$ 856	2.17 %	\$ 28,863	\$ 436	1.51 %
Loans, excluding PPP loans	1,038,638	50,777	4.89	828,809	42,765	5.16	698,638	34,130	4.89
PPP loans	73,910	1,690	2.29	—	—	0.00	—	—	0.00
Investment securities - taxable	45,991	2,075	4.51	62,934	2,769	4.40	90,585	3,650	4.03
Investment securities - non taxable	132,881	5,599	4.21	119,032	5,101	4.29	101,978	4,703	4.61
FRB and FHLB stock	15,781	617	3.91	11,477	643	5.60	9,183	465	5.06
Total interest-earning assets	1,352,084	61,175	4.52	1,061,686	52,134	4.91	929,247	43,384	4.67
Non-interest-earning assets	114,137	—	—	76,449	—	—	56,921	—	—
Total assets	\$ 1,466,221	—	—	\$ 1,138,135	—	—	\$ 986,168	—	—
<b>Liabilities and equity:</b>									
NOW accounts	\$ 197,530	\$ 514	0.26	\$ 177,316	\$ 481	0.27	\$ 185,026	\$ 483	0.26
Money market deposit accounts	121,588	844	0.69	115,648	1,472	1.27	89,256	624	0.70
Savings accounts	128,004	93	0.07	119,966	93	0.08	110,289	85	0.08
Time deposits	312,048	4,208	1.35	272,433	4,898	1.80	235,100	3,087	1.31
Total interest-bearing deposits	759,170	5,659	0.75	685,363	6,944	1.01	619,671	4,279	0.69
Repurchase agreements	—	—	0.00	1,075	3	0.28	1,350	3	0.22
Federal funds purchased	527	3	0.57	33	1	3.03	—	—	0.00
Borrowings from FHLB	260,222	3,345	1.29	143,480	2,681	1.87	121,691	2,022	1.66
Federal Reserve PPPLF	62,401	220	0.35	—	—	0.00	—	—	0.00
Subordinated debt and other borrowings	19,760	1,311	6.63	19,692	1,277	6.48	593	33	5.56
Total interest-bearing liabilities	1,102,080	10,538	0.96	849,643	10,906	1.28	743,305	6,337	0.85
Non-interest-bearing deposits	201,175	—	—	166,719	—	—	137,742	—	—
Other non-interest-bearing liabilities	32,182	—	—	13,159	—	—	8,760	—	—
Total liabilities	1,335,437	—	—	1,029,521	—	—	899,807	—	—
Total stockholders' equity	130,986	—	—	107,865	—	—	95,889	—	—
Noncontrolling interests in subsidiary	(202)	—	—	749	—	—	472	—	—
Total equity	130,784	—	—	108,614	—	—	96,361	—	—
Total liabilities and equity	\$ 1,466,221	—	—	\$ 1,138,135	—	—	\$ 986,168	—	—
Net interest income (taxable equivalent basis)	—	50,637	—	—	41,228	—	—	37,047	—
Less: taxable equivalent adjustment	—	(1,246)	—	—	(1,139)	—	—	(1,225)	—
Net interest income	—	\$ 49,391	—	—	\$ 40,089	—	—	\$ 35,822	—
Interest rate spread (taxable equivalent basis)	—	—	3.56 %	—	—	3.63 %	—	—	3.82 %
Net interest margin (taxable equivalent basis)	—	—	3.75	—	—	3.88	—	—	3.99
Average interest-earning assets to average interest-bearing liabilities	—	—	122.68	—	—	124.96	—	—	125.02

**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.

(In thousands)	Year Ended September 30, 2020 Compared to Year Ended September 30, 2019			Year Ended September 30, 2019 Compared to Year Ended September 30, 2018		
	Increase (Decrease) Due to			Increase (Decrease) Due to		
	Volume	Rate	Net	Volume	Rate	Net
<b>Interest income:</b>						
Interest-bearing deposits with banks	\$ 84	\$ (523)	\$ (439)	\$ 194	\$ 225	\$ 419
Loans	13,973	(4,271)	9,702	6,574	2,062	8,636
Investment securities - taxable	(754)	60	(694)	(1,165)	284	(881)
Investment securities - non taxable	599	(101)	498	752	(354)	398
FRB and FHLB stock	204	(230)	(26)	122	56	178
Total interest-earning assets	14,106	(5,065)	9,041	6,477	2,273	8,750
<b>Interest expense:</b>						
Deposits	593	(1,878)	(1,285)	577	2,088	2,665
Repurchase agreements	(3)	—	(3)	—	—	—
Federal funds purchased	9	(7)	2	1	—	1
Borrowings from FHLB	1,835	(1,171)	664	382	277	659
Federal Reserve PPPLF	220	—	220	—	—	—
Other borrowings (subordinated debt)	4	30	34	1,244	—	1,244
Total interest-bearing liabilities	2,658	3,026	(368)	2,204	2,365	4,569
Net increase (decrease) in net interest income (taxable equivalent basis)	<u>\$ 11,448</u>	<u>\$ (2,039)</u>	<u>\$ 9,409</u>	<u>\$ 4,273</u>	<u>\$ (92)</u>	<u>\$ 4,181</u>

**Provision for Loan Losses.** The provision for loan losses increased \$6.5 million, or 444.2%, from \$1.5 million for the year ended September 30, 2019 to \$8.0 million for the year ended September 30, 2020 due primarily to an increase in total loans of \$289.3 million, an increase in nonperforming loans for the year and changes to qualitative factors within the allowance for loan losses calculation related to economic uncertainties surrounding the COVID-19 pandemic. Net charge-offs in 2020 were \$976,000 compared to \$746,000 for 2019 and nonperforming loans increased \$8.4 million to \$13.6 million at September 30, 2020. In 2019, the provision for loan losses increased \$110,000, or 8.1%, from \$1.4 million for the year ended September 30, 2018 to \$1.5 million for the year ended September 30, 2019 due primarily to an increase in the total loans of \$106.7 million. Net charge-offs in 2019 were \$746,000 compared to \$122,000 for 2018 and nonperforming loans increased \$907,000 to \$5.2 million at September 30, 2019. The consistent application of management's allowance for loan losses methodology resulted in an increase in the level of the allowance for loan losses for 2020. See "Analysis of Nonperforming and Classified Assets" included herein. It is management's assessment that the allowance for loan losses at September 30, 2020 was adequate and appropriately reflected the probable incurred losses in the Bank's loan portfolio at that date.

**Noninterest Income.** Noninterest income increased \$87.2 million, or 199.0%, from \$43.9 million for the year ended September 30, 2019 to \$131.1 million for the year ended September 30, 2020. The increase was due primarily to an increase in mortgage banking income of \$84.8 million. The increase in mortgage banking income is due to production from the secondary-market residential mortgage lending segment that commenced operations in April 2018. Net gains on the sale of loans guaranteed by the SBA also increased \$1.1 million for 2020. In 2019, noninterest income increased \$30.6 million, or 229.9%, from \$13.3 million for the year ended September 30, 2018 to \$43.9 million for the year ended September 30, 2019. The increase was due primarily to increases in mortgage banking income and real estate lease income of \$30.7 million and \$589,000, respectively. These increases were partially offset by a decrease in the net gain on sale of loans guaranteed by the SBA of \$924,000. The increase in mortgage banking income is due to production from the secondary-market residential mortgage lending segment that commenced operations in April 2018. The increase in real estate lease income for 2019 is due to the acquisition in October 2018 of a commercial office building that now serves as the Company's new corporate headquarters, a portion of which is leased to other tenants.

**Noninterest Expense.** Noninterest expenses increased \$63.4 million, or 101.6%, from \$62.4 million for the year ended September 30, 2019 to \$125.8 million for the year ended September 30, 2020. The increase was due primarily to increases in compensation and benefits, advertising expense and other operating expenses of \$50.0 million, \$4.6 million and \$4.2 million, respectively. The increase in compensation and benefits expense is attributable to the addition of new employees primarily to support the growth of the Company's mortgage banking and SBA lending activities, routine salary and benefits adjustments, and increased incentive compensation as a result of the Company's performance. The increases in advertising expense and other operating expenses are primarily due to the mortgage banking segment. In 2019, noninterest expenses increased \$29.4 million, or 89.0%, from \$33.0 million for the year ended September 30, 2018 to \$62.4 million for the year ended September 30, 2019. The increase was due primarily to increases in compensation and benefits, occupancy and equipment, advertising and other operating expenses of \$23.2 million, \$2.5 million, \$1.9 million and \$2.0 million, respectively. The increase in compensation and benefits expense is attributable to the addition of new employees to support the growth of the Company, including its mortgage banking and SBA lending activities, and normal salary and benefits adjustments. The increase in occupancy and equipment expense is primarily attributable to increases in lease and rental, depreciation and equipment, and software licensing expenses that are all primarily related to the mortgage banking segment. The increases in advertising and other operating expenses are also primarily due to the expansion of the mortgage banking segment.

**Income Tax Expense.** The Company recognized income tax expense of \$12.7 million for the year ended September 30, 2020, compared to \$3.1 million for the year ended September 30, 2019 and \$2.4 million for the year ended September 30, 2018. The effective tax rate was 27.1%, 15.4% and 16.4%, for the years ended September 30, 2020, 2019 and 2018, respectively. The increase in the effective tax rate for 2020 compared to 2019 is primarily due to increases in pre-tax income and nondeductible executive compensation. The decrease in the effective tax rate for 2019 compared to 2018 is due primarily to a reduction in the Company's statutory federal income tax rate from a blended rate of 24.5% for 2018 to 21.0% for 2019, as a result of the Tax Act enacted in December 2017, and net income attributable to noncontrolling interests of \$818,000 and \$1.4 million for the years ended September 30, 2019 and 2018, respectively, which is pass-through income not subject to income tax at the entity level.

## **Risk Management**

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

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

When a borrower fails to make a required loan payment, we take a number of steps to have the borrower cure the delinquency and restore the loan to current status. When the loan becomes 15 days past due, a late notice is sent to the borrower and a late fee is

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

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

Real estate that we acquire as a result of foreclosure or by deed-in-lieu of foreclosure is classified as other real estate owned until it is sold. When property is acquired it is recorded at its fair market value, less estimated costs to sell, at the date of foreclosure. Holding costs and declines in fair value after acquisition of the property result in charges against income. Former bank premises held for sale are also included in other real estate owned, but are not included in the nonperforming asset totals below.

The following table provides information with respect to our nonperforming assets at the dates indicated. Included in nonperforming loans are loans for which the Bank has modified the repayment terms, and therefore are considered to be TDRs. The Bank had 22 TDRs, totaling \$3.1 million, which were performing according to their terms and on accrual status as of September 30, 2020.

(Dollars in thousands)	At September 30,				
	2020	2019	2018	2017	2016
Nonaccrual loans	\$ 13,615	\$ 5,168	\$ 4,182	\$ 3,823	\$ 3,875
Accruing loans past due 90 days or more	—	12	91	93	22
Total nonperforming loans	13,615	5,180	4,273	3,916	3,897
Performing TDRs	3,069	7,265	9,145	7,041	7,486
Foreclosed real estate	—	—	103	852	519
Other nonperforming assets	—	—	—	—	—
Total nonperforming assets	\$ 16,684	\$ 12,445	\$ 13,521	\$ 11,809	\$ 11,902
Nonaccrual loans to total loans	1.23 %	0.63 %	0.59 %	0.64 %	0.74 %
Total nonperforming loans to total loans	1.23 %	0.63 %	0.60 %	0.66 %	0.74 %
Total nonperforming loans to total assets	0.77	0.42	0.41	0.44	0.49
Total nonperforming assets to total assets	0.95	1.02	1.31	1.33	1.49

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

Classified assets includes loans that are classified due to factors other than payment delinquencies, such as lack of current financial statements and other required documentation, insufficient cash flows or other deficiencies, and, therefore, are not included as



nonperforming assets. Other than as disclosed in the above tables, there are no other loans where management has serious doubts about the ability of the borrowers to comply with the present loan repayment terms. Classified assets also include investment securities that have experienced a downgrade of the security's credit quality rating by various rating agencies.

At September 30, 2020, the Company held twelve privately-issued CMO and ABS securities with an aggregate amortized cost of \$918,000 and fair value of \$986,000 that have been downgraded to a substandard regulatory classification due to a downgrade of the security's credit quality rating by various rating agencies. Based on an independent third party analysis, the Bank expects to collect the contractual principal and interest cash flows for these securities and, as a result, no other-than-temporary impairment has been recognized on the privately-issued CMO or ABS portfolios. At September 30, 2019, the Company held twelve privately-issued CMO and ABS securities with an aggregate carrying value of \$1.1 million and fair value of \$1.2 million that had been downgraded to a substandard regulatory classification due to a downgrade of the security's credit quality rating by various rating agencies.

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

Our methodology for assessing the appropriateness of the allowance for loan losses consists of a specific allowance for impaired loans and a general allowance on the remainder of the loan portfolio. Although we determine the amount of each element of the allowance separately, the entire allowance for loan losses is available to absorb losses in the loan portfolio.

**Specific Allowance for Impaired Loans.** We consider loans classified as substandard or doubtful and TDRs to be impaired and establish a specific allowance when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of the loan.

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

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

(Dollars in thousands)	At September 30,					
	2020			2019		
	Amount	% of Allowance to Total Allowance	% of Loans in Category to Total Loans	Amount	% of Allowance to Total Allowance	% of Loans in Category to Total Loans
Residential real estate	\$ 1,255	7.37 %	17.29 %	\$ 317	3.16 %	24.08 %
Commercial real estate	3,058	17.96	12.76	2,540	25.30	20.82
Single tenant net lease	3,017	17.72	30.16	1,675	16.68	27.24
SBA commercial real estate	4,154	24.40	5.00	2,293	22.84	5.62
Multi-family	772	4.53	3.82	478	4.76	4.66
Residential construction	243	1.43	0.84	248	2.47	1.53
Commercial construction	181	1.06	0.63	67	0.67	0.41
Land and land development	243	1.43	0.85	209	2.08	1.28
Commercial business	1,449	8.51	5.45	889	8.85	6.53
SBA commercial business	1,539	9.04	18.64	750	7.47	2.38
Consumer	1,115	6.55	4.56	574	5.72	5.45
Total allowance for loan losses	\$ 17,026	100.00 %	100.00 %	\$ 10,040	100.00 %	100.00 %

Although we believe that we use the best information available to establish the allowance for loan losses, future adjustments to the allowance for loan losses may be necessary and our results of operations could be adversely affected if circumstances differ substantially from the assumptions used in making the determinations. The banking regulators may require us to increase our allowance

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for loan losses based on judgments different from ours. In addition, because future events affecting borrowers and collateral cannot be predicted with certainty, there can be no assurance that the existing allowance for loan losses is adequate or that increases will not be necessary should the quality of any loans deteriorate as a result of the factors discussed above. Any material increase in the allowance for loan losses may adversely affect our financial condition and results of operations.

*Analysis of Loan Loss Experience.* The following table sets forth an analysis of the allowance for loan losses for the periods indicated.

(Dollars in thousands)	Year Ended September 30,		
	2020	2019	2018
Allowance for loan losses at beginning of period	\$ 10,040	\$ 9,323	\$ 8,092
Provision for loan losses	7,962	1,463	1,353
Charge offs:			
Residential real estate	36	21	98
Commercial real estate	102	—	—
Single tenant net lease	—	—	—
SBA commercial real estate	360	574	—
Multi-family	—	—	—
Residential construction	—	—	—
Commercial construction	—	—	—
Land and land development	—	—	—
Commercial business	38	8	—
SBA commercial business	396	71	—
Consumer	238	174	223
Total charge-offs	1,170	848	321
Recoveries:			
Residential real estate	29	30	106
Commercial real estate	6	2	—
Single tenant net lease	—	—	—
SBA commercial real estate	46	—	—
Multi-family	—	—	—
Residential construction	—	—	—
Commercial construction	—	—	—
Land and land development	6	—	—
Commercial business	31	13	12
SBA commercial business	76	—	—
Consumer	—	57	81
Total recoveries	194	102	199
Net charge-offs	976	746	122
Allowance for loan losses at end of period	\$ 17,026	\$ 10,040	\$ 9,323
Allowance for loan losses to nonaccrual loans	125.05 %	194.27 %	222.93 %
Allowance for loan losses to nonperforming loans	125.05 %	193.82 %	218.18 %
Allowance for loan losses to total loans outstanding at the end of the period	1.54	1.22	1.31
Allowance for loan losses to total loans, excluding PPP loans at the end of the period	1.84	1.22	1.31

The following table sets forth the ratio of net charge offs to average loans outstanding for the periods indicated.

Loan category	For the Year Ended September 30,		
	2020	2019	2018
Residential real estate	0.00 %	0.00 %	0.00 %
Commercial real estate	0.06	0.00	0.00
Single tenant net lease	0.00	0.00	0.00
SBA commercial real estate	0.58	1.48	0.00
Multi-family	0.00	0.00	0.00
Residential construction	0.00	0.00	0.00
Commercial construction	0.00	0.00	0.00
Land and land development	(0.06)	0.00	0.00
Commercial business	0.01	(0.01)	(0.02)
SBA commercial business	0.34	0.43	0.00
Consumer	0.47	0.28	0.39
Total loans	0.09 %	0.09 %	0.02 %

**Interest Rate Risk Management.** We manage the interest rate sensitivity of our interest-bearing liabilities and interest-earning assets in an effort to minimize the adverse effects of changes in the interest rate environment. Deposit accounts typically react more quickly to changes in market interest rates than mortgage loans because of the shorter maturities of deposits. As a result, sharp increases in interest rates may adversely affect our earnings while decreases in interest rates may beneficially affect our earnings. To reduce the potential volatility of our earnings, we have sought to improve the match between asset and liability maturities and rates, while maintaining an acceptable interest rate spread. Our strategy for managing interest rate risk emphasizes: adjusting the maturities of borrowings; adjusting the investment portfolio mix and duration and generally selling in the secondary market substantially all newly originated, fixed rate one-to four-family residential real estate loans. We currently do not participate in hedging programs, interest rate swaps or other activities involving the use of derivative financial instruments, other than the use of forward mortgage loan sale contracts in connection with our mortgage banking activities. See Note 21 of the Notes to Consolidated Financial Statements beginning on page F-1 of this annual report for additional information regarding derivative financial instruments.

We have an Asset/Liability Management Committee, which includes members of management selected by the Board of Directors, to communicate, coordinate and control all aspects involving asset/liability management. The committee establishes and monitors the volume, maturities, pricing and mix of assets and funding sources with the objective of managing assets and funding sources to provide results that are consistent with liquidity, growth, risk limits and profitability goals.

Our goal is to manage asset and liability positions to moderate the effects of interest rate fluctuations on net interest income and net income.

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

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Results of our simulation modeling, which assumes an immediate and sustained parallel shift in market interest rates, project that the Company's net interest income could change as follows over a one-year horizon, relative to our base case scenario, based on September 30, 2020 and 2019 financial information.

Immediate Change in the Level of Interest Rates	At September 30, 2020		At September 30, 2019	
	One Year Horizon		One Year Horizon	
	Dollar Change	Percent Change	Dollar Change	Percent Change
	<i>(Dollars in thousands)</i>			
300bp	\$ (2,493)	(5.30)%	\$ (4,945)	(12.43)%
200bp	(593)	(1.26)	(2,197)	(5.52)
100bp	942	2.00	(993)	(2.50)
Static	—	—	—	—
(100)bp	(1,132)	(2.40)	750	1.89

At September 30, 2020, our simulated exposure to an increase in interest rates shows that an immediate and sustained increase in rates of 1.00% will increase our net interest income by \$942,000 or 2.00% over a one year horizon compared to a flat interest rate scenario. Furthermore, rate increases of 2.00% and 3.00% would cause net interest income to decrease by 1.26% and 5.30%, respectively. An immediate and sustained decrease in rates of 1.00% will decrease our net interest income by \$1.1 million, or 2.40%, over a one year horizon compared to a flat interest rate scenario.

The Company also has longer term interest rate risk exposure, which may not be appropriately measured by Net Interest Income at Risk modeling, and therefore uses an Economic Value of Equity ("EVE") interest rate sensitivity analysis in order to evaluate the impact of its interest rate risk on earnings and capital. This is measured by computing the changes in net EVE for its cash flows from assets, liabilities and off-balance sheet items in the event of a range of assumed changes in market interest rates. EVE modeling involves discounting present values of all cash flows for on and off balance sheet items under different interest rate scenarios and provides no effect given to any steps that management might take to counter the effect of the interest rate movements. The discounted present value of all cash flows represents the Company's EVE and is equal to the market value of assets minus the market value of liabilities, with adjustments made for off-balance sheet items. The amount of base case EVE and its sensitivity to shifts in interest rates provide a measure of the longer term re-pricing and option risk in the balance sheet.

Results of our simulation modeling, which assumes an immediate and sustained parallel shift in market interest rates, project that the Company's EVE could change as follows, relative to our base case scenario, based on September 30, 2020 and 2019 financial information.

Immediate Change in the Level of Interest Rates	At September 30, 2020				
	Economic Value of Equity			Economic Value of Equity as a	
	Dollar Amount	Dollar Change	Percent Change	Percent of Present Value of Assets EVE Ratio	Change
	<i>(Dollars in thousands)</i>				
300bp	\$ 235,115	\$ (15,327)	(6.12)%	14.04 %	31 bp
200bp	242,357	(8,085)	(3.23)	14.06	33 bp
100bp	247,264	(3,178)	(1.27)	13.94	21 bp
Static	250,442	—	—	13.73	— bp
(100)bp	265,361	14,919	5.96	14.23	50 bp

Immediate Change in the Level of Interest Rates	At September 30, 2019				
	Economic Value of Equity			Economic Value of Equity as a	
	Dollar	Dollar	Percent	Percent of Present Value of Assets	
	Amount	Change	Change	EVE Ratio	Change
			<i>(Dollars in thousands)</i>		
300bp	\$ 166,249	\$ (55,015)	(24.86)%	14.99 %	(264)bp
200bp	190,042	(31,222)	(14.11)	16.45	(118)bp
100bp	206,390	(14,874)	(6.72)	17.14	(49)bp
Static	221,264	—	—	17.63	— bp
(100)bp	230,357	9,093	4.11	17.68	5 bp

The previous table indicates that at September 30, 2020, the Company would expect a decrease in its EVE in the event of a sudden and sustained 100, 200 and 300 basis point increase in prevailing interest rates, and an increase in its EVE in the event of a sudden and sustained 100 basis point decrease in prevailing interest rates.

The models are driven by expected behavior in various interest rate scenarios and many factors besides market interest rates affect the Company's net interest income and EVE. For this reason, we model many different combinations of interest rates and balance sheet assumptions to understand its overall sensitivity to market interest rate changes. Therefore, as with any method of measuring interest rate risk, certain shortcomings are inherent in the method of analysis presented in the foregoing tables and it is recognized that the model outputs are not guarantees of actual results. 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 time deposits could deviate significantly from those assumed in calculating the table.

**Liquidity Management.** Liquidity is the ability to meet current and future short-term financial obligations. Our primary sources of funds consist of deposit inflows, loan repayments, maturities and sales of investment securities and borrowings from the FHLB. While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit flows and mortgage prepayments are greatly influenced by general interest rates, economic conditions and competition.

The Bank regularly adjusts its investments in liquid assets based upon its assessment of (1) expected loan demand, (2) expected deposit flows, (3) yields available on interest-earning deposits and securities and (4) the objectives of our asset/liability management policy.

The Bank's most liquid assets are cash and cash equivalents and interest-bearing deposits. The levels of these assets depend on our operating, financing, lending and investing activities during any given period. At September 30, 2020, cash and cash equivalents totaled \$33.7 million. Securities classified as available-for-sale, amounting to \$202.0 million, at September 30, 2020, provide additional sources of liquidity. At September 30, 2020, we had the ability to borrow a total of approximately \$530.1 million from the FHLB, of which \$310.9 million was borrowed and outstanding. In addition, we had the ability to borrow the lesser of \$20 million or 25% of the Bank's equity capital, excluding reserves, using a federal funds purchased line of credit facility with another financial institution at September 30, 2020. We also had two other federal funds line of credit facilities with other financial institutions from which we had the ability to borrow an additional \$22 and \$15 million, respectively. The Bank did not have any outstanding federal funds purchased at September 30, 2020.

At September 30, 2020, the Bank had \$139.5 million in commitments to extend credit outstanding, excluding interest rate lock commitments for residential mortgage loans intended for sale in the secondary market that meet the definition of a derivative. Time deposits due within one year of September 30, 2020 totaled \$248.4 million, or 82.7% of time deposits. We believe the large percentage of time deposits that mature within one year reflects customers' hesitancy to invest their funds for long periods due to the recent low interest rate environment and local competitive pressure. That balance also includes \$54.7 million in brokered time deposits and \$77.4 million in reciprocal time deposits at September 30, 2020. If these maturing time deposits do not remain with us, we will be required to seek other sources of funds, including other certificates of deposit and borrowings. Depending on market conditions, we may be required to pay higher rates on such deposits or other borrowings than we currently pay on the time deposits due on or before September 30, 2021. We believe, however, based on past experience that a significant portion of our time deposits will remain with us. We have the ability to attract and retain deposits by adjusting the interest rates offered.

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 banking regulators, cannot exceed net income for that year to date plus retained net income (as defined) for the preceding two calendar years. At September 30, 2020, the Company had liquid assets of \$4.8 million on a stand-alone, unconsolidated basis.

Our primary investing activities are the origination of loans and the purchase of securities. Our primary financing activities consist of activity in deposit accounts and FHLB borrowings. Deposit flows are affected by the overall level of interest rates, the interest rates and products offered by us and our local competitors and other factors. We generally manage the pricing of our deposits to be competitive. Occasionally, we offer promotional rates on certain deposit products to attract deposits.

**Capital Management.** The Bank is subject to various regulatory capital requirements administered by the federal banking agencies, including a risk-based capital measure. The risk-based capital guidelines include both a definition of capital and a framework for calculating risk-weighted assets by assigning balance sheet assets and off-balance sheet items to broad risk categories. At September 30, 2020, the Bank exceeded all of its regulatory capital requirements. The Bank is considered "well capitalized" under regulatory guidelines. See "*Item 1. Business — Regulation and Supervision — Regulation of Federal Savings Associations — Capital Requirement.*"

**Off-Balance Sheet Arrangements.** In the normal course of operations, we engage in a variety of financial transactions that, in accordance with generally accepted accounting principles, are not recorded in our financial statements. These transactions involve, to varying degrees, elements of credit, interest rate and liquidity risk. Such transactions are used primarily to manage customers' requests for funding and take the form of loan commitments and lines of credit.

For the year ended September 30, 2020, we did not engage in any off-balance sheet transactions reasonably likely to have a material effect on our financial condition, results of operations or cash flows.

### **Effect of Inflation and Changing Prices**

The consolidated financial statements and related financial data presented in this annual report have been prepared according to accounting principles generally accepted in the United States, which require the measurement of financial position and operating results in terms of historical dollars without considering the change in the relative purchasing power of money over time due to inflation. The primary impact of inflation on our operations is reflected in increased operating costs. Unlike most industrial companies, virtually all the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates generally have a more significant impact on a financial institution's performance than do general levels of inflation. Interest rates do not necessarily move in the same direction or to the same extent as the prices of goods and services.

### **Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The information required by this item is incorporated herein by reference to Part II, "*Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation.*"

**Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

Information required by this item is included herein beginning on page F-1.

**Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

**Item 9A. CONTROLS AND PROCEDURES**

(a) Disclosure Controls and Procedures

The Company's management, including the Company's principal executive officer and 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) promulgated under the Securities Exchange Act of 1934, as amended, (the "Exchange Act"). Based upon their evaluation, the principal executive officer and 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 the information required to be disclosed in the reports that the Company files or submits under the Exchange Act with the Securities and Exchange Commission (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.

(b) Internal Control over Financial Reporting

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities and Exchange Act of 1934. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

The Company's internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

The system of internal control over financial reporting as it relates to the consolidated financial statements is evaluated for effectiveness by management. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed First Savings Financial Group, Inc.'s system of internal control over financial reporting as of September 30, 2020, in relation to criteria for effective internal control over financial reporting as described in the 2013 "Internal Control Integrated Framework," issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management concluded that, as of September 30, 2020, its system of internal control over financial reporting is effective and meets the criteria of the "Internal Control Integrated Framework".

(c) Changes to Internal Control over Financial Reporting

As previously disclosed in the Company's Annual Report on Form 10-K for the year ended September 30, 2019, the Company identified material weaknesses in internal control over financial reporting within the mortgage banking segment over the valuation of interest rate lock commitments and loans held for sale, and the accrual of incentive compensation. Management, under the direction of

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the Audit Committee, has implemented remedial measures throughout 2020 to address the material weaknesses and has determined that the material weaknesses were fully remediated as of September 30, 2020. The Company's remediation plan included reevaluating the Company's accounting policies and practices, allocating additional resources to the mortgage banking segment, engaging a third party consulting firm to independently review the accounting and monthly closing process for the mortgage banking segment, improving the documentation and review of significant assumptions utilized in the valuation of interest rate lock commitments and loans held for sale, and additional training for relevant personnel.

Other than the remediation efforts described above, there were no changes in the Company's internal control over financial reporting during the three months ended September 30, 2020 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**Item 9B. OTHER INFORMATION**

None.



**PART III**

**Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The information relating to the directors and officers of the Company, information regarding compliance with Section 16(a) of the Exchange Act and information regarding the audit committee and audit committee financial expert is incorporated herein by reference to the sections captioned “Item 1 – Election of Directors,” “Section 16(a) Beneficial Ownership Reporting Compliance,” and “Audit Committee” in the Company’s Proxy Statement for the 2021 Annual Meeting of Stockholders (the “Proxy Statement”).

The Company has adopted a code of ethics and business conduct which applies to all of the Company’s and the Bank’s directors, officers and employees. A copy of the code of ethics and business conduct is available to stockholders on the Investor Relations portion of the Bank’s website at [www.fsbbank.net](http://www.fsbbank.net).

**Item 11. EXECUTIVE COMPENSATION**

The information regarding executive compensation is incorporated herein by reference to the sections captioned “Director Compensation” and “Executive Compensation” in the Proxy Statement.

**Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

(a) Security Ownership of Certain Beneficial Owners

Information required by this item is incorporated herein by reference to the section captioned “Stock Ownership” in the Proxy Statement.

(b) Security Ownership of Management

Information required by this item is incorporated herein by reference to the section captioned “Stock Ownership” in the Proxy Statement.

(c) Changes in Control

Management of the Company knows of no arrangements, including any pledge by any person of securities of the Company, the operation of which may at a subsequent date result in a change in control of the Company.

**Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The information relating to certain relationships and related transactions and director independence is incorporated herein by reference to the sections captioned “Transactions with Related Persons” and “Director Independence” in the Proxy Statement.

**Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

The information relating to the principal accountant fees and expenses is incorporated herein by reference to the section captioned “Ratification of the Independent Registered Public Accounting Firm” in the Proxy Statement.

**PART IV**

**Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

- (1) The financial statements required in response to this item are incorporated by reference from Item 8 of this Annual Report on Form 10-K.
- (2) All financial statement schedules are omitted because they are not required or applicable, or the required information is shown in the consolidated financial statements or the notes thereto.
- (3) Exhibits

<u>No.</u>	<u>Description</u>
3.1	<a href="#">Articles of Incorporation of First Savings Financial Group, Inc. (1)</a>
3.2	<a href="#">Articles of Amendment to the Articles of Incorporation for the Series A Preferred Stock (2)</a>
3.3	<a href="#">Bylaws of First Savings Financial Group, Inc. (1)</a>
4.0	<a href="#">Specimen Stock Certificate of First Savings Financial Group, Inc. (1)</a>
10.1	<a href="#">Amended and Restated Employment Agreement by and among First Savings Financial Group, Inc., First Savings Bank and Larry W. Myers, dated October 7, 2009* (3)</a>
10.2	<a href="#">Change in Control Agreement by and between First Savings Bank and Jackie R. Journell</a>
10.3	<a href="#">Amended and Restated Employment Agreement by and among First Savings Financial Group, Inc., First Savings Bank and Anthony A. Schoen, dated October 7, 2009* (3)</a>
10.4	<a href="#">First Savings Bank, F.S.B. Employee Severance Compensation Plan* (4)</a>
10.5	<a href="#">First Savings Bank, F.S.B. Supplemental Executive Retirement Plan* (4)</a>
10.6	<a href="#">Agreement and Plan of Reorganization dated July 21, 2017 (2)</a>
10.7	<a href="#">Amended and Restated Director Deferred Compensation Agreement* (1)</a>
10.8	<a href="#">Subordinated Note Purchase Agreement dated September 20, 2018 (5)</a>
21.0	<a href="#">Subsidiaries of the Registrant</a>
23.0	<a href="#">Consent of Monroe Shine &amp; Co., Inc.</a>
31.1	<a href="#">Rule 13a-14(a)/15d-14(a) Certificate of Chief Executive Officer</a>
31.2	<a href="#">Rule 13a-14(a)/15d-14(a) Certificate of Chief Financial Officer</a>
32.0	<a href="#">Section 1350 Certificate of Chief Executive Officer and Chief Financial Officer</a>
101.0	The following materials from the Company's Annual Report on Form 10-K for the year ended September 30, 2020, formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statement of Changes in Stockholders' Equity, (iv) the Consolidated Statements of Cash Flows and (v) the Notes to the Consolidated Financial Statements.

\* Management contract or compensatory plan, contract or arrangement

- (1) Incorporated herein by reference to the exhibits to the Company's Registration Statement on Form S-1 (File No. 333-151636), as amended, initially filed with the Securities and Exchange Commission on June 13, 2008.
- (2) Incorporated by reference to the exhibits to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 26, 2017.
- (3) Incorporated herein by reference to the exhibits to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on October 8, 2009.
- (4) Incorporated herein by reference to the exhibits to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on October 10, 2008.
- (5) Incorporated herein by reference to the exhibits to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 24, 2018.

**Item 16. FORM 10-K SUMMARY**

Not applicable.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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.

Date: December 16, 2020

By: /s/ Larry W. Myers

Larry W. Myers

President, Chief Executive Officer and Director

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Name</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Larry W. Myers</u> Larry W. Myers	President, Chief Executive Officer and Director (principal executive officer)	December 16, 2020
<u>/s/ Anthony A. Schoen</u> Anthony A. Schoen	Chief Financial Officer (principal accounting and financial officer)	December 16, 2020
<u>/s/ John E. Colin</u> John E. Colin	Director	December 16, 2020
<u>/s/ Douglas A. York</u> Douglas A. York	Director	December 16, 2020
<u>/s/ Pamela Bennett-Martin</u> Pamela Bennett-Martin	Director	December 16, 2020
<u>/s/ L. Chris Fordyce</u> L. Chris Fordyce	Director	December 16, 2020
<u>/s/ John P. Lawson, Jr.</u> John P. Lawson, Jr.	Director	December 16, 2020
<u>/s/ Samuel E. Eckart</u> Samuel E. Eckart	Director	December 16, 2020
<u>/s/ Frank N. Czeschin</u> Frank N. Czeschin	Director	December 16, 2020
<u>/s/ Martin A. Padgett</u> Martin A. Padgett	Director	December 16, 2020
<u>/s/ Steven R. Stemler</u> Steven R. Stemler	Director	December 16, 2020
<u>/s/ Troy D. Hanke</u> Troy D. Hanke	Director	December 16, 2020

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**FIRST SAVINGS FINANCIAL GROUP, INC.  
CLARKSVILLE, INDIANA  
CONSOLIDATED FINANCIAL STATEMENTS  
YEARS ENDED  
SEPTEMBER 30, 2020, 2019 AND 2018**

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**FIRST SAVINGS FINANCIAL GROUP, INC.**

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**Report of Independent Registered Public Accounting Firm**

Board of Directors and Shareholders  
**First Savings Financial Group, Inc.**  
Jeffersonville, Indiana

**Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheets of First Savings Financial Group, Inc. (the “Company”) as of September 30, 2020 and 2019, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended September 30, 2020, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of September 30, 2020 and 2019, and the results of its operations and its cash flows for each of the years in the three-year period ended September 30, 2020, in conformity with accounting principles generally accepted in the United States of America.

**Basis for Opinion**

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

We have served as the Company’s, or its predecessors’, auditor consecutively since at least 1968.

New Albany, Indiana  
December 16, 2020

**FIRST SAVINGS FINANCIAL GROUP, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
**SEPTEMBER 30, 2020 AND 2019**

(In thousands, except share and per share data)

	<u>2020</u>	<u>2019</u>
<b>ASSETS</b>		
Cash and due from banks	\$ 12,807	\$ 13,008
Interest-bearing deposits with banks	20,919	28,424
Total cash and cash equivalents	33,726	41,432
Interest-bearing time deposits	2,964	2,265
Securities available for sale, at fair value	201,965	177,302
Securities held to maturity	2,102	2,336
Loans held for sale, residential mortgage (\$208,493 at fair value in 2020; \$80,457 at fair value in 2019)	263,406	80,457
Loans held for sale, Small Business Administration	22,119	15,613
Loans, net of allowance for loan losses of \$17,026 at September 30, 2020 and \$10,040 at September 30, 2019	1,090,063	810,658
Federal Reserve Bank and Federal Home Loan Bank stock, at cost	17,293	13,040
Premises and equipment	24,412	19,238
Other real estate owned, held for sale	1,728	1,893
Accrued interest receivable:		
Loans	4,585	3,329
Securities	1,877	1,712
Cash surrender value of life insurance	31,758	26,546
Goodwill	9,848	9,848
Core deposit intangibles	1,202	1,416
Residential mortgage loan servicing rights, at fair value	21,703	934
SBA loan servicing rights	3,748	3,030
Other assets	30,126	11,530
	<u>\$ 1,764,625</u>	<u>\$ 1,222,579</u>
<b>LIABILITIES</b>		
Deposits:		
Noninterest-bearing	\$ 242,673	\$ 173,072
Interest-bearing	805,403	661,312
Total deposits	1,048,076	834,384
Federal funds purchased	—	4,000
Federal Home Loan Bank borrowings	310,858	222,544
Federal Reserve PPPLF borrowings	174,834	—
Other borrowings	19,797	19,729
Accrued interest payable	683	935
Advance payments by borrowers for taxes and insurance	2,615	1,906
Accrued expenses and other liabilities	50,197	17,824
Total Liabilities	<u>1,607,060</u>	<u>1,101,322</u>
<b>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 2,567,842 shares (2,565,606 at September 30, 2019); outstanding 2,375,324 shares (2,350,229 shares at September 30, 2019)	26	26
Additional paid-in capital	27,480	27,494
Retained earnings - substantially restricted	123,158	91,228
Accumulated other comprehensive income	11,209	7,296
Unearned stock compensation	(348)	(446)
Less treasury stock, at cost - 192,518 shares (215,377 shares at September 30, 2019)	(4,253)	(4,545)
Total First Savings Financial Group, Inc. Stockholders' Equity	<u>157,272</u>	<u>121,053</u>
Noncontrolling interests in subsidiary	293	204
Total Equity	<u>157,565</u>	<u>121,257</u>
	<u>\$ 1,764,625</u>	<u>\$ 1,222,579</u>

See notes to consolidated financial statements

**FIRST SAVINGS FINANCIAL GROUP, INC.**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**YEARS ENDED SEPTEMBER 30, 2020, 2019 AND 2018**

(In thousands, except share and per share data)

	2020	2019	2018
<b>INTEREST INCOME</b>			
Loans, including fees	\$ 52,397	\$ 42,697	\$ 34,057
Securities:			
Taxable	2,075	2,769	3,650
Tax-exempt	4,423	4,030	3,551
Dividend income	617	643	465
Interest-bearing deposits with banks	417	856	436
Total interest income	<u>59,929</u>	<u>50,995</u>	<u>42,159</u>
<b>INTEREST EXPENSE</b>			
Deposits	5,659	6,944	4,279
Federal funds purchased and repurchase agreements	3	1	—
Federal Home Loan Bank borrowings	3,345	3	3
Federal Reserve PPPLF borrowings	220	2,681	2,022
Other borrowings	1,311	1,277	33
Total interest expense	<u>10,538</u>	<u>10,906</u>	<u>6,337</u>
Net interest income	49,391	40,089	35,822
Provision for loan losses	7,962	1,463	1,353
Net interest income after provision for loan losses	41,429	38,626	34,469
<b>NONINTEREST INCOME</b>			
Service charges on deposit accounts	1,581	1,957	1,731
ATM and interchange fees	2,116	1,949	1,580
Net gain (loss) on sales of available for sale securities and time deposits	7	(74)	99
Net unrealized gain (loss) on equity securities	(19)	5	—
Other than temporary impairment loss on securities	—	—	(95)
Net gain on trading account securities	—	—	43
Net gain on sales of loans, Small Business Administration	5,673	4,569	5,493
Mortgage banking income	117,852	33,007	2,318
Increase in cash surrender value of life insurance	732	580	430
Commission income	288	324	550
Real estate lease income	589	594	5
Net gain (loss) on premises and equipment	(8)	(83)	25
Income from tax credit investments	426	210	585
Other income	1,884	816	531
Total noninterest income	<u>131,121</u>	<u>43,854</u>	<u>13,295</u>
<b>NONINTEREST EXPENSE</b>			
Compensation and benefits	92,904	42,899	19,730
Occupancy and equipment	8,958	6,094	3,629
Data processing	2,153	1,823	2,425
Advertising	7,346	2,752	808
Professional fees	3,606	2,342	1,786
FDIC insurance premiums	405	312	580
Net gain on other real estate owned	(1)	(57)	(160)
Other operating expenses	10,437	6,225	4,208
Total noninterest expense	<u>125,808</u>	<u>62,390</u>	<u>33,006</u>
Income before income taxes	46,742	20,090	14,758
Income tax expense	12,661	3,095	2,422
<b>Net Income</b>	<u>34,081</u>	<u>16,995</u>	<u>12,336</u>
Less: net income attributable to noncontrolling interests	727	818	1,434
<b>Net Income Attributable to First Savings Financial Group, Inc.</b>	<u>\$ 33,354</u>	<u>\$ 16,177</u>	<u>\$ 10,902</u>
Net income per share:			
Basic	\$ 14.15	\$ 6.99	\$ 4.83
Diluted	\$ 14.04	\$ 6.82	\$ 4.60
Weighted average shares outstanding:			
Basic	<u>2,356,680</u>	<u>2,315,697</u>	<u>2,258,020</u>
Diluted	<u>2,375,954</u>	<u>2,372,084</u>	<u>2,372,554</u>
Dividends per share	\$ 0.67	\$ 0.63	\$ 0.59

See notes to consolidated financial statements



**FIRST SAVINGS FINANCIAL GROUP, INC.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**YEARS ENDED SEPTEMBER 30, 2020, 2019 AND 2018**

<i>(In thousands)</i>	<u>2020</u>	<u>2019</u>	<u>2018</u>
<b>Net Income</b>	\$ 34,081	\$ 16,995	\$ 12,336
<b>OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX</b>			
Unrealized gains (losses) on securities available for sale:			
Unrealized holding gains (losses) arising during the period	4,886	8,783	(5,649)
Income tax (expense) benefit	(968)	(1,912)	1,257
Net of tax amount	<u>3,918</u>	<u>6,871</u>	<u>(4,392)</u>
Less: reclassification adjustment for realized (gains) losses included in net income	(7)	55	(99)
Income tax expense (benefit)	2	(12)	26
Net of tax amount	<u>(5)</u>	<u>43</u>	<u>(73)</u>
Less: reclassification adjustment for other-than-temporary impairment loss on securities included in net income	—	—	95
Income tax benefit	—	—	(25)
Net of tax amount	<u>—</u>	<u>—</u>	<u>70</u>
<b>Other Comprehensive Income (Loss)</b>	<u>3,913</u>	<u>6,914</u>	<u>(4,395)</u>
<b>Comprehensive Income</b>	37,994	23,909	7,941
Less: comprehensive income attributable to noncontrolling interests	<u>727</u>	<u>818</u>	<u>1,434</u>
<b>Comprehensive Income Attributable to First Savings Financial Group, Inc.</b>	<u>\$ 37,267</u>	<u>\$ 23,091</u>	<u>\$ 6,507</u>

See notes to consolidated financial statements.

**FIRST SAVINGS FINANCIAL GROUP, INC.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**YEARS ENDED SEPTEMBER 30, 2020, 2019 AND 2018**

<i>(In thousands, except share and per share data)</i>	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Unearned Stock Compensation	Treasury Stock	Noncontrolling Interests in Subsidiary	Total
Balances at October 1, 2017	\$ 25	\$ 27,798	\$ 67,583	\$ 4,158	\$ (571)	\$ (5,878)	\$ —	\$ 93,115
Net income	—	—	10,902	—	—	—	1,434	12,336
Other comprehensive loss	—	—	—	(4,395)	—	—	—	(4,395)
Reclassification from AOCI to retained earnings for change in federal tax rate	—	—	(619)	619	—	—	—	—
Common stock dividends - \$0.59 per share	—	—	(1,343)	—	—	—	—	(1,343)
Distributions to noncontrolling interests	—	—	—	—	—	—	(2)	(2)
Restricted stock grants, net of forfeitures - 1,000 shares	1	56	—	—	(57)	—	—	—
Stock compensation expense	—	68	—	—	149	—	—	217
Stock option exercises - 55,296 shares	—	(292)	—	—	—	1,042	—	750
Purchase of 6,729 treasury shares	—	—	—	—	—	(433)	—	(433)
Balances at September 30, 2018	26	27,630	76,523	382	479	5,269	1,432	100,245
Net income	—	—	16,177	—	—	—	818	16,995
Other comprehensive income	—	—	—	6,914	—	—	—	6,914
Common stock dividends - \$0.63 per share	—	—	(1,472)	—	—	—	—	(1,472)
Distributions to noncontrolling interests	—	—	—	—	—	—	(2,046)	(2,046)
Restricted stock grants, net of forfeitures - 2,299 shares	—	141	—	—	(141)	—	—	—
Stock compensation expense	—	72	—	—	174	—	—	246
Stock option exercises - 66,877 shares	—	(349)	—	—	—	1,297	—	948
Purchase 10,968 treasury shares	—	—	—	—	—	(573)	—	(573)
Balances at September 30, 2019	26	27,494	91,228	7,296	(446)	(4,545)	204	121,257
Cumulative effect adjustment, adoption of ASU 2016-02	—	—	166	—	—	—	—	166
Net income	—	—	33,354	—	—	—	727	34,081
Other comprehensive income	—	—	—	3,913	—	—	—	3,913
Common stock dividends - \$0.67 per share	—	—	(1,590)	—	—	—	—	(1,590)
Distributions to noncontrolling interests	—	—	—	—	—	—	(638)	(638)
Restricted stock grants - 1,436 shares	—	95	—	—	(95)	—	—	—
Stock compensation expense	—	86	—	—	193	—	—	279
Stock option exercises - 28,361 shares	—	(195)	—	—	—	594	—	399
Purchase of 4,702 treasury shares	—	—	—	—	—	(302)	—	(302)
Balances at September 30, 2020	<u>\$ 26</u>	<u>\$ 27,480</u>	<u>\$ 123,158</u>	<u>\$ 11,209</u>	<u>\$ (348)</u>	<u>\$ (4,253)</u>	<u>\$ 293</u>	<u>\$ 157,565</u>

See notes to consolidated financial statements.

**FIRST SAVINGS FINANCIAL GROUP, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**YEARS ENDED SEPTEMBER 30, 2020, 2019 AND 2018**

(In thousands)

	2020	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income	\$ 34,081	\$ 16,995	\$ 12,336
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Provision for loan losses	7,962	1,463	1,353
Depreciation and amortization	1,858	1,684	1,373
Amortization of premiums and accretion of discounts on securities, net	596	477	235
Decrease in trading account securities	—	—	7,175
Amortization and accretion of fair value adjustments on loans, net	(935)	(664)	(517)
Loans originated for sale	(3,679,783)	(939,608)	(115,065)
Proceeds on sales of loans	3,597,497	904,692	115,980
Net realized and unrealized gain on loans held for sale	(88,738)	(27,485)	(5,515)
Capitalization of loan servicing rights	(25,508)	(2,274)	(1,565)
Net change in value of loan servicing rights	4,021	715	549
Net realized and unrealized gain on other real estate owned	(16)	(78)	(215)
Net (gain) loss on sales of available for sale securities and time deposits	(7)	74	(99)
Other than temporary impairment loss on securities	—	—	95
Increase in cash surrender value of life insurance	(732)	(580)	(430)
Net (gain) loss on equity securities	19	(5)	—
Net (gain) loss on sale of premises and equipment	8	(31)	(25)
Income from tax credit investments	(426)	(210)	(585)
Deferred income taxes	4,494	507	235
Stock compensation expense	279	246	217
Increase in accrued interest receivable	(1,421)	(754)	(562)
Increase (decrease) in accrued interest payable	(252)	192	459
Change in other assets and liabilities, net	7,314	(81)	2,536
<b>Net Cash Provided By (Used In) Operating Activities</b>	<b>(139,689)</b>	<b>(44,725)</b>	<b>17,965</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Investment in interest-bearing time deposits	(1,145)	(1,085)	(980)
Proceeds from sales and maturities of interest-bearing time deposits	445	838	4,734
Purchase of securities available for sale	(37,809)	(24,448)	(50,020)
Proceeds from sales of securities available for sale	3,180	13,948	58,116
Proceeds from maturities of securities available for sale	8,235	7,710	2,625
Proceeds from maturities of securities held to maturity	248	240	227
Principal collected on securities	6,005	18,180	16,875
Net increase in loans	(304,202)	(108,847)	(85,798)
Purchase of Federal Reserve Bank stock	—	(634)	—
Proceeds from redemption of Federal Reserve Bank stock	—	—	21
Purchase of Federal Home Loan Bank stock	(4,253)	(2,785)	(2,562)
Investment in cash surrender value of life insurance	(4,481)	(6,000)	—
Proceeds from life insurance	—	—	540
Proceeds from sale of other real estate owned	182	178	606
Purchase of premises and equipment	(7,308)	(9,496)	(1,594)
Proceeds from sales of premises and equipment	550	74	51
Distributions received from tax credit investments	920	—	—
Net cash received in the acquisition of Dearmin Bancorp and FNBO	—	—	6,667
<b>Net Cash Used In Investing Activities</b>	<b>(339,433)</b>	<b>(112,127)</b>	<b>(50,492)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Net increase in deposits	213,692	23,272	49,965
Net increase (decrease) in federal funds purchased	(4,000)	4,000	—
Net increase (decrease) in repurchase agreements	—	(1,352)	4
Increase (decrease) in Federal Home Loan Bank line of credit	8,314	12,544	(18,065)
Proceeds from Federal Home Loan Bank advances	350,000	310,000	224,500
Repayment of Federal Home Loan Bank advances	(270,000)	(190,000)	(234,500)
Net increase in Federal Reserve PPPLF borrowings	174,834	—	—
Net proceeds from subordinated note	—	—	19,661
Net increase in advance payments by borrowers for taxes and insurance	709	688	6
Proceeds from exercise of stock options	148	408	362
Taxes paid on stock award shares for employees	(53)	(32)	(46)
Dividends paid on common stock	(1,590)	(1,472)	(1,343)
Distributions to noncontrolling interests	(638)	(2,046)	(2)
<b>Net Cash Provided By Financing Activities</b>	<b>471,416</b>	<b>156,010</b>	<b>40,542</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>(7,706)</b>	<b>(842)</b>	<b>8,015</b>
Cash and cash equivalents at beginning of year	41,432	42,274	34,259
<b>Cash and Cash Equivalents at End of Year</b>	<b>\$ 33,726</b>	<b>\$ 41,432</b>	<b>\$ 42,274</b>

See notes to consolidated financial statements.

**FIRST SAVINGS FINANCIAL GROUP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2020, 2019 AND 2018**

(1) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Operations**

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

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

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

The Captive, which is a wholly-owned insurance subsidiary of the Company, is a Nevada corporation that provides property and casualty insurance to the Company, the Bank and the Bank’s active subsidiaries. In addition, the Captive provides reinsurance to 10 other third-party insurance captives for which insurance may not be currently available or economically feasible in the insurance marketplace.

**Basis of Consolidation and Reclassifications**

The consolidated financial statements include the accounts of the Company and its subsidiaries and have been prepared in accordance with accounting principles generally accepted in the United States of America and conform to general practices within the banking industry. Intercompany balances and transactions have been eliminated. Certain prior year amounts have been reclassified to conform to the current year presentation. The reclassifications had no effect on net income or stockholders’ equity.

**Statements of Cash Flows**

For purposes of the statements of cash flows, the Company has defined cash and cash equivalents as cash on hand, amounts due from banks (including cash items in process of clearing), interest-bearing deposits with other banks having an original maturity of 90 days or less and money market funds.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses and the valuation of real estate and other assets acquired in connection with foreclosures or in satisfaction of loans. In connection with the determination of the allowances for loan losses and the valuation of other real estate owned, management obtains independent appraisals for significant properties.

**FIRST SAVINGS FINANCIAL GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2020, 2019 AND 2018**

(1 – continued)

A substantial portion of the Company’s loan portfolio consists of single-family residential and commercial real estate loans to customers in the southern Indiana and Louisville, Kentucky metropolitan area. Accordingly, the ultimate collectability of a substantial portion of the Company’s loan portfolio and the recovery of the carrying amount of other real estate owned are susceptible to changes in local market conditions.

While management uses available information to recognize losses on loans and other real estate owned, further reductions in the carrying amounts of loans and other real estate owned may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the estimated losses on loans and other real estate owned. Such agencies may require the Company to recognize additional losses based on their judgments about information available to them at the time of their examination. Because of these factors, it is reasonably possible the estimated losses on loans and other real estate owned may change materially in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

**Investment Securities**

*Trading Account Securities:* Securities purchased with the intention of recognizing short-term profits or which are actively bought and sold are classified as trading account securities and reported at fair value. The net realized and unrealized gains and losses on trading account securities are reported in noninterest income. Realized gains and losses on trading account securities are determined using the specific identification method.

*Securities Available for Sale:* Securities available for sale consist primarily of municipal obligations, mortgage-backed securities and collateralized mortgage obligations (“CMOs”), and are stated at fair value. The Company holds municipal bonds issued by municipal governments within the U.S.; mortgage-backed securities and CMOs issued by the Government National Mortgage Association (“GNMA”), a U.S. government agency, and the Federal National Mortgage Association (“FNMA”) and the Federal Home Loan Mortgage Corporation (“FHLMC”), government-sponsored enterprises; debt securities issued by government-sponsored enterprises; and privately-issued CMOs and asset-backed securities (“ABSs”). The Company also holds pass-through asset-backed securities guaranteed by the SBA representing participating interests in pools of long-term debentures issued by state and local development companies certified by the SBA. Mortgage-backed securities represent participating interests in pools of long-term first mortgage loans originated and serviced by issuers of the securities. CMOs and ABSs are complex mortgage-backed securities that restructure the cash flows and risks of the underlying mortgage collateral.

Amortization of premiums and accretion of discounts are recognized in interest income using methods approximating the interest method over the period to maturity, adjusted for anticipated prepayments. Unrealized gains and losses, net of tax, on securities available for sale are included in other comprehensive income and the accumulated unrealized holding gains and losses are reported as a separate component of equity until realized. Realized gains and losses on the sale of securities available for sale are determined using the specific identification method and are included in other noninterest income and, when applicable, are reported as a reclassification adjustment, net of tax, in other comprehensive income.

*Securities Held to Maturity:* Debt securities for which the Company has the positive intent and ability to hold to maturity are reported at cost, adjusted for amortization of premiums and accretion of discounts that are recognized in interest income using methods approximating the interest method over the period to maturity, adjusted for anticipated prepayments. The Company classifies certain mortgage-backed securities and municipal obligations as held to maturity.

Declines in the fair value of individual available for sale and held to maturity securities below their amortized cost that are other than temporary result in write-downs of the individual securities to their fair value. The related write-downs are included in earnings as realized losses.

**FIRST SAVINGS FINANCIAL GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2020, 2019 AND 2018**

(1 – continued)

In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than amortized cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment for a period of time sufficient to allow for any anticipated recovery in fair value.

*Equity Securities:* Equity securities, other than restricted securities such as Federal Reserve Bank (“FRB”) and Federal Home Loan Bank of Indianapolis (“FHLB”) stock, are carried at fair value, with changes in fair value included in earnings. Equity securities without readily determinable fair values are carried at cost, minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or similar investment of the same issuer. Dividends received from equity securities, other than restricted securities such as FRB and FHLB stock, are included in other noninterest income.

Investments in non-marketable equity securities such as FRB stock and FHLB stock are carried at cost and are classified as restricted securities. The Bank is a member of the FHLB system and is required to own FHLB stock, the amount of which depends on the level of borrowings and other factors. Both cash and stock dividends received from these investments are included in dividend income. Impairment testing on these investments is based on applicable accounting guidance and the cost basis is reduced when impairment is deemed to be other-than-temporary.

**Loans Held for Sale**

Prior to July 1, 2018, residential mortgage loans originated and intended for sale in the secondary market were carried at the lower of aggregate cost or market value. Aggregate market value was determined based on the quoted prices under a “best efforts” sales agreement with a third party. Effective July 1, 2018, the Company elected to record substantially all residential mortgage loans held for sale at fair value in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 825-10. Net unrealized gains and losses are included in mortgage banking income in the accompanying consolidated statements of income. Realized gains on sales of residential mortgage loans are determined using the specific identification method and are included in mortgage banking income.

The Company originates loans to customers under the SBA 7(a) and other programs that generally provide for SBA guarantees of 75% to 90% of each loan. The Company intends to sell the guaranteed portion of the SBA loans. The guaranteed portion of the SBA loans was classified as loans held for sale at September 30, 2020 and 2019. At September 30, 2020 and 2019, SBA loans held for sale totaling \$22.1 million and \$15.6 million, respectively, were carried at the lower of aggregate cost or fair value. Realized gains and losses on sales of SBA loans held for sale are determined based on the allocation of participating interests sold and retained and are included in net gain on sales of SBA loans in the accompanying consolidated statements of income. Direct loan origination costs and fees related to SBA loans held for sale are deferred upon origination and are recognized as an adjustment to the gain or loss on the date of sale. SBA loans held for sale are sold on a servicing retained basis.

**Transfers of Financial Assets**

The Company accounts for transfers and servicing of financial assets in accordance with FASB ASC 860, *Transfers and Servicing*. Transfers of financial assets are accounted for as sales only when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right (free from conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

**FIRST SAVINGS FINANCIAL GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2020, 2019 AND 2018**

(1 – continued)

Transfers of a portion of a loan must meet the criteria of a participating interest. If it does not meet the criteria of a participating interest, the transfer must be accounted for as a secured borrowing. In order to meet the criteria for a participating interest, all cash flows from the loan must be divided proportionately, the rights of each loan holder must have the same priority, and the loan holders must have no recourse to the transferor other than standard representations and warranties and no loan holder has the right to pledge or exchange the entire loan.

The Company sells financial assets in the normal course of business, the majority of which are related to the SBA-guaranteed portion of loans, residential mortgage loan sales through established programs, and commercial loan sales through participation agreements. In accordance with accounting guidance for asset transfers, the Company considers any ongoing involvement with transferred assets in determining whether the assets can be derecognized from the balance sheet. With the exception of servicing and certain performance-based guarantees, the Company's continuing involvement with financial assets sold is minimal and generally limited to market customary representation and warranty clauses.

When the Company sells financial assets, it may retain servicing rights and/or other interests in the financial assets. The gain or loss on sale depends on the previous carrying amount of the transferred financial assets, the servicing right recognized, and the consideration received and any liabilities incurred in exchange for the transferred assets. Upon transfer, any servicing assets and other interests held by the Company are carried at the lower of cost or fair value, with the exception of mortgage servicing rights related to sales of residential mortgage loans, which are carried at fair value.

**Loans and Allowance for Loan Losses**

*Loans Held for Investment*

Loans are stated at unpaid principal balances, less net deferred loan fees and the allowance for loan losses. Loan origination and commitment fees, as well as certain direct costs of underwriting and closing loans, are deferred and amortized as a yield adjustment to interest income over the lives of the related loans using the interest method. Amortization of deferred loan fees is discontinued when a loan is placed on nonaccrual status.

*Nonaccrual Loans*

The recognition of income on a loan is discontinued and previously accrued interest is reversed when interest or principal payments become 90 days past due unless, in the opinion of management, the outstanding interest remains collectible. Past due status is determined based on contractual terms. Generally, by applying the cash receipts method, interest income on nonaccrual loans is subsequently recognized only as received until the loan is returned to accrual status. The cash receipts method is used when the likelihood of further loss on the loan is remote. Otherwise, the Company applies the cost recovery method and applies all payments as a reduction of the unpaid principal balance until the loan qualifies for return to accrual status. Interest income on impaired loans is recognized using the cost recovery method, unless the likelihood of further loss is considered remote.

A loan is restored to accrual status when all principal and interest payments are brought current and the borrower has demonstrated the ability to make future payments of principal and interest as scheduled, which generally requires that the borrower demonstrate a period of performance of at least six consecutive months.

**FIRST SAVINGS FINANCIAL GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2020, 2019 AND 2018**

(1 – continued)

*Loan Charge-Offs*

For portfolio segments other than consumer loans, the Company's practice is to charge-off any loan or portion of a loan when the loan is determined by management to be uncollectible due to the borrower's failure to meet repayment terms, the borrower's deteriorating or deteriorated financial condition, depreciation of the underlying collateral, the loan's classification as a loss by regulatory examiners, or for other reasons. A partial charge-off is recorded on a loan when the uncollectibility of a portion of the loan has been confirmed, such as when a loan is discharged in bankruptcy, the collateral is liquidated, a loan is restructured at a reduced principal balance, or other identifiable events that lead management to determine the full principal balance of the loan will not be repaid. A specific reserve is recognized as a component of the allowance for estimated losses on loans individually evaluated for impairment. Partial charge-offs of loans are included in the Company's historical loss experience used to estimate the general component of the allowance for loan losses as discussed below.

Consumer loans not secured by real estate are typically charged off at 90 days past due, or earlier if deemed uncollectible, unless the loans are in the process of collection. Overdrafts are charged off after 45 days past due. Charge-offs are typically recorded on loans secured by real estate when the property is foreclosed upon when the carrying value of the loan exceeds the property's fair value, less estimated costs to sell.

*Allowance for Loan Losses*

The allowance for loan losses reflects management's judgment of probable incurred loan losses at the balance sheet date. Additions to the allowance for loan losses are made by the provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The Company evaluates the allowance for loan losses on a quarterly basis based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of specific and general components. The specific component relates to loans that are individually evaluated for impairment. A specific reserve is established when the underlying discounted collateral value (or present value of estimated future cash flows) of the impaired loan is lower than the carrying value of that loan.

The general component covers loans not considered to be impaired. Such loans are pooled by segment and losses are modeled using annualized historical loss experience adjusted for qualitative factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Company over the most recent 60-month period with the exception of the SBA loan portfolio which uses a 36-month lookback period.



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The Company's historical loss experience is then adjusted for qualitative factors that are reviewed on a quarterly basis based on the risks present for each portfolio segment. Management considers changes and trends in the following qualitative loss factors: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in the volume and term of new loan originations; national and local economic trends and conditions; changes in lending policies, procedures and practices; changes in the experience and ability of lending management and other staff; changes in the quality and depth of the Company's loan review system; trends in collateral valuation in the Company's lending area; and other factors as determined by management. Each qualitative factor is evaluated and a qualitative factor adjustment is applied to the actual historical loss factors in determining the adjusted loss factors used in management's allowance for loan losses adequacy calculation.

During the year ended September 30, 2020, the Company also added a qualitative factor adjustment for economic uncertainties related to the novel coronavirus ("COVID-19"). At September 30, 2020, there is still considerable uncertainty about how severely the COVID-19 pandemic has impacted the loan portfolio. As a result, management has increased the allowance qualitative factor adjustments for each portfolio segment while considering the potential length of the pandemic, continued elevated unemployment rates, the impact of further state and local restrictions, the impact of government stimulus activities and the timeline for economic recovery. At September 30, 2020, the Company's allowance for loan losses totaled \$17.0 million, of which \$14.8 million related to qualitative factor adjustments including \$4.6 million related to the COVID-19 qualitative factor adjustment. At September 30, 2019, the Company's allowance for loan losses totaled \$10.0 million, of which \$9.0 million related to qualitative factor adjustments.

Management exercises significant judgment in evaluating the relevant historical loss experience and the qualitative factors. Management also monitors the differences between estimated and actual incurred loan losses for loans considered impaired in order to evaluate the effectiveness of the estimation process and make any changes in the methodology as necessary.

The following portfolio segments are considered in the allowance for loan loss analysis: residential real estate, commercial real estate (including single tenant net lease and loans originated through SBA programs), multi-family residential real estate, construction, land and land development, commercial business (including loans originated through SBA programs) and consumer.

Residential real estate loans primarily consist of loans to individuals for the purchase or refinance of their primary residence, with a small portion of the segment secured by non-owner-occupied residential investment properties. The risks associated with residential real estate loans are closely correlated to the local housing market and general economic conditions, as repayment of the loans is primarily dependent on the borrower's or tenant's personal cash flow and employment status.

Commercial real estate loans include the single tenant net lease loans and loans originated through SBA programs in addition to the Company's core commercial loans, and are comprised of loans secured by various types of collateral including office buildings, warehouses, retail space and mixed use buildings located in the Company's primary lending area and in other states. Risks related to commercial real estate lending are related to the market value of the property taken as collateral, the underlying cash flows and general economic conditions. Repayment of these loans is generally dependent on the ability of the borrower to attract tenants at lease rates that provide for adequate debt service and can be impacted by general economic conditions, which impact vacancy rates. The Company generally obtains loan guarantees from financially capable parties for commercial real estate loans.

Multi-family residential real estate loans primarily consist of loans secured by apartment buildings and other multi-tenant developments generally located in the Company's primary lending area. Repayment of these loans is primarily dependent on the borrower's ability to attract tenants and collect rents that provide for adequate debt service. The risks associated with these loans are closely correlated to the local housing market and general economic conditions.

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**Loans and Allowance for Loan Losses - continued**

Construction loans consist of single-family residential properties, multi-family properties and commercial projects, and include both owner-occupied and speculative investment properties. Risks inherent in construction lending are related to the market value of the property held as collateral, the cost and timing of constructing or improving a property, the borrower's ability to use funds generated by a project to service a loan until a project is completed, movements in interest rates and the real estate market during the construction phase, and the ability of the borrower to obtain permanent financing.

Land and land development loans primarily consist of loans secured by farmland and vacant land held for long-term investment or development. The risks associated with land and land development loans are related to the market value of the property taken as collateral and the underlying cash flows for loans secured by farmland, and general economic conditions.

Commercial business loans include loans originated through SBA programs and lines of credit to businesses, term loans and letters of credit secured by business assets such as equipment, accounts receivable, inventory, or other assets excluding real estate and are generally made to finance capital expenditures or fund operations. Commercial loans contain risks related to the value of the collateral securing the loan and the repayment is primarily dependent upon the financial success and viability of the borrower. As with commercial real estate loans, the Company generally obtains loan guarantees from financially capable parties for commercial business loans. In addition, in an effort to support our communities during the pandemic, the Company is participating in the Paycheck Protection Program ("PPP") under the Coronavirus Aid, Relief and Economic Security ("CARES") Act, which was signed into law on March 27, 2020. The majority of the Company's SBA clients applied for participation in the SBA's PPP loan program. All PPP loans are 100% guaranteed by the SBA.

Consumer loans consist primarily of home equity lines of credit and other loans secured by junior liens on the borrower's personal residence, home improvement loans, automobile and truck loans, boat loans, mobile home loans, loans secured by savings deposits and other personal loans. The risks associated with these loans are related to the local housing market and local economic conditions including the unemployment level.

Other than the changes discussed above related to the COVID-19 qualitative factor, there were no significant changes to the Company's accounting policies or methodology used to estimate the allowance for loan losses during the years ended September 30, 2020, 2019, and 2018.

*Impaired Loans*

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

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Values for collateral dependent loans are generally based on appraisals obtained from independent licensed real estate appraisers, with adjustments applied for estimated costs to sell the property, estimated costs to complete unfinished or repair damaged property, and other known defects. New appraisals are generally obtained for all significant properties when a loan is identified as impaired. Generally, a property is considered significant if the value of the property is estimated to exceed \$250,000. Subsequent appraisals are obtained as needed or if management believes there has been a significant change in the market value of a collateral property securing an impaired loan. In instances where it is not deemed necessary to obtain a new appraisal, management would base its impairment and allowance for loan loss analysis on the original appraisal with adjustments for current conditions based on management's assessment of market factors and management's inspection of the property.

*Troubled Debt Restructurings*

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

A TDR can involve loans remaining on nonaccrual, moving to nonaccrual or continuing on accrual status, depending on the individual facts and circumstances of the borrower. Generally, a nonaccrual loan that is restructured in a TDR remains on nonaccrual status for a period of at least six months following the restructuring in order to ensure that the borrower performs in accordance with the restructured terms, including consistent and timely payments of at least six consecutive months according to the restructured terms.

**Premises and Equipment**

Premises and equipment are stated at cost, less accumulated depreciation. The Company uses the straight line method of computing depreciation at rates adequate to amortize the cost of the applicable assets over their estimated useful lives. Maintenance and repairs are expensed as incurred. The cost and related accumulated depreciation of assets sold, or otherwise disposed of, are removed from the related accounts and any gain or loss is included in earnings.

**Other Real Estate Owned**

Other real estate owned includes formally foreclosed property, property obtained via a deed in lieu of foreclosure and former banking facilities held for sale. At the time of acquisition, foreclosed real estate is recorded at its fair value, less estimated costs to sell, which becomes the property's new cost basis. Any write-downs based on the property's fair value at the date of acquisition are charged to the allowance for loan losses. After acquisition or the decision to classify property as held for sale, valuations are periodically performed by management and property held for sale is carried at the lower of the new cost basis or fair value, less estimated costs to sell. Costs incurred in maintaining other real estate owned and subsequent impairment adjustments to the carrying amount of a property, if any, are included in noninterest expense.

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**Cash Surrender Value of Life Insurance**

The Bank has purchased life insurance policies on certain directors, officers and key employees to help offset costs associated with the Bank's compensation and benefit programs. The Bank is the owner and is a joint or sole beneficiary of the policies. Bank-owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement. Income from the increase in cash surrender value of the policies and income from the recognition of death benefits is reported in noninterest income.

**Goodwill and Other Intangibles**

Goodwill recognized in a business combination represents the excess of the fair value of consideration transferred over the fair value of assets acquired and liabilities assumed. Goodwill is evaluated for possible impairment at least annually or more frequently upon the occurrence of an event or change in circumstances that would more likely than not reduce the fair value of the reporting unit below its carrying amount. Such circumstances could include, but are not limited to: (1) a significant adverse change in legal factors or in business climate, (2) unanticipated competition, or (3) an adverse action or assessment by a regulator.

Other intangible assets consist of acquired core deposit intangibles. Core deposit intangibles are amortized over the estimated economic lives of the acquired core deposits. The carrying amount of core deposit intangibles and the remaining estimated economic life are evaluated annually or whenever events or circumstances indicate the carrying amount may not be recoverable or the remaining period of amortization requires revision.

**Derivative Financial Instruments**

In connection with the origination of residential mortgage loans to be sold in the secondary market, the Company enters into commitments to originate loans whereby the interest rate on the loan is determined prior to funding (i.e., rate lock commitment). The period of time between issuance of a loan commitment and closing and sale of the loan generally ranges from 15 to 60 days. The Company also enters into forward mortgage loan commitments to sell to various investors to protect itself against exposure to various factors and to reduce sensitivity to interest rate movements. Both the interest rate lock commitments and the related forward mortgage loan sales contracts are considered derivatives and are recorded on the balance sheet at fair value in accordance with FASB ASC 815, *Derivatives and Hedging*, with changes in fair value recorded in mortgage banking income in the accompanying consolidated statements of income. All such derivatives are considered stand-alone derivatives and have not been formally designated as hedges by management.

**Securities Lending and Financing Arrangements**

Securities purchased under agreements to resell (reverse repurchase agreements) and securities sold under agreements to repurchase (repurchase agreements) are treated as collateralized lending and borrowing transactions, respectively, and are carried at the amounts at which the securities were initially acquired or sold.

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**Benefit Plans**

The Company provides a contributory defined contribution plan available to all eligible employees. The Company also established a leveraged employee stock ownership plan (“ESOP”) on October 6, 2008 that includes substantially all employees. The Company accounts for the ESOP in accordance with FASB ASC 718-40, *Employee Stock Ownership Plans*. Dividends declared on allocated shares are recorded as a reduction of retained earnings and paid to the participants’ accounts or used for additional debt service on the ESOP loan. Dividends declared on unallocated shares are not considered dividends for financial reporting purposes and are used for additional debt service on the ESOP loan. As shares are committed to be released for allocation to participants’ accounts, compensation expense is recognized based on the average fair value of the shares and the shares become available for earnings per share calculations.

**Stock Based Compensation**

The Company has adopted the fair value based method of accounting for stock-based compensation prescribed in FASB ASC 718-20, *Compensation – Stock Compensation*, for its stock compensation plans.

**Income Taxes**

When income tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while other positions are subject to some degree of uncertainty regarding the merits of the position taken or the amount of the position that would be sustained. The Company recognizes the benefits of a tax position in the consolidated financial statements of the period during which, based on all available evidence, management believes it is more-likely-than-not (more than 50 percent probable) that the tax position would be sustained upon examination. Income tax positions that meet the more-likely-than-not threshold are measured as the largest amount of income tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with the income tax positions claimed on income tax returns that exceeds the amount measured as described above is reflected as a liability for unrecognized income tax benefits in the consolidated balance sheets, along with any associated interest and penalties that would be payable to the taxing authorities, if there were an examination. Interest and penalties associated with unrecognized income tax benefits are classified as additional income taxes in the consolidated statements of income.

Income taxes are provided for the tax effects of the transactions reported in the financial statements and consist of taxes currently due plus deferred income taxes. Income tax reporting and financial statement reporting rules differ in many respects. As a result, there will often be a difference between the carrying amount of an asset or liability as presented in the accompanying consolidated balance sheets and the amount that would be recognized as the tax basis of the same asset or liability computed based on the effects of tax positions recognized, as described in the preceding paragraph. These differences are referred to as temporary differences because they are expected to reverse in future years. Deferred income tax assets are recognized for temporary differences where their future reversal will result in future tax benefits. Deferred income tax assets are also recognized for the future tax benefits expected to be realized from net operating loss or tax credit carryforwards. Deferred income tax liabilities are recognized for temporary differences where their future reversal will result in the payment of future income taxes. Deferred income tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred income tax assets will not be realized. Deferred tax assets and liabilities are reflected at income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

**Advertising Costs**

Advertising costs are charged to operations when incurred.

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**Comprehensive Income**

Comprehensive income consists of reported net income and other comprehensive income. Other comprehensive income, recognized as a separate component of equity, includes the change in unrealized gains and losses on securities available for sale. Amounts reclassified out of unrealized gains or losses on securities available for sale included in accumulated other comprehensive income or loss are included in the net gain (loss) on sales of available for sale securities and other than temporary impairment loss on securities line items in the consolidated statements of income.

**Loss Contingencies**

Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated.

**Recent Accounting Pronouncements**

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

In February 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-02, *Leases (Topic 842)*. The guidance supersedes existing guidance on accounting for leases with the main difference being that operating leases are to be recorded in the statement of financial position as right-of-use ("ROU") assets and lease liabilities, initially measured at the present value of the lease payments. For operating leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election not to recognize lease assets and liabilities. Under the new guidance, lessor accounting is largely unchanged. For public business entities, the guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. In July 2018, the FASB issued ASU No. 2018-11, *Leases (Topic 842): Targeted Improvements*, which provides an additional, optional transition method related to implementing the new leases standard. ASU 2018-11 provides that companies can initially apply the new leases standard at adoption and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption.

The Company adopted the new leases standard on October 1, 2019, and as a result the Company recorded a right-of-use asset of \$6.2 million, a lease liability of \$6.3 million and a cumulative-effect adjustment of \$166,000 to increase retained earnings. The Company has elected all applicable practical expedients permitted under the standard, including the option to expense short-term leases with a term of one year or less. The Company also utilized the transition method allowed under ASU 2018-11 and did not restate prior periods. See Note 19 for further details regarding adoption of the new leases standard.

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

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

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

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

The Company has determined that all other recently issued accounting pronouncements will not have a material impact on the Company's consolidated financial statements or do not apply to its operations.

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(2) **ACQUISITION OF DEARMIN BANCORP AND THE FIRST NATIONAL BANK OF ODON**

On February 9, 2018, the Company acquired Dearmin Bancorp, Inc. (“Dearmin”) and its majority owned subsidiary, The First National Bank of Odon (“FNBO”), a full service community bank located in Odon, Indiana. The acquisition expanded the Company’s presence into Daviess County, Indiana.

Pursuant to the terms of the merger agreement, FNBO stockholders received \$265.00 in cash for each share of FNBO common stock for total cash consideration of \$10.6 million. Under the acquisition method of accounting, the purchase price is assigned to the assets acquired and liabilities assumed based on their estimated fair values, net of applicable income tax effects. In accounting for the acquisition, the excess of cost over the fair value of the acquired net assets of \$1.9 million has been recorded as goodwill. Transaction and integration costs related to the acquisition totaling \$1.3 million were expensed as incurred during the year ended September 30, 2018. No transaction and integration costs were recognized for the years ended September 30, 2020 and 2019.

Following is a condensed balance sheet providing the estimated fair values of the assets acquired and the liabilities assumed as of the date of acquisition:

	<i>(In thousands)</i>
Cash and due from banks	\$ 1,310
Interest-bearing deposits with banks	15,957
Interest-bearing time deposits with banks	3,817
Investment securities	39,978
Loans, net	34,467
Premises and equipment	1,125
Goodwill arising in the acquisition	1,912
Core deposit intangible	1,487
Other assets	2,890
Total assets acquired	<u>102,943</u>
Deposit accounts	91,765
Net deferred tax liabilities	205
Other liabilities	373
Total liabilities assumed	<u>92,343</u>
Total consideration	<u>\$ 10,600</u>

In accounting for the acquisition, \$1.5 million was assigned to a core deposit intangible which is amortized over a weighted-average estimated economic life of 9.1 years. It is not anticipated that the core deposit intangible will have a significant residual value. No amount of the goodwill or core deposit intangible arising in the acquisition is deductible for income tax purposes.

FASB ASC 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*, applies to a loan with evidence of deterioration of credit quality since origination, acquired by completion of a transfer for which it is probable, at acquisition, that the investor will be unable to collect all contractually required payments receivable. On the acquisition date, no loans were identified with evidence of deterioration of credit quality since origination. Loans acquired not subject to ASC 310-30 included non-impaired loans with a fair value of \$34.5 million and gross contractual amounts receivable of \$41.5 million at the date of acquisition.



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(3) **RESTRICTION ON CASH AND DUE FROM BANKS**

The Company is required to maintain reserve balances on hand and with the Federal Reserve Bank, which are unavailable for investment but are interest-bearing. The average amount of those reserve balances was approximately \$10.6 million, \$20.3 million, and \$17.4 million for the years ended September 30, 2020, 2019, and 2018, respectively.

(4) **INVESTMENT SECURITIES**

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

*Trading Account Securities*

Prior to June 30, 2018, the Company invested in small and medium lot, investment grade municipal bonds through a managed brokerage account. The brokerage account was managed by an investment advisory firm registered with the U.S. Securities and Exchange Commission. The trading account portfolio was liquidated in June 2018.

There were no trading gains or losses for the years ended September 30, 2020 and 2019.

The following is a summary of the reported net gains on trading account securities for the year ended September 30, 2018:

<i>(In thousands)</i>	<b>2018</b>
Net realized gain on sales	\$ 43
Net unrealized loss on securities held as of the balance sheet date	—
Net gain on trading account securities	<u>\$ 43</u>

*Securities Available for Sale and Held to Maturity*

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

<i>(In thousands)</i>	<b>Amortized Cost</b>	<b>Gross Unrealized Gain</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
<b>September 30, 2020:</b>				
Securities available for sale:				
Agency mortgage-backed	\$ 7,499	\$ 453	\$ —	\$ 7,952
Agency CMO	9,398	407	—	9,805
Privately-issued CMO	886	80	8	958
Privately-issued ABS	884	81	5	960
SBA certificates	639	58	3	694
Municipal bonds	168,472	13,180	56	181,596
Total securities available for sale	<u>\$ 187,778</u>	<u>\$ 14,259</u>	<u>\$ 72</u>	<u>\$ 201,965</u>
Securities held to maturity:				
Agency mortgage-backed	\$ 82	\$ 7	\$ —	\$ 89
Municipal bonds	2,020	276	—	2,296
Total securities held to maturity	<u>\$ 2,102</u>	<u>\$ 283</u>	<u>\$ —</u>	<u>\$ 2,385</u>

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<i>(In thousands)</i>	<u>Amortized Cost</u>	<u>Gross Unrealized Gain</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
<b>September 30, 2019:</b>				
Securities available for sale:				
Agency mortgage-backed	\$ 13,743	\$ 366	\$ 12	\$ 14,097
Agency CMO	8,834	221	7	9,048
Privately-issued CMO	1,242	142	2	1,382
Privately-issued ABS	1,022	156	—	1,178
SBA certificates	1,119	41	6	1,154
Municipal bonds	141,995	8,465	17	150,443
Total securities available for sale	<u>\$ 167,955</u>	<u>\$ 9,391</u>	<u>\$ 44</u>	<u>\$ 177,302</u>
Securities held to maturity:				
Agency mortgage-backed	\$ 102	\$ 7	\$ —	\$ 109
Municipal bonds	2,234	327	—	2,561
Total securities held to maturity	<u>\$ 2,336</u>	<u>\$ 334</u>	<u>\$ —</u>	<u>\$ 2,670</u>

The amortized cost and fair value of available for sale and held to maturity debt securities as of September 30, 2020 by contractual maturity are shown below. Expected maturities of mortgage and other asset-backed securities may differ from contractual maturities because the mortgages and other assets underlying the obligations may be prepaid without penalty.

	<u>Available for Sale</u>		<u>Held to Maturity</u>	
	<u>Amortized Cost</u>	<u>Fair Value</u>	<u>Amortized Cost</u>	<u>Fair Value</u>
	<i>(In thousands)</i>			
Due within one year	\$ 4,845	\$ 4,933	\$ 247	\$ 277
Due after one year through five years	29,929	31,229	1,019	1,153
Due after five years through ten years	27,453	29,605	683	784
Due after ten years	106,245	115,829	71	82
CMO	10,284	10,763	—	—
ABS	884	960	—	—
SBA certificates	639	694	—	—
Mortgage-backed securities	7,499	7,952	82	89
	<u>\$ 187,778</u>	<u>\$ 201,965</u>	<u>\$ 2,102</u>	<u>\$ 2,385</u>

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(4 – continued)

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

	Number of Investment Positions	Fair Value	Gross Unrealized Losses
		<i>(Dollars in thousands)</i>	
<b>September 30, 2020:</b>			
Securities available for sale:			
Continuous loss position less than twelve months:			
Privately-issued ABS	1	\$ 446	\$ 5
Municipal bonds	2	2,444	56
Total less than twelve months	3	2,890	61
Continuous loss position more than twelve months:			
Privately-issued CMO	1	26	8
SBA certificates	1	188	3
Total more than twelve months	2	214	11
Total securities available for sale	5	\$ 3,104	\$ 72
<b>September 30, 2019:</b>			
Securities available for sale:			
Continuous loss position less than twelve months:			
Agency mortgage-backed	3	\$ 1,248	\$ 1
Agency CMO	1	1,962	1
Municipal bonds	3	1,694	16
Total less than twelve months	7	4,904	18
Continuous loss position more than twelve months:			
Agency mortgage-backed	2	785	11
Agency CMO	2	956	6
Privately-issued CMO	1	33	2
SBA certificates	1	451	6
Municipal bonds	1	140	1
Total more than twelve months	7	2,365	26
Total securities available for sale	14	\$ 7,269	\$ 44

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

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

The total available for sale debt securities in loss positions at September 30, 2020, which consisted of privately-issued ABS, privately-issued CMOs, SBA certificates, and municipal bonds, had depreciated approximately 2.27% from the Company's amortized cost basis and are fixed and variable rate securities with a weighted-average yield of 1.42% and a weighted-average coupon rate of 1.56% at September 30, 2020. All of the municipal securities are issued by municipal governments, and are generally secured by first mortgage loans and municipal project revenues.

The Company evaluates the existence of a potential credit loss component related to the decline in fair value of the privately-issued CMO and ABS portfolios each quarter using an independent third party analysis. At September 30, 2020, the Company held 12 privately-issued CMO and ABS securities acquired in a 2009 bank acquisition with an aggregate amortized cost of \$918,000 and fair value of \$986,000 that have been downgraded to a substandard regulatory classification due to a downgrade of the security's credit quality rating by various rating agencies.

At September 30, 2020, one privately-issued CMO and one privately-issued ABS were in a loss position and had depreciated approximately 2.78% from the Company's carrying value. These securities were collateralized by residential mortgage loans, had a total fair value of \$472,000 and a total unrealized loss of \$13,000 at September 30, 2020, and were rated below investment grade by various rating agencies. Based on the independent third party analysis of the expected cash flows, management has determined that the declines in fair value for these securities are temporary and, as a result, no other-than-temporary impairment is required to be recognized. While the Company does not anticipate additional credit-related impairment losses at September 30, 2020, additional deterioration in market and economic conditions may have an adverse impact on the credit quality in the future and therefore, require additional credit-related impairment charges.

There were no other-than-temporary write-downs charged to earnings during the years ended September 30, 2020 and 2019. During the year ended September 30, 2018, the Company recognized an other-than-temporary write-down charge to earnings of \$95,000 representing the total amortized cost of a privately-issued CMO. The security was determined to be other-than-temporarily impaired and the Company does not anticipate recovering its investment in the security.

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

**FIRST SAVINGS FINANCIAL GROUP, INC.**  
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The following is a summary of the reported gross gains and losses on sales of available for sale securities and time deposits for the years ended September 30, 2020, 2019 and 2018:

<i>(In thousands)</i>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Gross realized gains on sales	\$ 17	\$ 68	\$ 119
Gross realized losses on sales	(10)	(142)	(20)
Net realized gain (loss) on sales of available for sale securities and time deposits	<u>\$ 7</u>	<u>\$ (74)</u>	<u>\$ 99</u>

Certain available for sale debt securities were pledged to secure FHLB borrowings at September 30, 2020 and 2019, and may be pledged to secure federal funds borrowings (see Notes 11, 12 and 13).

At September 30, 2020 and 2019, there were no holdings of securities of any one issuer, other than the U.S government and its agencies, with an aggregate book value greater than 10% of the Company's consolidated stockholders' equity.

(5) **LOANS AND ALLOWANCE FOR LOAN LOSSES**

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

	<u>2020</u>	<u>2019</u>
	<i>(In thousands)</i>	
<b>Real estate mortgage:</b>		
1-4 family residential	\$ 191,781	\$ 197,472
Commercial	141,522	170,763
Single tenant net lease	334,636	223,392
SBA	55,508	46,123
Multifamily residential	42,368	38,226
Residential construction	9,361	12,545
Commercial construction	6,941	3,332
Land and land development	9,403	10,536
Commercial business	60,513	53,557
SBA commercial business (1)	206,807	19,477
Consumer	50,576	44,661
Total loans	<u>1,109,416</u>	<u>820,084</u>
Deferred loan origination fees and costs, net (2)	(2,327)	614
Allowance for loan losses	<u>(17,026)</u>	<u>(10,040)</u>
Loans, net	<u>\$ 1,090,063</u>	<u>\$ 810,658</u>

(1) Includes \$180.6 million of PPP loans at September 30, 2020.

(2) Includes \$3.2 million of net deferred loan fees related to PPP loans at September 30, 2020.

At September 30, 2020 and 2019, the net unamortized premium on loans acquired from other financial institutions was \$245,000 and \$339,000, respectively.

**FIRST SAVINGS FINANCIAL GROUP, INC.**  
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(5 – continued)

The Company has entered into loan transactions with certain directors, officers and their affiliates (related parties). In the opinion of management, such indebtedness was incurred in the ordinary course of business on substantially the same terms as those prevailing at the time for comparable transactions with other persons and does not involve more than normal risk of collectability or present other unfavorable features.

The following is a summary of activity for related party loans for the years ended September 30, 2020 and 2019:

<i>(In thousands)</i>	<b>2020</b>	<b>2019</b>
Beginning balance	\$ 9,115	\$ 8,231
New loans and advances	8,438	3,906
Repayments	(4,162)	(2,875)
Loans sold	(4,250)	—
Reclassifications due to officer and director changes	(1,425)	(147)
Ending balance	<u>\$ 7,716</u>	<u>\$ 9,115</u>

Off-balance-sheet commitments (including commitments to make loans, unused lines of credit and letters of credit) to related parties at September 30, 2020 and 2019 were \$2.6 million and \$2.4 million, respectively.

**FIRST SAVINGS FINANCIAL GROUP, INC.**  
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(5 – continued)

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

Recorded Investment in Loans:	<u>Principal Loan Balance</u>	<u>Accrued Interest Receivable</u>	<u>Net Deferred Loan Origination Fees and Costs</u>	<u>Recorded Investment in Loans</u>
	<i>(In thousands)</i>			
Residential real estate	\$ 191,781	\$ 644	\$ (156)	\$ 192,269
Commercial real estate	141,522	812	(197)	142,137
Single tenant net lease	334,636	1,198	(234)	335,600
SBA commercial real estate	55,508	387	1,082	56,977
Multifamily	42,368	139	(37)	42,470
Residential construction	9,361	25	(28)	9,358
Commercial construction	6,941	24	(26)	6,939
Land and land development	9,403	20	(11)	9,412
Commercial business	60,513	186	43	60,742
SBA commercial business	206,807	975	(2,740)	205,042
Consumer	50,576	175	(23)	50,728
	<u>\$ 1,109,416</u>	<u>\$ 4,585</u>	<u>\$ (2,327)</u>	<u>\$ 1,111,674</u>
		<u>Individually Evaluated for Impairment</u>	<u>Collectively Evaluated for Impairment</u>	<u>Recorded Investment in Loans</u>
		<i>(In thousands)</i>		
Recorded Investment in Loans as Evaluated for Impairment:				
Residential real estate	\$	5,359	\$ 186,910	\$ 192,269
Commercial real estate		1,134	141,003	142,137
Single tenant net lease		—	335,600	335,600
SBA commercial real estate		6,927	50,050	56,977
Multifamily		698	41,772	42,470
Residential construction		—	9,358	9,358
Commercial construction		—	6,939	6,939
Land and land development		2	9,410	9,412
Commercial business		1,670	59,072	60,742
SBA commercial business		695	204,347	205,042
Consumer		199	50,529	50,728
		<u>\$ 16,684</u>	<u>\$ 1,094,990</u>	<u>\$ 1,111,674</u>

**FIRST SAVINGS FINANCIAL GROUP, INC.**  
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(5 – continued)

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

Recorded Investment in Loans:	<u>Principal Loan Balance</u>	<u>Accrued Interest Receivable</u> <i>(In thousands)</i>	<u>Net Deferred Loan Origination Fees and Costs</u>	<u>Recorded Investment in Loans</u>
Residential real estate	\$ 197,472	\$ 609	\$ (109)	\$ 197,972
Commercial real estate	170,763	612	(231)	171,144
Single tenant net lease	223,392	752	(138)	224,006
SBA commercial real estate	46,123	655	865	47,643
Multifamily	38,226	99	(33)	38,292
Residential construction	12,545	2	(33)	12,514
Commercial construction	3,332	36	(41)	3,327
Land and land development	10,536	29	(1)	10,564
Commercial business	53,557	206	39	53,802
SBA commercial business	19,477	242	327	20,046
Consumer	44,661	87	(31)	44,717
	<u>\$ 820,084</u>	<u>\$ 3,329</u>	<u>\$ 614</u>	<u>\$ 824,027</u>

  

Recorded Investment in Loans as Evaluated for Impairment:	<u>Individually Evaluated for Impairment</u>	<u>Collectively Evaluated for Impairment</u> <i>(In thousands)</i>	<u>Recorded Investment in Loans</u>
Residential real estate	\$ 4,448	\$ 193,524	\$ 197,972
Commercial real estate	5,282	165,862	171,144
Single tenant net lease	—	224,006	224,006
SBA commercial real estate	2,365	45,278	47,643
Multifamily	—	38,292	38,292
Residential construction	—	12,514	12,514
Commercial construction	—	3,327	3,327
Land and land development	—	10,564	10,564
Commercial business	105	53,697	53,802
SBA commercial business	—	20,046	20,046
Consumer	234	44,483	44,717
	<u>\$ 12,434</u>	<u>\$ 811,593</u>	<u>\$ 824,027</u>



**FIRST SAVINGS FINANCIAL GROUP, INC.**  
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(5 – continued)

The following table presents the balance in the allowance for loan losses by portfolio segment and based on impairment method as of September 30, 2020 and 2019:

	<u>Individually Evaluated for Impairment</u>	<u>Collectively Evaluated for Impairment</u>	<u>Ending Balance</u>
<b>2020:</b>		<i>(In thousands)</i>	
Residential real estate	\$ 30	\$ 1,225	\$ 1,255
Commercial real estate	—	3,058	3,058
Single tenant net lease	—	3,017	3,017
SBA commercial real estate	1,366	2,788	4,154
Multifamily	—	772	772
Residential construction	—	243	243
Commercial construction	—	181	181
Land and land development	—	243	243
Commercial business	—	1,449	1,449
SBA commercial business	47	1,492	1,539
Consumer	—	1,115	1,115
	<u>\$ 1,443</u>	<u>\$ 15,583</u>	<u>\$ 17,026</u>
<b>2019:</b>			
Residential real estate	\$ 10	\$ 307	\$ 317
Commercial real estate	—	2,540	2,540
Single tenant net lease	—	1,675	1,675
SBA commercial real estate	512	1,781	2,293
Multifamily	—	478	478
Residential construction	—	248	248
Commercial construction	—	67	67
Land and land development	—	209	209
Commercial business	—	889	889
SBA commercial business	—	750	750
Consumer	23	551	574
	<u>\$ 545</u>	<u>\$ 9,495</u>	<u>\$ 10,040</u>

**FIRST SAVINGS FINANCIAL GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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(5 – continued)

The following table presents the activity in the allowance for loan losses by portfolio segment for the years ended September 30, 2020 and 2019:

	<u>Beginning Balance</u>	<u>Provisions</u>	<u>Charge-Offs</u> <i>(In thousands)</i>	<u>Recoveries</u>	<u>Ending Balance</u>
<b>2020:</b>					
Residential real estate	\$ 317	\$ 945	\$ (36)	\$ 29	\$ 1,255
Commercial real estate	2,540	614	(102)	6	3,058
Single tenant net lease	1,675	1,342	—	—	3,017
SBA commercial real estate	2,293	2,175	(360)	46	4,154
Multifamily	478	294	—	—	772
Residential construction	248	(5)	—	—	243
Commercial construction	67	114	—	—	181
Land and land development	209	28	—	6	243
Commercial business	889	567	(38)	31	1,449
SBA commercial business	750	1,109	(396)	76	1,539
Consumer	574	779	(238)	—	1,115
	<u>\$ 10,040</u>	<u>\$ 7,962</u>	<u>\$ (1,170)</u>	<u>\$ 194</u>	<u>\$ 17,026</u>
<b>2019:</b>					
Residential real estate	\$ 278	\$ 30	\$ (21)	\$ 30	\$ 317
Commercial real estate	2,493	45	—	2	2,540
Single tenant net lease	2,843	(1,168)	—	—	1,675
SBA commercial real estate	1,581	1,286	(574)	—	2,293
Multifamily	195	283	—	—	478
Residential construction	388	(140)	—	—	248
Commercial construction	96	(29)	—	—	67
Land and land development	210	(1)	—	—	209
Commercial business	647	237	(8)	13	889
SBA commercial business	394	427	(71)	—	750
Consumer	198	493	(174)	57	574
	<u>\$ 9,323</u>	<u>\$ 1,463</u>	<u>\$ (848)</u>	<u>\$ 102</u>	<u>\$ 10,040</u>

**FIRST SAVINGS FINANCIAL GROUP, INC.**  
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(5 – continued)

The following table presents the activity in the allowance for loan losses by portfolio segment for the year ended September 30, 2018:

	<u>Beginning Balance</u>	<u>Provisions</u>	<u>Charge-Offs</u> <i>(In thousands)</i>	<u>Recoveries</u>	<u>Ending Balance</u>
<b>2018:</b>					
Residential real estate	\$ 252	\$ 18	\$ (98)	\$ 106	\$ 278
Commercial real estate	2,342	151	—	—	2,493
Single tenant net lease	2,696	147	—	—	2,843
SBA commercial real estate	826	755	—	—	1,581
Multifamily	106	89	—	—	195
Residential construction	347	41	—	—	388
Commercial construction	338	(242)	—	—	96
Land and land development	223	(13)	—	—	210
Commercial business	625	10	—	12	647
SBA commercial business	214	180	—	—	394
Consumer	123	217	(223)	81	198
	<u>\$ 8,092</u>	<u>\$ 1,353</u>	<u>\$ (321)</u>	<u>\$ 199</u>	<u>\$ 9,323</u>

**FIRST SAVINGS FINANCIAL GROUP, INC.**  
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(5 – continued)

The following table presents impaired loans individually evaluated for impairment as of and for the year ended September 30, 2020. The Company did not recognize any interest income on impaired loans using the cash receipts method of accounting for the year ended September 30, 2020.

	<u>Recorded Investment</u>	<u>Unpaid Principal Balance</u>	<u>Related Allowance</u> <i>(In thousands)</i>	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>
Loans with no related allowance recorded:					
Residential real estate	\$ 5,185	\$ 5,697	\$ —	\$ 5,411	\$ 127
Commercial real estate	1,134	1,185	—	3,914	167
Single tenant net lease	—	—	—	—	—
SBA commercial real estate	1,245	1,178	—	586	—
Multifamily	698	700	—	421	—
Residential construction	—	—	—	—	—
Commercial construction	—	—	—	—	—
Land and land development	2	1	—	1	—
Commercial business	1,670	1,675	—	745	1
SBA commercial business	322	416	—	250	—
Consumer	61	63	—	72	3
	<u>\$ 10,317</u>	<u>\$ 10,915</u>	<u>\$ —</u>	<u>\$ 11,400</u>	<u>\$ 298</u>
Loans with an allowance recorded:					
Residential real estate	\$ 174	\$ 175	\$ 30	\$ 59	\$ —
Commercial real estate	—	—	—	20	—
Single tenant net lease	—	—	—	—	—
SBA commercial real estate	5,682	6,086	1,366	5,048	—
Multifamily	—	—	—	—	—
Residential construction	—	—	—	—	—
Commercial construction	—	—	—	—	—
Land and land development	—	—	—	—	—
Commercial business	—	—	—	328	—
SBA commercial business	373	399	47	143	—
Consumer	138	138	—	154	—
	<u>\$ 6,367</u>	<u>\$ 6,798</u>	<u>\$ 1,443</u>	<u>\$ 5,752</u>	<u>\$ —</u>
Total:					
Residential real estate	\$ 5,359	\$ 5,872	\$ 30	\$ 5,470	\$ 127
Commercial real estate	1,134	1,185	—	3,934	167
Single tenant net lease	—	—	—	—	—
SBA commercial real estate	6,927	7,264	1,366	5,634	—
Multifamily	698	700	—	421	—
Residential construction	—	—	—	—	—
Commercial construction	—	—	—	—	—
Land and land development	2	1	—	1	—
Commercial business	1,670	1,675	—	1,073	1
SBA commercial business	695	815	47	393	—
Consumer	199	201	—	226	3
	<u>\$ 16,684</u>	<u>\$ 17,713</u>	<u>\$ 1,443</u>	<u>\$ 17,152</u>	<u>\$ 298</u>

**FIRST SAVINGS FINANCIAL GROUP, INC.**  
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(5 – continued)

The following table presents impaired loans individually evaluated for impairment as of and for the year ended September 30, 2019. The Company did not recognize any interest income on impaired loans using the cash receipts method of accounting for the year ended September 30, 2019.

	<u>Recorded Investment</u>	<u>Unpaid Principal Balance</u>	<u>Related Allowance</u> <i>(In thousands)</i>	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>
Loans with no related allowance recorded:					
Residential real estate	\$ 4,438	\$ 4,967	\$ —	\$ 5,037	\$ 115
Commercial real estate	5,282	5,264	—	6,225	305
Single tenant net lease	—	—	—	—	—
SBA commercial real estate	119	144	—	112	—
Multifamily	—	—	—	—	—
Residential construction	—	—	—	—	—
Commercial construction	—	—	—	—	—
Land and land development	—	—	—	6	—
Commercial business	105	106	—	183	7
SBA commercial business	—	—	—	32	—
Consumer	78	81	—	107	4
	<u>\$ 10,022</u>	<u>\$ 10,562</u>	<u>\$ —</u>	<u>\$ 11,702</u>	<u>\$ 431</u>
Loans with an allowance recorded:					
Residential real estate	\$ 10	\$ 7	\$ 10	\$ 122	\$ —
Commercial real estate	—	—	—	10	—
Single tenant net lease	—	—	—	—	—
SBA commercial real estate	2,246	2,637	512	2,116	—
Multifamily	—	—	—	—	—
Residential construction	—	—	—	—	—
Commercial construction	—	—	—	—	—
Land and land development	—	—	—	—	—
Commercial business	—	—	—	10	—
SBA commercial business	—	—	—	18	—
Consumer	156	155	23	157	—
	<u>\$ 2,412</u>	<u>\$ 2,799</u>	<u>\$ 545</u>	<u>\$ 2,433</u>	<u>\$ —</u>
Total:					
Residential real estate	\$ 4,448	\$ 4,974	\$ 10	\$ 5,159	\$ 115
Commercial real estate	5,282	5,264	—	6,235	305
Single tenant net lease	—	—	—	—	—
SBA commercial real estate	2,365	2,781	512	2,228	—
Multifamily	—	—	—	—	—
Residential construction	—	—	—	—	—
Commercial construction	—	—	—	—	—
Land and land development	—	—	—	6	—
Commercial business	105	106	—	193	7
SBA commercial business	—	—	—	50	—
Consumer	234	236	23	264	4
	<u>\$ 12,434</u>	<u>\$ 13,361</u>	<u>\$ 545</u>	<u>\$ 14,135</u>	<u>\$ 431</u>

**FIRST SAVINGS FINANCIAL GROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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(5 – continued)

The following table presents impaired loans individually evaluated for impairment as of and for the year ended September 30, 2018. The Company did not recognize any interest income on impaired loans using the cash receipts method of accounting for the year ended September 30, 2018.

	<u>Recorded Investment</u>	<u>Unpaid Principal Balance</u>	<u>Related Allowance</u> <i>(In thousands)</i>	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>
Loans with no related allowance recorded:					
Residential real estate	\$ 4,833	\$ 5,285	\$ —	\$ 5,082	\$ 142
Commercial real estate	6,435	6,569	—	6,683	312
Single tenant net lease	—	—	—	—	—
SBA commercial real estate	133	146	—	11	—
Multifamily	—	—	—	—	—
Residential construction	—	—	—	—	—
Commercial construction	—	—	—	—	—
Land and land development	27	28	—	29	—
Commercial business	231	241	—	316	13
SBA commercial business	—	—	—	—	—
Consumer	122	123	—	120	4
	<u>\$ 11,781</u>	<u>\$ 12,392</u>	<u>\$ —</u>	<u>\$ 12,241</u>	<u>\$ 471</u>
Loans with an allowance recorded:					
Residential real estate	\$ 274	\$ 282	\$ 7	\$ 315	\$ —
Commercial real estate	70	117	5	9	—
Single tenant net lease	—	—	—	—	—
SBA commercial real estate	1,081	1,176	487	247	—
Multifamily	—	—	—	—	—
Residential construction	—	—	—	—	—
Commercial construction	—	—	—	—	—
Land and land development	—	—	—	—	—
Commercial business	—	—	—	—	—
SBA commercial business	—	—	—	—	—
Consumer	121	128	12	137	—
	<u>\$ 1,546</u>	<u>\$ 1,703</u>	<u>\$ 511</u>	<u>\$ 708</u>	<u>\$ —</u>
Total:					
Residential real estate	\$ 5,107	\$ 5,567	\$ 7	\$ 5,397	\$ 142
Commercial real estate	6,505	6,686	5	6,692	312
Single tenant net lease	—	—	—	—	—
SBA commercial real estate	1,214	1,322	487	258	—
Multifamily	—	—	—	—	—
Residential construction	—	—	—	—	—
Commercial construction	—	—	—	—	—
Land and land development	27	28	—	29	—
Commercial business	231	241	—	316	13
SBA commercial business	—	—	—	—	—
Consumer	243	251	12	257	4
	<u>\$ 13,327</u>	<u>\$ 14,095</u>	<u>\$ 511</u>	<u>\$ 12,949</u>	<u>\$ 471</u>

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Nonperforming loans consist of nonaccrual loans and loans over 90 days past due and still accruing interest. The following table presents the recorded investment in nonperforming loans at September 30, 2020 and 2019:

	At September 30, 2020			At September 30, 2019		
	Nonaccrual Loans	Loans 90+ Days Past Due Still Accruing	Total Nonperforming Loans	Nonaccrual Loans	Loans 90+ Days Past Due Still Accruing	Total Nonperforming Loans
	<i>(In thousands)</i>					
Residential real estate	\$ 2,797	\$ —	\$ 2,797	\$ 2,580	\$ 12	\$ 2,592
Commercial real estate	685	—	685	60	—	60
Single tenant net lease	—	—	—	—	—	—
SBA commercial real estate	6,927	—	6,927	2,365	—	2,365
Multifamily	698	—	698	—	—	—
Residential construction	—	—	—	—	—	—
Commercial construction	—	—	—	—	—	—
Land and land development	2	—	2	—	—	—
Commercial business	1,668	—	1,668	—	—	—
SBA commercial business	695	—	695	—	—	—
Consumer	143	—	143	163	—	163
<b>Total</b>	<b>\$ 13,615</b>	<b>\$ —</b>	<b>\$ 13,615</b>	<b>\$ 5,168</b>	<b>\$ 12</b>	<b>\$ 5,180</b>

The following table presents the aging of the recorded investment in past due loans at September 30, 2020:

	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current	Total Loans
		<i>(In thousands)</i>				
Residential real estate	\$ 1,693	\$ 480	\$ 1,631	\$ 3,804	\$ 188,465	\$ 192,269
Commercial real estate	109	—	685	794	141,343	142,137
Single tenant net lease	—	—	—	—	335,600	335,600
SBA commercial real estate	—	—	1,874	1,874	55,103	56,977
Multifamily	—	—	—	—	42,470	42,470
Residential construction	—	—	—	—	9,358	9,358
Commercial construction	—	—	—	—	6,939	6,939
Land and land development	—	—	2	2	9,410	9,412
Commercial business	63	—	—	63	60,679	60,742
SBA commercial business	373	—	322	695	204,347	205,042
Consumer	233	59	4	296	50,432	50,728
<b>Total</b>	<b>\$ 2,471</b>	<b>\$ 539</b>	<b>\$ 4,518</b>	<b>\$ 7,528</b>	<b>\$ 1,104,146</b>	<b>\$ 1,111,674</b>

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

	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current	Total Loans
	<i>(In thousands)</i>					
Residential real estate	\$ 1,619	\$ 577	\$ 1,121	\$ 3,317	\$ 194,655	\$ 197,972
Commercial real estate	—	102	—	102	171,042	171,144
Single tenant net lease	—	—	—	—	224,006	224,006
SBA commercial real estate	892	670	1,523	3,085	44,558	47,643
Multifamily	—	—	—	—	38,292	38,292
Residential construction	—	—	—	—	12,514	12,514
Commercial construction	—	—	—	—	3,327	3,327
Land and land development	—	—	—	—	10,564	10,564
Commercial business	44	—	—	44	53,758	53,802
SBA commercial business	138	—	—	138	19,908	20,046
Consumer	77	17	19	113	44,604	44,717
<b>Total</b>	<b>\$ 2,770</b>	<b>\$ 1,366</b>	<b>\$ 2,663</b>	<b>\$ 6,799</b>	<b>\$ 817,228</b>	<b>\$ 824,027</b>

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

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

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

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

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



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Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans. The following table presents the recorded investment in loans by risk category as of September 30, 2020:

	<u>Pass</u>	<u>Special Mention</u>	<u>Substandard</u>	<u>Doubtful</u>	<u>Loss</u>	<u>Total</u>
	<i>(In thousands)</i>					
<b>September 30, 2020:</b>						
Residential real estate	\$ 188,707	\$ —	\$ 3,435	\$ 127	\$ —	\$ 192,269
Commercial real estate	133,685	4,112	4,340	—	—	142,137
Single tenant net lease	335,600	—	—	—	—	335,600
SBA commercial real estate	38,124	6,518	12,335	—	—	56,977
Multifamily	41,772	—	698	—	—	42,470
Residential construction	9,358	—	—	—	—	9,358
Commercial construction	6,939	—	—	—	—	6,939
Land and land development	9,410	—	2	—	—	9,412
Commercial business	58,707	235	1,800	—	—	60,742
SBA commercial business	200,578	294	4,170	—	—	205,042
Consumer	50,701	—	27	—	—	50,728
Total	<u>\$ 1,073,581</u>	<u>\$ 11,159</u>	<u>\$ 26,807</u>	<u>\$ 127</u>	<u>\$ —</u>	<u>\$ 1,111,674</u>

The following table presents the recorded investment in loans by risk category as of September 30, 2019:

	<u>Pass</u>	<u>Special Mention</u>	<u>Substandard</u>	<u>Doubtful</u>	<u>Loss</u>	<u>Total</u>
	<i>(In thousands)</i>					
<b>September 30, 2019:</b>						
Residential real estate	\$ 193,967	\$ —	\$ 3,946	\$ 59	\$ —	\$ 197,972
Commercial real estate	167,029	102	4,013	—	—	171,144
Single tenant net lease	224,006	—	—	—	—	224,006
SBA commercial real estate	38,397	802	8,444	—	—	47,643
Multifamily	37,823	—	469	—	—	38,292
Residential construction	12,514	—	—	—	—	12,514
Commercial construction	3,327	—	—	—	—	3,327
Land and land development	10,564	—	—	—	—	10,564
Commercial business	51,479	—	2,323	—	—	53,802
SBA commercial business	19,571	—	475	—	—	20,046
Consumer	44,618	—	97	2	—	44,717
Total	<u>\$ 803,295</u>	<u>\$ 904</u>	<u>\$ 19,767</u>	<u>\$ 61</u>	<u>\$ —</u>	<u>\$ 824,027</u>

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*Troubled Debt Restructurings*

The following table summarizes TDRs by accrual status at September 30, 2020 and 2019. There was \$538,000 of specific reserve included in the allowance for loan losses related to TDRs at September 30, 2020. There was no specific reserve included in the allowance for loan losses related to TDRs at September 30, 2019.

	<u>Accruing</u>	<u>Nonaccrual</u>	<u>Total</u>
		<i>(In thousands)</i>	
<b>September 30, 2020:</b>			
Residential real estate	\$ 2,562	\$ 116	\$ 2,678
Commercial real estate	449	512	961
SBA commercial real estate	—	3,800	3,800
Multifamily	—	698	698
Commercial business	2	1,668	1,670
Consumer	56	—	56
	<u>3,069</u>	<u>6,794</u>	<u>9,863</u>
Total	<u>\$ 3,069</u>	<u>\$ 6,794</u>	<u>\$ 9,863</u>
<b>September 30, 2019:</b>			
Residential real estate	\$ 1,868	\$ 351	\$ 2,219
Commercial real estate	5,222	59	5,281
Commercial business	105	—	105
Consumer	70	—	70
	<u>7,265</u>	<u>410</u>	<u>7,675</u>
Total	<u>\$ 7,265</u>	<u>\$ 410</u>	<u>\$ 7,675</u>

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There were no TDRs that were restructured during the year ended September 30, 2019. The following table summarizes information in regard to TDRs that were restructured during the years ended September 30, 2020 and 2018.

	<u>Number of Loans</u>	<u>Pre- Modification Principal Balance</u>	<u>Post- Modification Principal Balance</u>
		<i>(Dollars in thousands)</i>	
<b>September 30, 2020:</b>			
Residential real estate	1	\$ 1,099	\$ 1,100
SBA commercial real estate	1	3,832	3,832
Multifamily	2	700	700
Commercial business	9	1,737	1,737
<b>Total</b>	<b>13</b>	<b>\$ 7,368</b>	<b>\$ 7,369</b>
<b>September 30, 2018:</b>			
Residential real estate	1	\$ 140	\$ 120
Commercial real estate	1	1,674	1,674
Commercial business	1	170	170
Consumer	1	3	3
<b>Total</b>	<b>4</b>	<b>\$ 1,987</b>	<b>\$ 1,967</b>

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

For the TDRs listed above, the terms of modification included temporary interest-only payment periods, reduction of the stated interest rate, extension of the maturity date, deferral of the contractual principal and interest payments, and the renewal of matured loans where the debtor was unable to access funds elsewhere at a market interest rate for debt with similar risk characteristics.

There were no principal charge-offs recorded as a result of TDRs during the years ended September 30, 2020, 2019 and 2018. Provisions for loan losses related to TDRs totaled \$538,000 and \$5,000 for the years ended September 30, 2020 and 2018, respectively. There were no provisions for loan losses related to TDRs for the year ended September 30, 2019. In the event that a TDR subsequently defaults, the Company evaluates the restructuring for possible impairment. As a result, the related allowance for loan losses may be increased or charge-offs may be taken to reduce the carrying amount of the loan.

During the year ended September 30, 2019, the Company had one TDR that was modified within the previous twelve months for which there was a payment default (defined as more than 90 days past due or in the process of foreclosure). The outstanding balance of that TDR at September 30, 2019 was \$114,000. During the years ended September 30, 2020 and 2018, the Company did not have any TDRs that were modified within the previous twelve months for which there was a payment default (defined as more than 90 days past due or in the process of foreclosure).

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On March 22, 2020, the federal banking agencies issued an "Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus". This guidance encourages financial institutions to work prudently with borrowers that may be unable to meet their contractual obligations because of the effects of COVID-19. The guidance indicates that, in consultation with the FASB, the federal banking agencies concluded that short-term modifications (e.g., six months) made on a good faith basis to borrowers who were current as of the implementation date of a relief program are not TDRs. The CARES Act also addressed COVID-19 related modifications and specified that COVID-19 related modifications on loans that were current as of December 31, 2019 are not TDRs. Through September 30, 2020, the Company had approved payment extensions or loan forbearance agreements using this guidance on approximately \$88.1 million of balances in the loan portfolio, of which \$79.5 million related to commercial real estate, \$7.1 million related to residential real estate and consumer loans, and \$1.5 million related to SBA lending relationships. These payment extensions or loan forbearance agreements are generally for periods of three months or less, but may be extended if the borrower continues to be impacted by the COVID-19 pandemic. At September 30, 2020, loans totaling \$14.1 million remained under the Company's payment extension program or a loan forbearance agreement, of which \$13.4 million related to commercial real estate and \$713,000 related to residential real estate and consumer loans.

*SBA Loan Servicing Rights*

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

The aggregate fair value of SBA loan servicing rights at September 30, 2020 and 2019 approximated its carrying value. A valuation model employed by an independent third party calculates the present value of future cash flows and is used to estimate fair value at the date of sale and on a quarterly basis for impairment analysis purposes. Management periodically compares the valuation model inputs and results to published industry data in order to validate the model results and assumptions. Key assumptions used to estimate the fair value of the SBA loan servicing rights at September 30, 2020 and 2019 were as follows:

Assumption	Range of Assumption (Weighted Average)	
	2020	2019
Discount rate	3.58% to 19.86% (8.36%)	6.82% to 26.61% (11.11%)
Prepayment rate	8.69% to 26.68% (17.46%)	6.80% to 21.17% (14.10%)

For purposes of impairment, risk characteristics such as interest rate, loan type, term and investor type are used to stratify the SBA loan servicing rights. Impairment is recognized through a valuation allowance to the extent that fair value is less than the carrying amount. Changes in the valuation allowance are reported in other noninterest income in the consolidated statements of income.

The unpaid principal balance of SBA loans serviced for others was \$209.1 million, \$165.0 million and \$120.6 million at September 30, 2020, 2019 and 2018, respectively. An analysis of loan servicing fees on SBA loans for the years ended September 30, 2020, 2019 and 2018 is as follows:

<i>(In thousands)</i>	2020	2019	2018
Late fees and ancillary fees earned	\$ 54	\$ 41	\$ 17
Net servicing income	1,806	1,245	863
SBA net servicing fees	<u>\$ 1,860</u>	<u>\$ 1,286</u>	<u>\$ 880</u>

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Contractually specified late fees and ancillary fees earned on SBA loans are included in interest income on loans in the consolidated statements of income. Net servicing income (contractually specified servicing fees offset by direct servicing expenses) related to SBA loans are included in other noninterest income in the consolidated statements of income.

An analysis of SBA loan servicing rights for the years ended September 30, 2020, 2019 and 2018 is as follows:

<i>(In thousands)</i>	<b>2020</b>	<b>2019</b>	<b>2018</b>
Balance as of October 1	\$ 3,030	\$ 2,405	\$ 1,389
Servicing rights capitalized	1,450	1,334	1,565
Amortization	(848)	(596)	(372)
Direct write-offs	—	(142)	—
Change in valuation allowance	116	29	(177)
Balance as of September 30	<u>\$ 3,748</u>	<u>\$ 3,030</u>	<u>\$ 2,405</u>

An analysis of the valuation allowance related to SBA loan servicing rights for the years ended September 30, 2020, 2019 and 2018 is as follows:

<i>(In thousands)</i>	<b>2020</b>	<b>2019</b>	<b>2018</b>
Balance as of October 1	\$ 148	\$ 177	\$ —
Additions (reductions) charged to earnings	(116)	113	177
Write-downs charged against allowance	—	(142)	—
Balance as of September 30	<u>\$ 32</u>	<u>\$ 148</u>	<u>\$ 177</u>

*Mortgage Servicing Rights ("MSRs")*

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

A valuation model employed by an independent third party calculates the present value of future cash flows and is used to value the MSRs on a monthly basis. Management periodically compares the valuation model inputs and results to published industry data in order to validate the model results and assumptions. Key assumptions used to estimate the fair value of the MSRs at September 30, 2020 and 2019 were as follows:

<b>Assumption</b>	<b>Range of Assumption (Weighted Average)</b>	
	<b>2020</b>	<b>2019</b>
Discount rate	9.25%	9.25%
Prepayment rate	2.99% to 86.98% (18.08%)	4.42% to 72.79% (18.75%)

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The unpaid principal balance of residential mortgage loans serviced for others was \$2.26 billion and \$91.6 million at September 30, 2020 and 2019, respectively. Custodial escrow balances maintained in connection with the foregoing loan servicing and other liabilities were \$19.3 million and \$427,000 at September 30, 2020 and 2019, respectively. Contractually specified servicing fees (net of direct servicing expenses), late fees and other ancillary fees of \$621,000 and \$30,000 are included in other noninterest income in the consolidated statements of income for the years ended September 30, 2020 and 2019, respectively.

Changes in the carrying value of MSRs accounted for at fair value for the years ended September 30, 2020 and 2019 were as follows:

<i>(In thousands)</i>	<b>2020</b>	<b>2019</b>
Fair value as of October 1	\$ 934	\$ —
Servicing rights capitalized	24,058	940
Changes in fair value related to:		
Loan repayments	(1,542)	(6)
Changes in valuation model inputs or assumptions	(1,747)	—
Fair value as of September 30	<u>\$ 21,703</u>	<u>\$ 934</u>

(6) **INVESTMENT IN HISTORIC TAX CREDIT ENTITY**

On October 15, 2014, the Bank entered into an agreement to participate in the rehabilitation of a certified historic structure located in Louisville, Kentucky with a regional commercial developer. As part of the agreement, the Bank committed to invest \$4.2 million into a limited liability company organized in the state of Kentucky by the commercial developer, for which it received a 99% equity interest in the entity and will receive an allocation of 99% of the operating profit and losses and any historic tax credits generated by the entity. The tax credits initially expected to be allocated to the Bank include federal rehabilitation investment credits totaling \$4.7 million available under Internal Revenue Code Section 47. Subsequently, during the quarter ended March 31, 2017, the estimate of tax credits increased to \$5.0 million and the Bank's investment in equity increased to \$4.5 million, or 90% of the anticipated credits to be received.

The Bank's investment in the historic tax credit entity is accounted for using the equity method of accounting. During the years ended September 30, 2020, 2019 and 2018, the Bank recognized income related to distributions from the historic tax credit entity of \$426,000, \$210,000 and \$585,000, respectively.

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(7) **PREMISES AND EQUIPMENT**

Premises and equipment consisted of the following at September 30, 2020 and 2019:

<i>(In thousands)</i>	<b>2020</b>	<b>2019</b>
Land and land improvements	\$ 4,071	\$ 2,816
Office buildings	20,062	17,575
Leasehold improvements	66	61
Furniture, fixtures and equipment	8,036	6,596
Construction in progress	1,057	1,193
	<u>33,292</u>	<u>28,241</u>
Less: accumulated depreciation	(8,880)	(9,003)
<b>Totals</b>	<b><u>\$ 24,412</u></b>	<b><u>\$ 19,238</u></b>

Depreciation expense recognized for premises and equipment for the years ended September 30, 2020, 2019 and 2018 is as follows:

<i>(In thousands)</i>	<b>2020</b>	<b>2019</b>	<b>2018</b>
Depreciation expense	\$ 1,576	\$ 1,305	\$ 920

In September 2016, the Bank sold property in conjunction with the sale of a real estate development. The Bank's property sold in the transaction consisted of a retail branch operated by the Bank and other retail space leased to a third-party tenant. In accordance with the purchase and sale agreement, the Bank executed a lease agreement with the buyer to lease back the portion of the property consisting of the retail branch. The lease has an initial term of 10 years and may be extended for up to six consecutive five-year periods. The Bank is accounting for the leaseback as an operating lease. The total gain realized on the sale of the property was \$471,000, with \$307,000 attributable to the retail branch property operated by the Bank and \$164,000 attributable to the other retail space. The gain on the other retail space was recognized in noninterest income in the consolidated statements of income in 2016. The gain attributable to the retail branch property was deferred and had a remaining balance of \$218,000 at September 30, 2019. On October 1, 2019, the Company adopted FASB ASC 842 and all subsequent updates that modified FASB ASC 842, which resulted in the recognition of the remaining deferred gain through a cumulative-effect adjustment to retained earnings. See Note 19 for additional information regarding the Company's leases.

(8) **OTHER REAL ESTATE OWNED**

Other real estate owned asset activity was as follows for the years ended September 30, 2020, 2019 and 2018:

<i>(In thousands)</i>	<b>2020</b>	<b>2019</b>	<b>2018</b>
Balance as of October 1	\$ 1,893	\$ 103	\$ 852
Acquired from FNBO	—	—	31
Transfers from loans to other real estate owned	—	114	133
Transfers from premises and equipment to REO	—	1,893	—
Direct write-downs	—	—	(63)
Sales	(165)	(217)	(827)
Other adjustments	—	—	(23)
<b>Balance as of September 30</b>	<b><u>\$ 1,728</u></b>	<b><u>\$ 1,893</u></b>	<b><u>\$ 103</u></b>

At September 30, 2020 and 2019, other real estate owned did not include any residential real estate properties where physical possession has been obtained. The recorded investment in consumer mortgage loans secured by residential real estate properties where formal foreclosure proceedings are in process was \$1.3 million at both September 30, 2020 and 2019.

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Net (gain) loss on other real estate owned for the years ended September 30, 2020, 2019 and 2018 was as follows:

<i>(In thousands)</i>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Net gain on sales	\$ (16)	\$ (78)	\$ (278)
Direct write-downs	—	—	63
Operating expenses, net of rental income	15	21	55
	<u>\$ (1)</u>	<u>\$ (57)</u>	<u>\$ (160)</u>

(9) **GOODWILL AND OTHER INTANGIBLES**

Goodwill and the core deposit intangibles acquired in the acquisitions of Community First Bank (“Community First”) on September 30, 2009, the First Federal Savings Bank of Elizabethtown, Inc. (“First Federal”) branches on July 6, 2012, and Dearmin/FNBO on February 9, 2018, are evaluated for impairment at least annually or more frequently upon the occurrence of an event or when circumstances indicate that the carrying amount is greater than its fair value. No impairment of goodwill or the core deposit intangibles was recognized during 2020, 2019, or 2018.

The changes in the carrying amount of goodwill for the years ended September 30, 2020, 2019 and 2018 are summarized as follows:

<i>(In thousands)</i>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Beginning balance	\$ 9,848	\$ 9,848	\$ 7,936
Acquisition of Dearmin/FNBO	—	—	1,912
Ending balance	<u>\$ 9,848</u>	<u>\$ 9,848</u>	<u>\$ 9,848</u>

The following is a summary of other intangible assets subject to amortization:

<i>(In thousands)</i>	<u>2020</u>	<u>2019</u>
Core deposit intangible acquired in Community First acquisition	\$ 2,741	\$ 2,741
Core deposit intangible acquired in First Federal branch acquisition	566	566
Core deposit intangible acquired in Dearmin/FNBO acquisition	1,487	1,487
Less accumulated amortization	(3,592)	(3,378)
Ending balance	<u>\$ 1,202</u>	<u>\$ 1,416</u>

Amortization expense on intangibles for the years ended September 30, 2020, 2019 and 2018 is summarized as follows:

<i>(In thousands)</i>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Amortization expense	\$ 214	\$ 312	\$ 453



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Estimated amortization expense for the core deposit intangibles for each of the ensuing five years and in the aggregate is as follows:

Years ending September 30:	<i>(In thousands)</i>
2021	\$ 214
2022	214
2023	214
2024	163
2025	163
2026 and thereafter	234
Total	<u>\$ 1,202</u>

(10) **DEPOSITS**

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

<i>(In thousands)</i>	<b>2020</b>	<b>2019</b>
Noninterest-bearing demand deposits	\$ 242,673	\$ 173,072
NOW accounts	218,581	173,746
Money market accounts	143,867	121,281
Savings accounts	142,609	120,393
Retail time deposits	168,276	146,227
Brokered time deposits	54,688	99,665
Reciprocal time deposits	77,382	—
Total	<u>\$ 1,048,076</u>	<u>\$ 834,384</u>

The aggregate amount of time deposit accounts with balances that met or exceeded the Federal Deposit Insurance Corporation (“FDIC”) insurance limit of \$250,000 was \$ 33.6 million and \$ 22.3 million at September 30, 2020 and 2019, respectively.

At September 30, 2020, scheduled maturities of time deposits were as follows:

Years ending September 30:	<i>(In thousands)</i>
2021	\$ 248,406
2022	25,022
2023	9,145
2024	8,906
2025	8,867
Total	<u>\$ 300,346</u>

The Bank held deposits for related parties of \$9.4 million and \$9.2 million at September 30, 2020 and 2019, respectively.

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(11) **FEDERAL FUNDS PURCHASED**

The Bank has entered into a federal funds purchased line of credit facility with another financial institution that established a line of credit not to exceed the lesser of \$20 million or 25% of the Bank's equity capital, excluding reserves. Availability under the line of credit is subject to continued borrower eligibility and expires on June 30, 2021 unless it is extended. The line of credit is intended to support short-term liquidity needs, and the agreement states that the Bank may borrow under the facility for up to seven consecutive days without pledging collateral to secure the borrowing. At September 30, 2020 and 2019, the Bank had no outstanding federal funds purchased under the facility.

The Bank has also entered into a separate federal funds purchased line of credit facility with another financial institution that established a discretionary line of credit not to exceed \$22 million. The line of credit is intended to support short-term liquidity needs. At September 30, 2020, the Bank had no outstanding federal funds purchased under the facility. At September 30, 2019, the Bank had \$4.0 million outstanding federal funds purchased under the facility.

The Bank has also entered into a separate federal funds purchased line of credit facility with another financial institution that established a discretionary line of credit not to exceed \$15 million. The line of credit is intended to support short-term liquidity needs. At September 30, 2020 and 2019, the Bank had no outstanding federal funds purchased under the facility.

(12) **REPURCHASE AGREEMENTS**

Repurchase agreements include retail repurchase agreements representing overnight borrowings from deposit customers.

There were no repurchase agreements outstanding as of September 30, 2020 and 2019.

Information concerning borrowings under retail repurchase agreements as of and for the years ended September 30, 2020, 2019 and 2018 is summarized as follows:

<i>(Dollars in thousands)</i>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Weighted average interest rate during the year	— %	0.25 %	0.25 %
Average balance during the year	—	\$ 1,075	\$ 1,350
Maximum month-end balance during the year	—	1,354	1,352

There were no available for sale securities underlying the repurchase agreements at September 30, 2020 and 2019.

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(13) **BORROWINGS FROM FEDERAL HOME LOAN BANK**

At September 30, 2020 and 2019 borrowings from the FHLB were as follows:

<i>(Dollars in thousands)</i>	2020		2019	
	Weighted Average Rate	Amount	Weighted Average Rate	Amount
Advances maturing in:				
2020	— %	\$ —	1.88 %	\$ 40,000
2021	1.26	40,000	2.12	30,000
2022	2.01	10,000	2.01	10,000
2023	—	—	—	—
2024	2.02	50,000	2.02	50,000
2025 and beyond	0.85	190,000	0.91	80,000
<b>Total advances</b>		<b>290,000</b>		<b>210,000</b>
<b>Line of credit balance</b>	0.50	<b>20,858</b>	2.33	<b>12,544</b>
<b>Total borrowings from FHLB</b>		<b>\$ 310,858</b>		<b>\$ 222,544</b>

The Bank entered into an Advances, Pledge and Security Agreement with the FHLB, allowing the Bank to initiate advances from the FHLB. The advances are secured under a blanket collateral agreement. At September 30, 2020, the eligible blanket collateral included residential mortgage loans with a carrying value of \$400.0 million and commercial real estate loans with a carrying value of \$382.9 million. There were no pledged available for sale securities at September 30, 2020.

On August 14, 2020, the Bank entered into an Overdraft Line of Credit Agreement with the FHLB which established a line of credit not to exceed \$30.0 million secured under the blanket collateral agreement. This agreement expires on August 16, 2021. At September 30, 2020, there was \$20.9 million outstanding under this agreement.

On June 19, 2014, the Bank entered into a Letter of Credit Agreement with the FHLB which established a letter of credit not to exceed \$3.3 million secured under the blanket collateral agreement. The agreement had an initial expiration date of July 1, 2015 and is automatically extended for one additional year for successive one-year periods, not to extend beyond July 3, 2034. At September 30, 2020, the maximum amount available under the letter of credit was \$2.1 million, and there was no outstanding balance under this agreement.

On May 31, 2017, the Bank entered into a Letter of Credit Agreement with the FHLB which established a letter of credit not to exceed \$2.2 million. The agreement had an initial expiration date of May 31, 2018 and is automatically extended for one additional year for successive one-year periods, not to extend beyond June 1, 2037. At September 30, 2020, the maximum amount available under the letter of credit was \$1.9 million, and there was no outstanding balance under this agreement.

The Bank has an irrevocable standby letter of credit issued by the FHLB to secure public funds deposits. The maximum amount available under the letter of credit was \$185.0 million at September 30, 2020, and there was no outstanding balance under this agreement.

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(14) **OTHER BORROWINGS**

On September 20, 2018, the Company entered into a subordinated note purchase agreement in the principal amount of \$20 million. The subordinated note initially bears a fixed interest rate of 6.02% per year through September 30, 2023, and thereafter a floating rate, reset quarterly, equal to the three-month LIBOR rate plus 310 basis points. All interest is payable quarterly and the subordinated note is scheduled to mature on September 30, 2028. The subordinated note is an unsecured subordinated obligation of the Company and may be repaid in whole or in part, without penalty, on or after September 30, 2023. The subordinated note is intended to qualify as Tier 2 capital for the Company under regulatory guidelines. The subordinated note is presented net of unamortized debt issuance costs of \$203,000 and \$271,000 at September 30, 2020 and 2019, respectively, in the accompanying consolidated balance sheet. The debt issuance costs are being amortized over five years, which represents the period from issuance to the first redemption date of September 30, 2023.

In April of 2020, the Company began utilizing the Federal Reserve PPP Liquidity Facility (“PPPLF”). The proceeds from the PPPLF were used to fund certain PPP loans, which are pledged as collateral to secure the borrowings. Borrowings under the PPPLF totaled \$174.8 million at September 30, 2020, and carry a fixed interest rate of 0.35%.

(15) **DEFERRED COMPENSATION PLANS**

The Company has deferred compensation agreements with former and current officers. The agreements provide for the payment of specific benefits following retirement. The balance of the accrued benefit for these agreements was \$208,000 and \$211,000 at September 30, 2020 and 2019, respectively.

Deferred compensation expense for the years ended September 30, 2020, 2019 and 2018 is as follows:

<i>(In thousands)</i>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Deferred compensation expense (income)	\$ (4)	\$ 80	\$ 51

The Company has a directors’ deferred compensation plan whereby a director, at his or her election on an annual basis, may defer all or a portion of the director fees into an account with the Company. The Company accrues interest on the deferred obligation at an annual rate equal to the prime rate for the immediately preceding calendar quarter plus 2%, but in no event at a rate in excess of 8%. The deferral period extends until separation from service by the director. The benefits under the plan are payable in a lump sum or in monthly installments over a period of up to ten years following the separation from service; however, the agreements provide for payment of benefits in the event of disability, early retirement, termination of service or death. The balance of the accrued benefit for the director plan was \$1.5 million and \$1.4 million at September 30, 2020 and 2019, respectively.

Deferred directors’ fees expense for the years ended September 30, 2020, 2019 and 2018 is as follows:

<i>(In thousands)</i>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Deferred directors’ fee expense	\$ 187	\$ 263	\$ 224

(16) **BENEFIT PLANS**

**Defined Contribution Plan:**

The Company has a qualified contributory defined contribution plan available to all eligible employees. The plan allows participating employees to make tax-deferred contributions under Internal Revenue Code Section 401(k).

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Company contributions to the plan for the years ended September 30, 2020, 2019 and 2018 is as follows:

<i>(In thousands)</i>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Company contributions to the plan	\$ 1,420	\$ 762	\$ 576

**Employee Stock Ownership Plan:**

On October 6, 2008, the Company established a leveraged ESOP covering substantially all employees. The ESOP trust acquired 203,363 shares of Company common stock at a cost of \$10.00 per share financed by a term loan with the Company. The employer loan and the related interest income are not recognized in the consolidated financial statements as the debt is serviced from Company contributions. Dividends payable on allocated shares are charged to retained earnings and are satisfied by the allocation of cash dividends to participant accounts or by utilizing the dividends as additional debt service on the ESOP loan. Dividends payable on unallocated shares are not considered dividends for financial reporting purposes. Shares held by the ESOP trust are allocated to participant accounts based on the ratio of the current year principal and interest payments to the total of the current year and future years' principal and interest to be paid on the employer loan. Compensation expense is recognized based on the average fair value of shares released for allocation to participant accounts during the year with a corresponding credit to stockholders' equity.

There was no compensation expense recognized for the years ended September 30, 2020, 2019 and 2018.

The employer loan was fully repaid in December 2015 and all shares of Company stock were allocated to participant accounts as of September 30, 2016. The ESOP trust held 119,654 and 136,219 shares of Company common stock allocated to participant accounts at September 30, 2020 and 2019, respectively.

(17) **STOCK-BASED COMPENSATION PLANS**

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

Stock based compensation expense related to stock options and restricted stock for the years ended September 30, 2020, 2019 and 2018 is as follows:

<i>(In thousands)</i>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Stock option expense	\$ 86	\$ 72	\$ 68
Restricted stock expense	193	173	148

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**Stock Options:**

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

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

The fair value of options granted during the years ended September 30, 2020, 2019 and 2018 was determined using the following assumptions:

Expected dividend yield	1.75 %
Risk-free interest rate	2.13 %
Expected volatility	14.6 %
Expected life of options	7.5 years
Weighted average fair value at grant date	\$ 6.13

A summary of stock option activity as of September 30, 2020, and changes during the year then ended is presented below.

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at beginning of year	84,806	\$ 34.13		
Granted	11,958	66.35		
Exercised	(28,361)	14.01		
Forfeited or expired	—	—		
Outstanding at end of year	<u>68,403</u>	\$ 48.11	6.9	\$ 659,000
Vested and expected to vest	<u>68,403</u>	\$ 48.11	6.9	\$ 659,000
Exercisable at end of year	<u>30,027</u>	\$ 42.91	6.3	\$ 377,000

The intrinsic value of stock options exercised during the years ended September 30, 2020, 2019 and 2018 was \$1.4 million, \$2.6 million and \$2.8 million, respectively. At September 30, 2020, there was \$161,000 of unrecognized compensation expense related to nonvested stock options. The compensation expense is expected to be recognized over a weighted average period of 2.57 years. Cash received from the exercise of stock options was \$148,000, \$408,000 and \$362,000 for the years ended September 30, 2020, 2019 and 2018, respectively. The tax benefit from the exercise of stock options was \$134,000, \$237,000 and \$204,000 for the years ended September 30, 2020, 2019 and 2018, respectively.

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**Restricted Stock:**

The vesting period of restricted stock granted under the plans is generally five years beginning one year after the date of grant of the awards. Compensation expense is measured based on the fair market value of the restricted stock at the grant date and is recognized ratably over the vesting period.

A summary of the Company's nonvested restricted shares activity as of September 30, 2020 and changes during the year then ended is presented below.

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

There were 4,086, 3,653 and 3,453 restricted shares vested during the years ended September 30, 2020, 2019 and 2018, respectively. The total fair value of restricted shares that vested during the years ended September 30, 2020, 2019 and 2018 was \$271,000, \$216,000 and \$195,000, respectively. At September 30, 2020, there was \$348,000 of unrecognized compensation expense related to nonvested restricted shares. The compensation expense is expected to be recognized over a weighted average period of 2.42 years.

(18) **INCOME TAXES**

The Company and its subsidiaries file consolidated income tax returns. The components of consolidated income tax expense were as follows for the years ended September 30, 2020, 2019 and 2018:

<i>(In thousands)</i>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Current	\$ 8,295	\$ 2,493	\$ 1,753
Valuation allowance	193	166	102
Deferred	4,173	436	567
Income tax expense	<u>\$ 12,661</u>	<u>\$ 3,095</u>	<u>\$ 2,422</u>

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The reconciliation of income tax expense with the amount which would have been provided at the federal statutory rate of 21% for the years ended September 30, 2020 and 2019, and the blended federal statutory rate of 24.5% for the year ended September 30, 2018 follows:

<i>(In thousands)</i>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Provision at federal statutory rate	\$ 9,816	\$ 4,219	\$ 3,616
State income tax-net of federal tax benefit	1,815	327	110
Federal tax rate change – 2017 Tax Cut and Jobs Act	—	—	(145)
Tax-exempt interest income	(962)	(890)	(917)
Bank owned life insurance	(154)	(111)	(104)
Captive insurance net premiums	(295)	(223)	(208)
Increase in federal deferred tax valuation allowance	193	166	102
Nondeductible officer compensation	2,373	—	—
Other	(125)	(393)	(32)
Income tax expense	<u>\$ 12,661</u>	<u>\$ 3,095</u>	<u>\$ 2,422</u>

Significant components of deferred tax assets and liabilities at September 30, 2020 and 2019 are as follows:

<i>(In thousands)</i>	<u>2020</u>	<u>2019</u>
<b>Deferred tax assets:</b>		
Allowance for loan losses	\$ 2,833	\$ 1,681
Operating lease liability	1,882	—
Deferred compensation plans	409	391
Equity incentive plans	45	48
Other-than-temporary impairment loss on available for sale securities	28	27
Interest on nonaccrual loans	191	111
Loss on tax credit investments	1,673	1,418
Deferred loan fees and costs, net	166	138
Investment in subsidiary	584	493
Other	423	65
Gross deferred tax assets	8,234	4,372
Valuation allowance	(1,681)	(1,412)
Net deferred tax assets	<u>6,553</u>	<u>2,960</u>
<b>Deferred tax liabilities:</b>		
Unrealized gain on securities available for sale	(2,980)	(2,017)
Accumulated depreciation	(1,611)	(690)
Operating lease right of use asset	(1,854)	—
Installment sale	(378)	(314)
Acquisition purchase accounting adjustments	(789)	(777)
Mortgage servicing rights	(5,401)	(223)
FHLB stock dividends	(88)	(84)
Prepaid expenses	(609)	(515)
Other	(67)	(107)
Deferred tax liabilities	<u>(13,777)</u>	<u>(4,727)</u>
Net deferred tax liability	<u>\$ (7,224)</u>	<u>\$ (1,767)</u>



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On December 22, 2017, the Tax Cuts and Jobs Act (the “Tax Act”) was signed into law. Among other things, the Tax Act reduced the Company’s corporate federal tax rate from 34% to 21% effective January 1, 2018. The Company files federal income tax returns on a September 30 fiscal year basis, so in accordance with Internal Revenue Code regulations, the Company’s federal income tax rate for the year ended September 30, 2018 was based on a blended rate of 24.5%. As a result of the Tax Act, the Company was required to re-measure, through income tax expense, deferred tax assets and liabilities using the enacted rate at which the Company expects them to be recovered or settled. The re-measurement of the net deferred tax liability resulted in an income tax benefit of approximately \$145,000 for the year ended September 30, 2018.

At March 31, 2018, the Company early adopted ASU 2018-02 and reclassified out of retained earnings and into accumulated other comprehensive income approximately \$619,000 of income tax benefit that was recorded through income tax expense at December 31, 2017 due to re-measuring to 21% deferred taxes on available for sale securities.

Tax laws enacted in 2013 and 2014 decrease the Indiana financial institutions tax rate beginning in 2014 and ending in 2023. Deferred taxes have been adjusted to reflect the newly enacted rates and the period in which temporary differences are expected to reverse.

In assessing the ability of the Company to realize the benefit of the deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, availability of operating loss carrybacks, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods which deferred tax assets are deductible, management believes it is more likely than not the Company will generate sufficient taxable income to realize the benefits of these deductible differences at September 30, 2020, except for a valuation allowance of \$1.7 million on the net deferred tax asset related to losses on historic tax credit investment entities totaling \$7.5 million. In assessing the need for a valuation allowance for the deferred tax assets for the historic tax credit investments, the Company considered all positive and negative evidence in assessing whether the weight of available evidence supports the recognition of some or all of the deferred tax assets related to the investments. Because of the tax nature of the loss to be recognized when the investments are ultimately sold (which for tax purposes will give rise to a capital loss for the historic tax credit investments), the Company may not be able to generate capital gains in the future to be able to utilize the capital losses from the investments. Therefore, the Company’s assessment of the deferred tax asset warrants the need for a valuation allowance.

At September 30, 2020 and 2019, the Company had no liability for unrecognized income tax benefits and does not anticipate any increase in the liability for unrecognized tax benefits during the next twelve months. The Company believes that its income tax positions would be sustained upon examination and does not anticipate any adjustments that would result in a material change to its financial position or results of operations. The Company files consolidated U.S. federal and Indiana state income tax returns. Returns filed in these jurisdictions for tax years ending on or after September 30, 2016 are subject to examination by the relevant taxing authorities. Each entity included in the consolidated federal and state income tax returns filed by the Company are charged or given credit for the applicable tax as though separate returns were filed.

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Retained earnings of the Bank at September 30, 2020 and 2019 include approximately \$4.6 million for which no deferred federal income tax liability has been recognized. This amount represents an allocation of income to bad debt deductions as of September 30, 1988 for tax purposes only. Reduction of such allocated amounts for purposes other than tax bad debt losses, including redemption of bank stock, excess dividends or loss of “bank” status, would create income for tax purposes only, subject to the then-current corporate income tax rate. The unrecorded deferred income tax liability on these amounts was approximately \$957,000 at September 30, 2020 and 2019.

(19) **LEASES**

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

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

The Company’s right to use an asset over the life of a lease is recorded as an ROU asset included in other assets on the consolidated balance sheet and was \$7.9 million at September 30, 2020. Certain adjustments to the ROU asset may be required for items such as initial direct costs paid or incentives received. The Company recorded a lease liability in other liabilities on the consolidated balance sheet, which had a balance of \$8.0 million at September 30, 2020.

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

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

Lease expense for the years ended September 30, 2020, 2019 and 2018 was \$1.9 million, \$1.2 million and \$462,000, respectively. The components of lease expense for the years ended September 30, 2020, 2019 and 2018 were as follows:

(In thousands)	<u>2020</u>	<u>2019</u>	<u>2018</u>
Operating lease cost	\$ 1,294	\$ 527	\$ 227
Short-term lease cost	644	679	235
	<u>\$ 1,938</u>	<u>\$ 1,206</u>	<u>\$ 462</u>

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

Years ending September 30:	<i>(In thousands)</i>
2021	\$ 1,337
2022	1,158
2023	890
2024	758
2025	536
Thereafter	5,528
Total lease payments	<u>10,207</u>
Less imputed interest	(2,194)
Total	<u>\$ 8,013</u>

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

Weighted-average remaining lease term (years)	18.5
Weighted-average discount rate	2.35 %

Supplemental cash flow information for the year ended September 30, 2020 related to leases was as follows:

*(In thousands)*

Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	\$ 1,221
ROU assets obtained in exchange for lease obligations:	
Operating leases	9,083

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*Lessor*

The Company leases commercial office space to tenants under noncancelable operating leases with terms of three to ten years. The following is a schedule by years of future minimum lease payments with initial or remaining terms in excess of one year as of September 30, 2020:

Years ending September 30:	<i>(In thousands)</i>
2021	\$ 584
2022	507
2023	461
2024	461
2025	346
2026 and thereafter	—
Total	<u>\$ 2,359</u>

(20) **COMMITMENTS AND CONTINGENCIES**

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the balance sheet.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instruments for commitments to extend credit and standby letters of credit is represented by the contractual notional amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount and type of collateral obtained, if deemed necessary by the Company upon extension of credit, varies and is based on management's credit evaluation of the counterparty. Commitments under outstanding standby letters of credit totaled \$8.8 million and \$5.0 million at September 30, 2020 and 2019, respectively.

Standby letters of credit are conditional lending commitments issued by the Company to guarantee the performance of a customer to a third party. Standby letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Company's policy for obtaining collateral, and the nature of such collateral, is essentially the same as that involved in making commitments to extend credit.

The Company has not been obligated to perform on any financial guarantees and has incurred no losses on its commitments in 2020 or 2019.

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The following is a summary of the commitments to extend credit at September 30, 2020 and 2019. Interest rate lock commitments that meet the definition of a derivative are excluded from these totals.

<i>(In thousands)</i>	<u>2020</u>	<u>2019</u>
<b>Loan commitments:</b>		
Fixed rate	\$ 12,547	\$ 28,079
Adjustable rate	25,512	22,546
Guarantees of third-party revolving credit	182	157
Undisbursed portion of home equity lines of credit	33,567	32,269
Undisbursed portion of commercial and personal lines of credit	40,136	35,718
Undisbursed portion of construction loans in process	18,735	23,182
<b>Total commitments to extend credit</b>	<u>\$ 130,679</u>	<u>\$ 141,951</u>

In connection with the sale of residential mortgage loans to third party investors, the Company makes usual and customary representations and warranties as to the propriety of its origination activities. In certain circumstances, the investors require the Company to repurchase loans sold to them under the terms of the warranties. When this happens, the loans are recorded at fair value with a corresponding charge to a valuation reserve. At September 30, 2020, the Company had established a reserve for loan repurchases or indemnifications of \$290,000, which is included in other liabilities in the accompanying consolidated balance sheet. Provisions for loan repurchases or indemnifications totaling \$614,000 were made for the year ended September 30, 2020, and are included in mortgage banking income in the accompanying consolidated statement of income.

At September 30, 2020, the Company has recorded a loss contingency for potential restitution to be repaid to certain borrowers who originated loans through the Company's mortgage banking division. While a formal order has not been made by the Company's regulators, the Company has estimated the potential restitution to be \$951,000 based on the most likely outcome, and has recognized the loss at September 30, 2020. The Company anticipates that the matter will be settled within the next year, and it is at least reasonably possible that the estimate will change in the near term.

(21) **DERIVATIVE FINANCIAL INSTRUMENTS**

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

Certain financial instruments, including derivatives, may be eligible for offset in the balance sheet when the "right of setoff" exists or when the instruments are subject to an enforceable master netting agreement, which includes the right of the non-defaulting party or non-affected party to offset recognized amounts, including collateral posted with the counterparty, to determine a net receivable or net payable upon early termination of the agreement. Certain of the Company's derivative instruments are subject to master netting agreements. However, the Company has not elected to offset such financial instruments in the consolidated balance sheets.

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The Company may be required to post margin collateral to derivative counterparties based on agreements with the dealers. At September 30, 2020, the Company had cash collateral posted with certain derivative counterparties of \$3.0 million against its derivative obligations. The Company had no cash collateral posted with derivative counterparties at September 30, 2019. Cash collateral related to derivative contracts is recorded in interest-bearing deposits with banks or other assets in the consolidated balance sheets.

The table below provides information on the Company’s derivative financial instruments as of September 30, 2020 and 2019.

<b>September 30, 2020:</b> <i>(In thousands)</i>	<b>Notional Amount</b>	<b>Asset Derivatives</b>	<b>Liability Derivatives</b>
Interest rate lock commitments	\$ 793,671	\$ 14,937	\$ —
Forward mortgage loan sale contracts	605,750	226	1,827
	<u>\$ 1,399,421</u>	<u>\$ 15,163</u>	<u>\$ 1,827</u>
<b>September 30, 2019:</b> <i>(In thousands)</i>	<b>Notional Amount</b>	<b>Asset Derivatives</b>	<b>Liability Derivatives</b>
Interest rate lock commitments	\$ 258,545	\$ 3,269	\$ —
Forward mortgage loan sale contracts	203,250	130	329
	<u>\$ 461,795</u>	<u>\$ 3,399</u>	<u>\$ 329</u>

Income (loss) related to derivative financial instruments included in mortgage banking income in the accompanying consolidated statements of income for the years ended September 30, 2020, 2019 and 2018, is as follows:

<i>(In thousands)</i>	<b>2020</b>	<b>2019</b>	<b>2018</b>
Interest rate lock commitments	\$ 11,668	\$ 2,889	\$ 380
Forward mortgage loan sale contracts	(22,412)	(3,462)	37
	<u>\$ (10,744)</u>	<u>\$ (573)</u>	<u>\$ 417</u>

(22) **FAIR VALUE MEASUREMENTS**

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

- Level 1: Inputs to the valuation methodology are quoted prices, unadjusted, for identical assets or liabilities in active markets. A quoted market price in an active market provides the most reliable evidence of fair value and shall be used to measure fair value whenever available.
- Level 2: Inputs to the valuation methodology include quoted market prices for similar assets or liabilities in active markets; quoted market prices for identical or similar assets or liabilities in markets that are not active; or inputs that are derived principally from or can be corroborated by observable market data by correlation or other means.

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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 at the lower of cost or fair value.

The table below presents the balances of financial assets and liabilities measured at fair value on a recurring and nonrecurring basis as of September 30, 2020.

	Carrying Value			Total
	Level 1	Level 2	Level 3	
<i>(In thousands)</i>				
<b>September 30, 2020:</b>				
<b>Assets Measured – Recurring Basis</b>				
Securities available for sale:				
Agency mortgage-backed	\$ —	\$ 7,952	\$ —	\$ 7,952
Agency CMO	—	9,805	—	9,805
Privately-issued CMO	—	958	—	958
Privately-issued ABS	—	960	—	960
SBA certificates	—	694	—	694
Municipal bonds	—	181,596	—	181,596
Total securities available for sale	<u>\$ —</u>	<u>\$ 201,965</u>	<u>\$ —</u>	<u>\$ 201,965</u>
Residential mortgage loans held for sale – fair value option elected	<u>\$ —</u>	<u>\$ 208,493</u>	<u>\$ —</u>	<u>\$ 208,493</u>
Derivative assets (included in other assets)	<u>\$ —</u>	<u>\$ 226</u>	<u>\$ 14,937</u>	<u>\$ 15,163</u>
Equity securities (included in other assets)	<u>\$ 66</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 66</u>
Residential mortgage servicing rights	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 21,703</u>	<u>\$ 21,703</u>
<b>Liabilities Measured – Recurring Basis</b>				
Derivative liabilities (included in other liabilities)	<u>\$ —</u>	<u>\$ 1,827</u>	<u>\$ —</u>	<u>\$ 1,827</u>
<b>Assets Measured – Nonrecurring Basis</b>				
Impaired loans:				
Residential real estate	\$ —	—	\$ 5,329	\$ 5,329
Commercial real estate	—	—	1,134	1,134
SBA commercial real estate	—	—	5,561	5,561
Multifamily	—	—	698	698
Land and land development	—	—	2	2
Commercial business	—	—	1,670	1,670
SBA commercial business	—	—	648	648
Consumer	—	—	199	199
Total impaired loans	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 15,241</u>	<u>\$ 15,241</u>
Residential mortgage loans held for sale – fair value option not elected	<u>\$ —</u>	<u>\$ 54,913</u>	<u>\$ —</u>	<u>\$ 54,913</u>
SBA loans held for sale	<u>\$ —</u>	<u>\$ 22,119</u>	<u>\$ —</u>	<u>\$ 22,119</u>
SBA loan servicing rights	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 3,748</u>	<u>\$ 3,748</u>
Other real estate owned, held for sale:				
Former bank premises	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,728</u>	<u>\$ 1,728</u>
Total other real estate owned	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,728</u>	<u>\$ 1,728</u>

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The table below presents the balances of financial assets measured at fair value on a recurring and nonrecurring basis as of September 30, 2019.

	Carrying Value			Total
	Level 1	Level 2	Level 3	
<i>(In thousands)</i>				
<b>September 30, 2019:</b>				
<b>Assets Measured – Recurring Basis</b>				
Securities available for sale:				
Agency mortgage-backed	\$ —	\$ 14,097	\$ —	\$ 14,097
Agency CMO	—	9,048	—	9,048
Privately-issued CMO	—	1,382	—	1,382
Privately-issued ABS	—	1,178	—	1,178
SBA certificates	—	1,154	—	1,154
Municipal bonds	—	150,443	—	150,443
Total securities available for sale	<u>\$ —</u>	<u>\$ 177,302</u>	<u>\$ —</u>	<u>\$ 177,302</u>
Residential mortgage loans held for sale – fair value option elected	<u>\$ —</u>	<u>\$ 80,457</u>	<u>\$ —</u>	<u>\$ 80,457</u>
Derivative assets (included in other assets)	<u>\$ —</u>	<u>\$ 130</u>	<u>\$ 3,269</u>	<u>\$ 3,399</u>
Equity securities (included in other assets)	<u>\$ 85</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 85</u>
Residential mortgage servicing rights	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 934</u>	<u>\$ 934</u>
<b>Liabilities Measured – Recurring Basis</b>				
Derivative liabilities (included in other liabilities)	<u>\$ —</u>	<u>\$ 329</u>	<u>\$ —</u>	<u>\$ 329</u>
<b>Assets Measured – Nonrecurring Basis</b>				
Impaired loans:				
Residential real estate	\$ —	\$ —	\$ 4,438	\$ 4,438
Commercial real estate	—	—	5,282	5,282
SBA commercial real estate	—	—	1,853	1,853
Commercial business	—	—	105	105
Consumer	—	—	211	211
Total impaired loans	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 11,889</u>	<u>\$ 11,889</u>
SBA loans held for sale	<u>\$ —</u>	<u>\$ 15,613</u>	<u>\$ —</u>	<u>\$ 15,613</u>
SBA loan servicing rights	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 3,030</u>	<u>\$ 3,030</u>
Other real estate owned, held for sale:				
Former bank premises	\$ —	\$ —	\$ 1,893	\$ 1,893
Total other real estate owned	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,893</u>	<u>\$ 1,893</u>



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

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

**SBA Loans Held for Sale.** SBA loans held for sale are carried at the lower of cost or market value. The fair value of SBA loans held for sale is obtained from an independent third party pricing firm based on specific prices of the underlying contracts for sale to investors or current secondary market prices for loans with similar characteristics, and is classified as Level 2 in the fair value hierarchy.

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

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

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The table below presents a reconciliation of derivative assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended September 30, 2020, 2019 and 2018:

<i>(In thousands)</i>	<b>2020</b>	<b>2019</b>	<b>2018</b>
Beginning balance	\$ 3,269	\$ 380	\$ —
Unrealized gains recognized in earnings, net of settlements	11,668	2,889	380
Ending balance	<u>\$ 14,937</u>	<u>\$ 3,269</u>	<u>\$ 380</u>

The realized and unrealized gains recognized in earnings in the table above are included in mortgage banking income on the accompanying consolidated statements of income. Gains recognized in earnings for the years ended September 30, 2020, 2019 and 2018 attributable to Level 3 derivative assets held at the balance sheet date were \$14.9 million, \$3.3 million and \$380,000, respectively.

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

<b>Financial Instrument</b>	<b>Significant Unobservable Inputs</b>	<b>2020 Range of Inputs (Weighted Average)</b>	<b>2019 Range of Inputs (Weighted Average)</b>
Interest rate lock commitments	Pull-through rate	0% - 100% (80%)	55% - 100% (79.24%)
		0.31%-1.01%	
	Direct costs to close	(0.52%)	1%

**Residential Mortgage Servicing Rights.** The current market for MSR is not sufficiently liquid to provide participants with quoted market prices. Therefore, the Company uses a discounted cash flow valuation model from an independent third party to determine the fair value of MSR. The discounted cash flow model approach consists of projecting expected servicing cash flows and calculating the present value. The key assumptions used in the valuation of MSR include mortgage prepayment speeds, discount rates and loan servicing costs. Due to the nature of the valuation inputs, MSR are classified within Level 3 of the valuation hierarchy.

The table below presents a reconciliation of MSR measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended September 30, 2020 and 2019:

<i>(In thousands)</i>	<b>2020</b>	<b>2019</b>
Beginning balance	\$ 934	—
Issuances (loans sold with servicing retained)	24,058	940
Net settlements	(1,542)	(6)
Unrealized gains (losses) included in earnings	(1,747)	—
Ending balance	<u>\$ 21,703</u>	<u>934</u>

Changes in the fair value of MSR are included in mortgage banking income in the accompanying consolidated statements of income.

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

<b>Financial Instrument</b>	<b>Significant Unobservable Inputs</b>	<b>2020 Range of Inputs (Weighted Average)</b>	<b>2019 Range of Inputs (Weighted Average)</b>
MSR's	Discount rate	9.25%	9.25%
	Prepayment rate	2.99% - 86.98% (18.08%)	4.42% - 72.79% (18.75%)

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

Impaired loans are measured at the present value of estimated future cash flows using the loan's effective interest rate or the fair value of the collateral if the loan is a collateral-dependent loan. At September 30, 2020 and 2019, all impaired loans were considered to be collateral-dependent for the purpose of determining fair value. Collateral may be real estate and/or business assets, including equipment, inventory and/or accounts receivable, and its fair value is generally determined based on real estate appraisals or other independent evaluations by qualified professionals. The appraisals are then discounted to reflect management's estimate of the fair value of the collateral given the current market conditions and the condition of the collateral. At September 30, 2020 and 2019, the significant unobservable inputs used in the fair value measurement of impaired loans included a discount from appraised value ranging from 0.0% to 75.0% and estimated costs to sell the collateral ranging from 0.0% to 12.0%.

Provisions for loan losses recognized for impaired loans for the years ended September 30, 2020, 2019 and 2018 is as follows:

<i>(In thousands)</i>	<b>2020</b>	<b>2019</b>	<b>2018</b>
Provision for loan losses recognized	\$ 2,424	\$ 860	\$ 573

**SBA Loan Servicing Rights.** SBA loan servicing rights represent the value associated with servicing SBA loans that have been sold. The fair value of SBA loan servicing rights is determined on a quarterly basis by an independent third party valuation model using market-based discount rate and prepayment assumptions, and is classified as Level 3 in the fair value hierarchy. At September 30, 2020, the significant unobservable inputs used in the fair value measurement of SBA loan servicing rights included discount rates ranging from 3.58% to 19.86% with a weighted average of 8.36% and prepayment speed assumptions ranging from 8.69% to 26.68% with a weighted average rate of 17.46%. At September 30, 2019, the significant unobservable inputs used in the fair value measurement of SBA loan servicing rights included discount rates ranging from 6.82% to 26.61% with a weighted average of 11.11% and prepayment speed assumptions ranging from 6.80% to 21.17% with a weighted average rate of 14.10%. Impairment of the SBA loan servicing rights is recognized on a quarterly basis through a valuation allowance to the extent that fair value is less than the carrying amount.

Impairment charges to write down SBA loan servicing rights to fair value for the years ended September 30, 2020, 2019 and 2018 is as follows:

<i>(In thousands)</i>	<b>2020</b>	<b>2019</b>	<b>2018</b>
Charges to write down SBA loan servicing rights	\$ (116)	\$ 113	\$ 177

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

Other real estate owned is reported at fair value, less estimated costs to dispose of the property. The fair values are determined by real estate appraisals which are then discounted to reflect management’s estimate of the fair value of the property given current market conditions and the condition of the collateral. At September 30, 2020, the significant unobservable inputs used in the fair value measurement of other real estate owned included a discount from appraised value (including estimated costs to sell the property) of 30.9%. At September 30, 2019, the significant unobservable inputs used in the fair value measurement of other real estate owned included a discount from appraised value (including estimated costs to sell the property) ranging from 0.0% to 15.0% with a weighted average of 10.5%.

Charges to write down other real estate owned to fair value for the years ended September 30, 2020, 2019 and 2018 is as follows:

<i>(In thousands)</i>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Charges to write down other real estate owned	\$ —	\$ —	\$ 63

**Transfers between Categories.** There have been no changes in the valuation techniques and related inputs used for assets measured at fair value on a recurring and nonrecurring basis during the years ended September 30, 2020 and 2019. There were no transfers into or out of Level 3 financial assets or liabilities for the years ended September 30, 2020 and 2019. In addition, there were no transfers into or out of Levels 1 and 2 of the fair value hierarchy during the years ended September 30, 2020 and 2019.

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

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

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

<b>September 30, 2020:</b> <i>(In thousands)</i>	<u>Aggregate Fair Value</u>	<u>Aggregate Principal Balance</u>	<u>Difference</u>
Residential mortgage loans held for sale	\$ 208,493	\$ 198,138	\$ 10,355

  

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

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The table below presents gains and losses and interest included in earnings related to financial assets measured at fair value under the fair value option for the years ended September 30, 2020, 2019 and 2018:

<i>(In thousands)</i>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Gains – included in mortgage banking income	\$ 7,504	\$ 2,492	\$ 257
Interest income	7,256	1,516	376
	<u>\$ 14,760</u>	<u>\$ 4,008</u>	<u>\$ 633</u>

**Fair Value of Financial Instruments**

The following tables summarize the carrying value and estimated fair value of financial instruments and the level within the fair value hierarchy in which the fair value measurements fall at September 30, 2020 and 2019.

	<u>Carrying Amount</u>	<u>Fair Value Measurements Using:</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<i>(In thousands)</i>				
<b>September 30, 2020:</b>				
Financial assets:				
Cash and due from banks	\$ 12,807	\$ 12,807	\$ —	\$ —
Interest-bearing deposits with banks	20,919	20,919	—	—
Interest-bearing time deposits	2,964	—	2,964	—
Securities available for sale	201,965	—	201,965	—
Securities held to maturity	2,102	—	2,385	—
Residential mortgage loans held for sale	263,406	—	263,519	—
SBA loans held for sale	22,119	—	24,666	—
Loans, net	1,090,063	—	—	1,152,962
FRB and FHLB stock	17,293	N/A	N/A	N/A
Accrued interest receivable	6,462	—	6,462	—
SBA loan servicing rights	3,748	—	—	3,934
Residential mortgage loan servicing rights	21,703	—	—	21,703
Derivative assets (included in other assets)	15,163	—	226	14,937
Equity securities (included in other assets)	66	66	—	—
Financial liabilities:				
Deposits	1,048,076	—	—	1,050,569
Borrowings from FHLB	310,858	—	310,766	—
Subordinated note	19,797	—	23,788	—
Federal Reserve PPPLF borrowings	174,834	—	174,808	—
Accrued interest payable	683	—	683	—
Advance payments by borrowers for taxes and insurance	2,615	—	2,615	—
Derivative liabilities (included in other liabilities)	1,827	—	1,827	—

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	Carrying Amount	Fair Value Measurements Using:		
		Level 1	Level 2	Level 3
<i>(In thousands)</i>				
<b>September 30, 2019:</b>				
Financial assets:				
Cash and due from banks	\$ 13,008	\$ 13,008	\$ —	\$ —
Interest-bearing deposits with banks	28,424	28,424	—	—
Interest-bearing time deposits	2,265	—	2,265	—
Securities available for sale	177,302	—	177,302	—
Securities held to maturity	2,336	—	2,670	—
Residential mortgage loans held for sale	80,457	—	80,457	—
SBA loans held for sale	15,613	—	17,040	—
Loans, net	810,658	—	—	841,646
FRB and FHLB stock	13,040	N/A	N/A	N/A
Accrued interest receivable	5,041	—	5,041	—
SBA loan servicing rights	3,030	—	—	3,030
Residential mortgage loan servicing rights	934	—	—	934
Derivative assets (included in other assets)	3,399	—	130	3,269
Equity securities (included in other assets)	85	85	—	—
Financial liabilities:				
Deposits	834,384	—	—	835,384
Federal funds purchased	4,000	—	4,000	—
Borrowings from FHLB	222,544	—	222,432	—
Subordinated note	19,729	—	21,143	—
Accrued interest payable	935	—	935	—
Advance payments by borrowers for taxes and insurance	1,906	—	1,906	—
Derivative liabilities (included in other liabilities)	329	—	329	—

The carrying amounts in the preceding tables are included in the consolidated balance sheets under the applicable captions. The contracted or notional amounts of financial instruments with off-balance-sheet risk are disclosed in Note 20, and the fair value of these instruments is considered immaterial.

(23) **CAPITAL REQUIREMENTS AND RESTRICTION ON DIVIDENDS**

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

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Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total, Tier 1 and common equity Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and Tier 1 capital (as defined) to average assets (as defined). The final rules implementing the Basel Committee on Banking Supervision’s capital guidelines for U.S. banks (“Basel III rules”) became effective for the Bank on January 1, 2015, with full compliance with all of the requirements being phased in over a multi-year schedule through 2019. Under the Basel III rules, the Bank must hold a conservation buffer above the adequately capitalized risk-based capital ratios disclosed in the table below. The capital conservation buffer was phased in from 0.0% for 2015 to 2.5% by 2019. The capital conservation buffer was 2.50% for 2019 and 2020. The Bank met all capital adequacy requirements to which it was subject as of September 30, 2020 and 2019.

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

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

	Actual		Minimum for Capital Adequacy Purposes		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions:	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<i>(Dollars in thousands)</i>						
<b>As of September 30, 2020:</b>						
Total capital (to risk-weighted assets):						
Consolidated	\$ 168,617	13.37 %	\$ 100,929	8.00 %	N/A	N/A
Bank	160,452	12.75 %	100,672	8.00 %	\$ 125,840	10.00 %
Tier 1 capital (to risk-weighted assets):						
Consolidated	\$ 133,520	10.58 %	\$ 75,697	6.00 %	N/A	N/A
Bank	145,152	11.53 %	75,504	6.00 %	\$ 100,672	8.00 %
Common equity tier 1 capital (to risk-weighted assets):						
Consolidated	\$ 133,520	10.58 %	\$ 56,773	4.50 %	N/A	N/A
Bank	145,152	11.53 %	56,428	4.50 %	\$ 81,796	6.50 %
Tier 1 capital (to average adjusted total assets):						
Consolidated	\$ 133,520	8.53 %	\$ 62,617	4.00 %	N/A	N/A
Bank	145,152	9.37 %	61,966	4.00 %	\$ 77,458	5.00 %
<b>As of September 30, 2019:</b>						
Total capital (to risk-weighted assets):						
Consolidated	\$ 130,700	13.85 %	\$ 75,474	8.00 %	N/A	N/A
Bank	121,160	12.88 %	75,249	8.00 %	\$ 94,061	10.00 %
Tier 1 capital (to risk-weighted assets):						
Consolidated	\$ 100,931	10.70 %	\$ 56,606	6.00 %	N/A	N/A
Bank	111,120	11.81 %	56,437	6.00 %	\$ 75,249	8.00 %
Common equity tier 1 capital (to risk-weighted assets):						
Consolidated	\$ 100,931	10.70 %	\$ 42,454	4.50 %	N/A	N/A
Bank	111,120	11.81 %	42,327	4.50 %	\$ 61,140	6.50 %
Tier 1 capital (to average adjusted total assets):						
Consolidated	\$ 100,931	8.39 %	\$ 48,142	4.00 %	N/A	N/A
Bank	111,120	9.34 %	47,564	4.00 %	\$ 59,455	5.00 %



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**Dividend Restriction**

As an Indiana corporation, the Company is subject to Indiana law with respect to the payment of dividends. Under Indiana law, the Company may pay dividends so long as it is able to pay its debts as they become due in the usual course of business and its assets exceed the sum of its total liabilities, plus the amount that would be needed, if the Company were to be dissolved at the time of the dividend, to satisfy any rights that are preferential to the rights of the persons receiving the dividend. The ability of the Company to pay dividends depends primarily on the ability of the Bank to pay dividends to the Company.

The payment of dividends by the Bank is subject to banking regulations and applicable Indiana state law. The amount of dividends that the Bank may pay to the Company in any calendar year without prior approval from banking regulators cannot exceed net income for that year to date plus retained net income (as defined) for the preceding two calendar years. The Bank may not declare or pay a cash dividend or repurchase any of its capital stock if the effect thereof would cause the regulatory capital of the Bank to be reduced below regulatory capital requirements imposed by banking regulators or the FDIC, or below the amount of the liquidation account established upon completion of the conversion.

**Liquidation Account**

Upon completion of its conversion from mutual to stock form on October 6, 2008, the Bank established a liquidation account in an amount equal to its retained earnings at March 31, 2008, totaling \$29.3 million. The liquidation account is maintained for the benefit of depositors as of the March 31, 2007 eligibility record date (or the June 30, 2008 supplemental eligibility record date) who maintain their deposits in the Bank after conversion.

In the event of complete liquidation, and only in such an event, each eligible depositor is entitled to receive a liquidation distribution from the liquidation account in the proportionate amount of the then current adjusted balance for deposits held, before any liquidation distribution may be made with respect to the Bank's stockholders. Except for the repurchase of stock and payment of dividends by the Bank, the existence of the liquidation account does not restrict the use or application of retained earnings of the Bank.

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(24) **SUPPLEMENTAL DISCLOSURE FOR EARNINGS PER SHARE**

Basic earnings per common share is computed by dividing net income available to common shareholders by the weighted average number of shares of common stock outstanding during the periods presented. Diluted earnings per common share include the dilutive effect of additional potential common shares issuable under stock options, restricted stock and other potentially dilutive securities outstanding. Earnings and dividends per share are restated for stock splits and dividends through the date of issuance of the financial statements. Earnings per share information is presented below for the years ended September 30, 2020, 2019 and 2018.

<i>(In thousands, except share and per share data)</i>	<b>Years Ended September 30,</b>		
	<b>2020</b>	<b>2019</b>	<b>2018</b>
<b>Basic:</b>			
<b>Earnings:</b>			
Net income attributable to First Savings Financial Group, Inc. available to common shareholders	\$ 33,354	\$ 16,177	\$ 10,902
<b>Shares:</b>			
Weighted average common shares outstanding, basic	2,356,680	2,315,697	2,258,020
Net income per common share, basic	\$ 14.15	\$ 6.99	\$ 4.83
<b>Diluted:</b>			
<b>Earnings:</b>			
Net income attributable to First Savings Financial Group, Inc. available to common shareholders	\$ 33,354	\$ 16,177	\$ 10,902
<b>Shares:</b>			
Weighted average common shares outstanding, basic	2,356,680	2,315,697	2,258,020
Add: Dilutive effect of outstanding options	16,180	50,623	107,274
Add: Dilutive effect of restricted stock	3,094	5,764	7,260
Weighted average common shares outstanding, as adjusted	2,375,954	2,372,084	2,372,554
Net income per common share, diluted	\$ 14.04	\$ 6.82	\$ 4.60

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

There were no antidilutive restricted stock awards excluded from the calculation of diluted net income per share for the years ended September 30, 2020, 2019 and 2018. Stock options for 22,158, 7,200 and 4,800 shares of common stock were excluded from the calculation of diluted net income per common share for the years ended September 30, 2020, 2019 and 2018, respectively, because their effect was antidilutive.

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(25) **PARENT COMPANY CONDENSED FINANCIAL INFORMATION**

Condensed financial information for First Savings Financial Group, Inc. (parent company only) follows:

*Balance Sheets*

<i>(In thousands)</i>	<b>As of September 30,</b>	
	<b>2020</b>	<b>2019</b>
<b>Assets:</b>		
Cash and due from banks	\$ 4,762	\$ 6,474
Other assets	988	816
Investment in subsidiaries	171,871	133,760
	<b>\$ 177,621</b>	<b>\$ 141,050</b>
<b>Liabilities and Equity:</b>		
Subordinated note	\$ 19,797	\$ 19,729
Accrued expenses	552	268
Stockholders' equity	157,272	121,053
	<b>\$ 177,621</b>	<b>\$ 141,050</b>

*Statements of Income*

<i>(In thousands)</i>	<b>Years Ended September 30,</b>		
	<b>2020</b>	<b>2019</b>	<b>2018</b>
Dividend income from subsidiaries	\$ 1,000	\$ 750	\$ 9,875
Interest expense	(1,274)	(1,277)	(33)
Other operating expenses	(1,002)	(882)	(921)
Income (loss) before income taxes and equity in undistributed net income of subsidiaries	(1,276)	(1,409)	8,921
Income tax benefit	598	747	408
Income (loss) before equity in undistributed net income of subsidiaries	(678)	(662)	9,329
Equity in undistributed net income of subsidiaries	34,032	16,839	1,573
Net income	<b>\$ 33,354</b>	<b>\$ 16,177</b>	<b>\$ 10,902</b>

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*Statements of Cash Flows*

<i>(In thousands)</i>	Years Ended September 30,		
	2020	2019	2018
<b>Operating Activities:</b>			
Net income	\$ 33,354	\$ 16,177	\$ 10,902
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Equity in undistributed net income of subsidiaries	(34,032)	(16,839)	(1,573)
Stock compensation expense	279	246	217
Net change in other assets and liabilities	182	(184)	(162)
Net cash provided by (used in) operating activities	(217)	(600)	9,384
<b>Investing Activities:</b>			
Acquisition of Dearmin	—	—	(9,148)
Investment in bank subsidiary	—	(2,000)	(10,000)
Proceeds from maturities of interest-bearing time deposits	—	—	10
Net cash used in investing activities	—	(2,000)	(19,138)
<b>Financing Activities:</b>			
Net proceeds from subordinated note	—	—	19,661
Exercise of stock options	148	408	362
Tax paid on stock award shares for employees	(53)	(32)	(46)
Dividends paid	(1,590)	(1,472)	(1,343)
Net cash provided by (used in) financing activities	(1,495)	(1,096)	18,634
Net increase (decrease) in cash and due from banks	(1,712)	(3,696)	8,880
Cash and due from banks at beginning of year	6,474	10,170	1,290
Cash and due from banks at end of year	\$ 4,762	\$ 6,474	\$ 10,170

(26) **CONCENTRATION OF CREDIT RISK**

At September 30, 2020 and 2019, the Company had a concentration of credit risk with correspondent banks in excess of the federal deposit insurance limit of \$7.2 million and \$8.8 million, respectively.

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(27) **SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION**

<i>(In thousands)</i>	<b>Years Ended September 30,</b>		
	<b>2020</b>	<b>2019</b>	<b>2018</b>
<b>Cash payments for:</b>			
Interest	\$ 10,817	\$ 10,729	\$ 5,873
Income taxes (net of refunds received)	3,971	1,572	1,759
<b>Non-cash activities:</b>			
Transfers from loans to loans held for sale	15,916	—	—
Transfers from loans to other real estate owned	—	114	133
Proceeds from sales of other real estate owned financed through loans	—	112	453
Cashless exercise of stock options	249	542	387
Transfers from premises and equipment to other real estate owned	—	1,893	—

(28) **SELECTED QUARTERLY FINANCIAL INFORMATION (UNAUDITED)**

<i>(In thousands, except per share data)</i>	<b>September 30, 2020:</b>			
	<b>First Quarter</b>	<b>Second Quarter</b>	<b>Third Quarter</b>	<b>Fourth Quarter</b>
Interest income	\$ 13,767	\$ 13,693	\$ 15,344	\$ 17,125
Interest expense	2,875	2,783	2,543	2,337
Net interest income	10,892	10,910	12,801	14,788
Provision for loan losses	505	1,705	2,980	2,772
Net interest income after provision for loan losses	10,387	9,205	9,821	12,016
Noninterest income	18,126	10,994	46,337	55,664
Noninterest expenses	24,272	22,075	35,009	44,452
Income (loss) before income taxes	4,241	(1,876)	21,149	23,228
Income tax expense (benefit)	638	(774)	5,540	7,257
Net income (loss)	3,603	(1,102)	15,609	15,971
Net income (loss) attributable to noncontrolling interest in subsidiary	164	(475)	204	834
Net income (loss) attributable to First Savings Financial Group, Inc.	<u>\$ 3,439</u>	<u>\$ (627)</u>	<u>\$ 15,405</u>	<u>\$ 15,137</u>
Net income (loss) per common share, basic	<u>\$ 1.47</u>	<u>\$ (0.27)</u>	<u>\$ 6.51</u>	<u>\$ 6.40</u>
Net income (loss) per common share, diluted	<u>\$ 1.44</u>	<u>\$ (0.26)</u>	<u>\$ 6.51</u>	<u>\$ 6.39</u>

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<i>(In thousands, except per share data)</i>	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
<b>September 30, 2019:</b>				
Interest income	\$ 11,801	\$ 12,307	\$ 13,058	\$ 13,829
Interest expense	2,225	2,446	3,166	3,069
Net interest income	9,576	9,861	9,892	10,760
Provision for loan losses	315	340	337	471
Net interest income after provision for loan losses	9,261	9,521	9,555	10,289
Noninterest income	5,781	7,089	12,644	18,340
Noninterest expenses	11,416	12,880	16,488	21,606
Income before income taxes	3,626	3,730	5,711	7,023
Income tax expense	522	466	748	1,359
Net income	3,104	3,264	4,963	5,664
Net income (loss) attributable to noncontrolling interest in subsidiary	173	(269)	571	343
Net income attributable to First Savings Financial Group, Inc.	<u>\$ 2,931</u>	<u>\$ 3,533</u>	<u>\$ 4,392</u>	<u>\$ 5,321</u>
Net income per common share, basic	<u>\$ 1.28</u>	<u>\$ 1.53</u>	<u>\$ 1.88</u>	<u>\$ 2.28</u>
Net income per common share, diluted	<u>\$ 1.24</u>	<u>\$ 1.50</u>	<u>\$ 1.85</u>	<u>\$ 2.24</u>
<b>September 30, 2018:</b>				
Interest income	\$ 9,426	\$ 10,146	\$ 11,206	\$ 11,381
Interest expense	1,373	1,423	1,699	1,842
Net interest income	8,053	8,723	9,507	9,539
Provision for loan losses	462	371	266	254
Net interest income after provision for loan losses	7,591	8,352	9,241	9,285
Noninterest income	2,906	2,567	3,254	4,568
Noninterest expenses	6,382	8,359	8,122	10,143
Income before income taxes	4,115	2,560	4,373	3,710
Income tax expense	622	338	696	766
Net income	3,493	2,222	3,677	2,944
Net income attributable to noncontrolling interest in subsidiary	87	576	571	200
Net income attributable to First Savings Financial Group, Inc.	<u>\$ 3,406</u>	<u>\$ 1,646</u>	<u>\$ 3,106</u>	<u>\$ 2,744</u>
Net income per common share, basic	<u>\$ 1.53</u>	<u>\$ 0.73</u>	<u>\$ 1.37</u>	<u>\$ 1.20</u>
Net income per common share, diluted	<u>\$ 1.44</u>	<u>\$ 0.69</u>	<u>\$ 1.31</u>	<u>\$ 1.15</u>

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(29) **SEGMENT REPORTING**

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

The core banking segment is comprised primarily of the Bank and First Savings Investments, Inc., while the SBA lending segment's revenues are comprised primarily of net interest income and gains on the sales of SBA loans generated by Q2. The mortgage banking segment operates as a separate division of the Bank and began operations in April 2018 and was not recognized as a separate operating segment until the year ended September 30, 2019.

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

<i>(In thousands)</i>	<b>Core Banking</b>	<b>SBA Lending</b>	<b>Mortgage Banking</b>	<b>Other</b>	<b>Consolidated Totals</b>
<b>Year Ended September 30, 2020:</b>					
Net interest income (loss)	\$ 39,408	\$ 5,911	\$ 5,276	\$ (1,204)	\$ 49,391
Provision for loan losses	4,636	3,326	—	—	7,962
Net interest income (loss) after provision	34,772	2,585	5,276	(1,204)	41,429
Net gains on sales of loans, SBA	—	5,673	—	—	5,673
Mortgage banking income	8	—	117,844	—	117,852
Noninterest income	5,905	6,751	118,465	—	131,121
Noninterest expense (income)	29,772	7,853	88,573	(390)	125,808
Income (loss) before taxes	10,905	1,483	35,168	(814)	46,742
Income tax expense (benefit)	2,265	189	10,793	(586)	12,661
Segment profit (loss)	8,640	1,294	24,375	(228)	34,081
Noncash items:					
Depreciation and amortization	1,558	51	181	68	1,858
Segment assets at September 30, 2020	1,459,467	283,994	293,973	(272,809)	1,764,625

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<i>(In thousands)</i>	<b>Core Banking</b>	<b>SBA Lending</b>	<b>Mortgage Banking</b>	<b>Other</b>	<b>Consolidated Totals</b>
<b>Year Ended September 30, 2019:</b>					
Net interest income (loss)	\$ 36,524	\$ 4,145	\$ 636	\$ (1,216)	\$ 40,089
Provision (credit) for loan losses	(242)	1,705	—	—	1,463
Net interest income (loss) after provision	36,766	2,440	636	(1,216)	38,626
Net gains on sales of loans, SBA	—	4,569	—	—	4,569
Mortgage banking income	33	—	32,974	—	33,007
Noninterest income	5,650	5,182	33,022	—	43,854
Noninterest expense	28,852	5,953	27,760	(175)	62,390
Income (loss) before taxes	13,564	1,669	5,898	(1,041)	20,090
Income tax expense (benefit)	2,143	213	1,475	(736)	3,095
Segment profit (loss)	11,421	1,456	4,423	(305)	16,995
Noncash items:					
Depreciation and amortization	1,467	49	100	68	1,684
Segment assets at September 30, 2019	1,124,526	84,661	88,645	(75,253)	1,222,579
<i>(In thousands)</i>	<b>Core Banking</b>	<b>SBA Lending</b>	<b>Mortgage Banking</b>	<b>Other</b>	<b>Consolidated Totals</b>
<b>Year Ended September 30, 2018:</b>					
Net interest income (loss)	\$ 32,436	\$ 3,012	\$ 376	\$ (2)	\$ 35,822
Provision (credit) for loan losses	(69)	1,422	—	—	1,353
Net interest income (loss) after provision	32,505	1,590	376	(2)	34,469
Net gains on sales of loans, SBA	—	5,493	—	—	5,493
Mortgage banking income	587	—	1,731	—	2,318
Noninterest income	5,752	5,812	1,731	—	13,295
Noninterest expense	25,622	4,434	2,872	78	33,006
Income (loss) before taxes	12,635	2,968	(765)	(80)	14,758
Income tax expense (benefit)	2,615	424	(214)	(403)	2,422
Segment profit (loss)	10,020	2,544	(551)	323	12,336
Noncash items:					
Depreciation and amortization	1,309	50	14	—	1,373
Segment assets at September 30, 2018	1,014,301	66,970	10,834	(57,699)	1,034,406



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**(30) REVENUE FROM CONTRACTS WITH CUSTOMERS**

Substantially all of the Company's revenue from contracts with customers within the scope of FASB ASC 606 is included in the core banking segment and is recognized within noninterest income. The following table presents the Company's sources of noninterest income for the years ended September 30, 2020, 2019 and 2018:

<i>(In thousands)</i>	<b>Year Ended</b>		
	<b>September 30,</b>		
	<b>2020</b>	<b>2019</b>	<b>2018</b>
Service charges on deposit accounts	\$ 1,581	\$ 1,957	\$ 1,731
ATM and interchange fees	2,116	1,949	1,580
Investment advisory income	288	324	550
Other	101	137	139
Revenue from contracts with customers	<u>4,086</u>	<u>4,367</u>	<u>4,000</u>
Gain (loss) on securities	7	(74)	99
Gain on sale of SBA loans	5,673	4,569	5,493
Mortgage banking income	117,852	33,007	2,318
Increase in cash value of life insurance	732	580	430
Real estate lease income	589	594	5
Other	2,182	811	950
Other noninterest income	<u>127,035</u>	<u>39,487</u>	<u>9,295</u>
Total noninterest income	<u>\$ 131,121</u>	<u>\$ 43,854</u>	<u>\$ 13,295</u>

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

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

**ATM and Interchange Fees:** The Company earns ATM usage fees and interchange fees from debit cardholder transactions conducted through a payment network. ATM fees are recognized when the transaction occurs. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder. The costs of related loyalty rewards programs are netted against interchange income as a direct cost of the revenue generating activity.

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

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SEPTEMBER 30, 2020, 2019 AND 2018**

(30 – continued)

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

EMPLOYMENT AGREEMENT

**THIS EMPLOYMENT AGREEMENT** (the “Agreement”) is entered into effective as of October 1, 2020 (the “Effective Date”), by and between **JACQUELINE R. JOURNELL** (the “Executive”), **FIRST SAVINGS FINANCIAL GROUP, INC.** (the “Corporation”), and **FIRST SAVINGS BANK** (the “Bank”), a state-chartered commercial bank and wholly-owned subsidiary of the Corporation.

**WHEREAS**, the Executive serves in positions of substantial responsibility with the Corporation and the Bank;

**WHEREAS**, the Corporation and the Bank wish to set forth the terms of the Executive’s continued employment in these positions;

**WHEREAS**, the Executive is willing and desires to continue to serve in these positions with the Corporation and the Bank; and

**WHEREAS**, the Executive, the Corporation and the Bank previously entered into an employment agreement as of October 7, 2019, which employment agreement shall be superseded by this Agreement.

**NOW THEREFORE**, in consideration of these premises, the mutual covenants contained herein, and other good and valuable consideration the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows.

**ARTICLE 1  
EMPLOYMENT**

**1.1 Employment.** The Corporation hereby employs the Executive to serve as Executive Vice President and Chief Operating Officer of the Corporation and the Bank hereby employs the Executive to serve as Executive Vice President and Chief Operating Officer of the Bank, each according to the terms and conditions of this Agreement and for the period stated in Section 1.3 of this Agreement. The Executive hereby accepts employment according to the terms and conditions of this Agreement and for the period stated in Section 1.3 of this Agreement.

**1.2 Duties.** As Executive Vice President and Chief Operating Officer of the Corporation and the Bank, the Executive shall serve under the boards of directors of the Corporation and the Bank (collectively, the “Boards”), respectively. The Executive shall report directly to the Chief Executive Officer of the Corporation and the Bank (the “CEO”). The Executive shall serve the Corporation and the Bank faithfully, diligently, competently, and to the best of the Executive’s ability. The Executive shall exclusively devote full working time, energy, and attention to the business of the Corporation and the Bank and to the promotion of the interests of the Corporation and the Bank throughout the term of this Agreement. Without the prior written consent of the Boards, during the term of this Agreement, the Executive shall not render services to or for any person, firm, corporation, or other entity or organization in exchange for compensation, regardless of the form in which the compensation is paid and regardless of whether it is paid directly or indirectly to the Executive. Nothing in this Section 1.2 shall prevent the Executive from managing personal investments and affairs, serving on civic boards or performing volunteer services, provided that doing so does not interfere with the proper performance of the Executive’s duties and responsibilities under this Agreement.

**1.3 Term.**

(a) The term of this Agreement shall include: (i) the initial term, consisting of the period commencing on the Effective Date and ending on the third anniversary of the Effective Date, plus (ii) any and all extensions of the initial term made pursuant to this Section 1.3.

(b) Commencing on the first anniversary of the Effective Date and continuing as of each anniversary of the Effective Date thereafter (the "Renewal Date"), the disinterested directors on the Boards may extend the Agreement term for an additional year so that the remaining term of the Agreement again becomes thirty-six (36) full months from the applicable Renewal Date, unless the Executive elects not to extend the term of this Agreement by giving written notice to the Corporation and the Bank at least thirty (30) days prior to the applicable anniversary date.

(c) The disinterested directors on the Boards will review the Agreement and the Executive's performance annually for the purpose of determining whether to extend the Agreement term and will include the rationale and results of the review in the minutes of the meetings. The Boards will notify the Executive no earlier than sixty (60) days and no later than thirty (30) days prior to the applicable anniversary date whether they have determined to extend the Agreement.

(d) Nothing in this Agreement shall mandate or prohibit the continuation of the Executive's employment following the expiration of the term of this Agreement, upon such terms and conditions as the Corporation, the Bank and the Executive may mutually agree.

**ARTICLE 2  
COMPENSATION AND BENEFITS**

**2.1 Base Salary.** In consideration of the Executive's performance of the obligations under this Agreement, the Corporation or the Bank shall pay or cause to be paid to the Executive a salary at the combined annual rate of not less than \$180,200, payable according to the regular payroll practices of the Corporation and the Bank. The Executive's salary shall be subject to annual review. The Executive's salary, as the same may be modified from time to time, is referred to in this Agreement as the "**Base Salary**". All compensation under this Agreement shall be subject to customary income tax withholding and withholding of such other employment taxes as are imposed by law.

**2.2 Benefit Plans and Perquisites.** For as long as the Executive is employed by the Corporation or the Bank, the Executive shall be eligible (i) to participate in any and all officer or employee compensation, incentive compensation and benefit plans in effect from time to time, including without limitation plans providing retirement, medical, dental, disability, and group life benefits and including stock-based compensation, incentive, or bonus plans existing on the date of this Agreement or adopted after the date of this Agreement, provided that the Executive satisfies the eligibility requirements for such plans or benefits, and (ii) to receive any and all other fringe and other benefits provided from time to time, including the specific items described in (a)-(c) below.

(a) Automobile. The Corporation or the Bank shall provide the Executive with, and the Executive shall have the primary use of, an automobile owned or leased by the Corporation or the Bank. The Corporation or the Bank shall pay (or reimburse the Executive) for all expenses of insurance, registration, operation and maintenance of the automobile. The Executive shall comply with reasonable reporting and expense limitations on the use of the automobile, as the Corporation and the Bank may establish from time to time, and the Corporation or the Bank shall annually include on the Executive's Form W-2 the amount attributable to the Executive's personal use of the automobile. At the discretion of the Executive, the Corporation or the Bank shall provide the Executive with an automobile allowance of

not less than \$1,000 per month for automobile-related expenses in lieu of an automobile owned or leased by the Corporation or the Bank. The automobile allowance shall be payable according to the regular payroll practices of the Corporation and the Bank, and the Corporation and the Bank shall annually include on the Executive's Form W-2 the amount attributable to the automobile allowance.

(b) ***Reimbursement of Business Expenses.*** The Executive shall be entitled to reimbursement for all reasonable business expenses, excluding mileage (if provided use of an automobile or automobile allowance) and other automobile-related expenses (if provided an automobile allowance in lieu of use of an automobile), incurred while performing the obligations under this Agreement, including, but not limited to, all reasonable business travel and entertainment expenses incurred while acting at the request of or in the service of the Corporation or the Bank, reasonable expenses for attendance at annual and other periodic meetings of trade associations, and reasonable fees and expenses for continuing professional education. Expenses will be reimbursed if they are submitted in accordance with the policies and procedures of the Corporation and the Bank.

(c) ***Facilities.*** The Corporation and the Bank will furnish the Executive with the working facilities and staff customary for executive officers with comparable titles and duties of the Executive, as set forth in Sections 1.1 and 1.2 of this Agreement, and as are necessary for the Executive to perform the duties. The location of such facilities and staff shall be at the principal administrative offices of the Corporation or the Bank, or at such other site or sites customary for the offices.

**2.3 *Vacation; Leave.*** The Executive shall be entitled to sick leave and paid annual vacation in accordance with policies established from time to time by the Corporation and the Bank, and made available in writing to the Executive. In addition to paid vacations and other leave, the Boards or the CEO may grant the Executive, solely at the Executive's request, voluntary Leaves of Absence, with or without pay, at such time or times and upon such terms and conditions as the Board or the CEO may determine. For purposes of this Agreement, "Leave of Absence" means a voluntary and temporary discontinuance of work duties and responsibilities by the Executive, after which the Executive may return to work duties and responsibilities, subject to terms and conditions agreed upon by the Executive, the Boards and the CEO.

**2.4 *Insurance.*** The Corporation and the Bank shall maintain or cause to be maintained liability insurance, including Director & Officer insurance, covering the Executive throughout the term of this Agreement.

### **ARTICLE 3 EMPLOYMENT TERMINATION**

#### **3.1 *Termination Because of Death or Disability.***

(a) ***Death.*** The Executive's employment shall terminate automatically at the Executive's death. If the Executive dies in active service to the Corporation or the Bank, the Executive's spouse or, if there is no surviving spouse, the estate, shall receive any sums due to the Executive as Base Salary and reimbursement of expenses through the end of the month in which death occurred.

(b) ***Disability.*** By delivery of written notice thirty (30) days in advance to the Executive, the Corporation and the Bank may terminate the Executive's employment if the Executive is disabled. For purposes of this Agreement the Executive shall be considered "disabled" if an independent physician selected by the Corporation or the Bank and reasonably acceptable to the Executive, or the Executive's legal representative, determines that, because of illness or accident, the Executive is unable to perform the Executive's duties and will be unable to perform the Executive's duties for a period of ninety (90)

consecutive days. The Executive shall not be considered disabled, however, if the Executive returns to work on a full-time basis within thirty (30) days after the Corporation or the Bank gives notice of termination due to disability. If the Executive is terminated by either the Corporation or the Bank because of disability, the Executive's employment with the other shall also terminate at the same time without further action. During the period of incapacity leading up to the termination of the Executive's employment under this provision, the Corporation and the Bank shall continue to pay the full Base Salary at the rate then in effect and all prerequisites and other benefits (other than bonus) until the Executive becomes eligible for benefits under any disability plan or insurance program maintained by the Corporation and the Bank, provided that the amount of the payments by the Corporation and the Bank to the Executive under this Section 3.1(b) shall be reduced by the sum of the amounts, if any, payable to the Executive for the same period under any disability benefit or pension plan covering the Executive.

**3.2 Involuntary Termination With Cause.** The Corporation and the Bank may terminate the Executive's employment for Cause. If the Executive's employment terminates for Cause, the Executive shall receive the Base Salary through the date on which termination becomes effective and reimbursement of expenses to which the Executive is entitled when termination becomes effective. If the Executive is terminated for Cause by either the Corporation or the Bank, the Executive's employment with the other shall also terminate at the same time without further action. The Executive shall not be deemed to have been terminated for Cause under this Agreement unless and until there is delivered to the Executive a copy of a resolution adopted at a meeting of the board of directors of the Corporation or the Bank called and held for the purpose, which resolution shall (i) contain findings that the Executive has committed an act constituting Cause, and (ii) specify the particulars thereof. The resolution of the board(s) of directors shall be deemed to have been duly adopted only if it is adopted by the affirmative vote of a majority of the directors of the Corporation or the Bank then in office, excluding the Executive. Notice of the meeting and the proposed termination for Cause shall be given to the Executive a reasonable time, but not less than ten (10) business days, before the meeting of the board(s) of directors (the "Board Meeting Notice"); provided, however, the Corporation or the Bank may immediately place the Executive on Paid Administrative Leave effective at the time of providing the Board Meeting Notice. For purposes of this Agreement, "Paid Administrative Leave" means an involuntary and temporary discontinuance of work duties and responsibilities by the Executive, during which the Executive continues to receive compensation and benefits on the same terms and conditions as received immediately prior to the leave, and after which the Executive may return to work duties and responsibilities or employment is terminated. The Executive and the Executive's counsel (if the Executive chooses to have counsel present) shall have a reasonable opportunity to be heard by the board(s) of directors at the meeting. For purposes of this Agreement "Cause" means any of the following:

- (a) a material act of dishonesty in performing the Executive's duties on behalf of the Corporation or the Bank ;
- (b) a willful misconduct that, in the judgment of the board(s) of directors, will likely cause economic damage to the Corporation or the Bank or their Affiliates or injury to the business reputation of the Corporation or the Bank or their Affiliates;
- (c) incompetence (in determining incompetence, the Executive must have demonstrated a lack of ability to perform the duties assigned to him which lack of ability directly causes material injury to the Corporation or the Bank and the Executive's acts or omissions shall be measured against standards generally prevailing in the community banking industry);
- (d) a breach of fiduciary duty involving personal profit;

- (e) the intentional failure to perform stated duties under this Agreement after written notice thereof from the board(s) of directors of the Corporation or the Bank;
- (f) a willful violation of any law, rule or regulation (other than minor or routine traffic violations or similar offenses) that reflects adversely on the reputation of the Corporation or the Bank or their Affiliates, any felony conviction, any violation of law involving moral turpitude, or any violation of a final cease-and-desist order; or
- (g) a material breach by the Executive of any provision of this Agreement.

No act, or failure to act, on the Executive's part shall be considered "willful" unless the Executive has intentionally acted, or intentionally failed to act, with an absence of good faith and without reasonable belief that action or failure to act was in the best interest of the Corporation or the Bank. The Corporation or the Bank must provide written notice to the Executive of the existence of one or more of the conditions described in Sections 3.2 (a) through (g) within sixty (60) days after the Corporation's or the Bank's recognition of the existence of the condition(s) (the "Cause Notice"). The Cause Notice shall be sent not less than ten (10) days prior to the Board Meeting Notice; provided, however, the Corporation and the Bank may immediately place the Executive on Paid Administrative Leave effective at the time of providing the Board Meeting Notice.

**3.3 Voluntary Termination by the Executive Without Good Reason.** If the Executive terminates employment without Good Reason, the Executive shall receive the Base Salary and expense reimbursement to which the Executive is entitled through the date on which termination becomes effective.

**3.4 Involuntary Termination Without Cause and Voluntary Termination With Good Reason.** With written notice to the Executive at least thirty (30) days in advance, the Corporation and the Bank may terminate the Executive's employment without Cause. Termination shall take effect at the end of the notice period. With advance written notice to the Corporation and the Bank, as provided in clause (b), the Executive may terminate employment for Good Reason. If the Executive's employment terminates involuntarily without Cause or voluntarily but with Good Reason, the Executive shall be entitled to the benefits specified in Article 4 of this Agreement. For purposes of this Agreement, a voluntary termination by the Executive shall be considered a voluntary termination with Good Reason if the conditions stated in both clauses (a) and (b) of this Section 3.4 are satisfied:

(a) a voluntary termination by the Executive shall be considered a voluntary termination with Good Reason if any of the following occur without the Executive's written consent, and the term "**Good Reason**" shall mean the occurrence of any of the following without the Executive's written consent:

- (1) a material diminution of the Executive's Base Salary;
- (2) a material diminution of the Executive's authority, duties, or responsibilities;
- (3) a material diminution in the authority, duties or responsibilities of the supervisor to whom the Executive is required to report;
- (4) a change in the geographic location at which the Executive must perform services for the Corporation or the Bank by more than thirty-five (35) miles from the Corporation's and the Bank's headquarters located at 702 North Shore Drive, Jeffersonville, Indiana (the "Headquarters"); or

- (5) any other action or inaction that constitutes a material breach by the Corporation or the Bank under this Agreement.

(b) the Executive must give notice to the Corporation and the Bank of the existence of one or more of the conditions described in clause (a) within sixty (60) days after the initial existence of the condition, and the Corporation and the Bank shall have thirty (30) days thereafter to remedy the condition. In addition, the Executive's voluntary termination because of the existence of one or more of the conditions described in clause (a) must occur within six (6) months after the initial existence of the condition.

#### **ARTICLE 4 SEVERANCE COMPENSATION**

**4.1 Cash Severance after Termination Without Cause or Termination for Good Reason.** Subject to Section 8.9 of this Agreement, if the Executive's employment terminates involuntarily but without Cause or if the Executive voluntarily terminates employment with Good Reason, the Executive shall receive from the Corporation or the Bank the Base Salary for the remaining term of the Agreement, with the amount paid in a single lump sum within ten (10) calendar days of termination. The Corporation, the Bank and the Executive acknowledge and agree that the compensation and benefits under this Section 4.1 shall not be payable if compensation and benefits are payable or shall have been paid to the Executive under Article 5 of this Agreement.

**4.2 Post-Termination Insurance Coverage.** If the Executive's employment terminates involuntarily but without Cause or voluntarily but with Good Reason, or because of disability, the Corporation or the Bank shall continue to provide to the Executive non-taxable medical insurance coverage substantially comparable (and on substantially the same terms and conditions) to the coverage maintained by the Corporation and the Bank for the Executive immediately prior to termination under the same cost-sharing arrangements that apply for active employees of the Corporation and the Bank as of the Executive's date of termination. Such continued coverage shall cease upon the earlier of (i) the Executive's return to employment with the Corporation, the Bank or another employer, (ii) the Executive's attainment of age 65, (iii) the Executive's death or (iv) the expiration of the remaining term of this Agreement. The period of continued health coverage required by Section 4980B(f) of the Internal Revenue Code of 1986, as amended (the "Code"), shall run concurrently with the coverage period provided herein. If the Corporation and the Bank cannot provide the benefits set forth in this paragraph for any reason, including because the Executive is no longer an employee, applicable rules and regulations prohibit the benefits in the manner contemplated, or it would subject the Corporation or the Bank to penalties, then the Corporation or the Bank shall pay the Executive a cash lump sum payment reasonably estimated to be equal to the value of the premiums the Corporation and Bank would have paid for such coverage based on the premiums paid for the coverage immediately prior to termination. Such cash payment shall be made in a lump sum within thirty (30) days after the later of the Executive's date of termination or the effective date of the rules or regulations prohibiting such benefits or subjecting the Corporation or the Bank to penalties.



**ARTICLE 5**  
**CHANGE IN CONTROL BENEFITS**

**5.1 Change in Control Benefits.** If a Change in Control occurs during the term of this Agreement and, thereafter during the term of the Agreement, the Executive's employment terminates involuntarily but without Cause or if the Executive voluntarily terminates employment with Good Reason, the Corporation or the Bank shall make or cause to be made a single lump-sum payment to the Executive in an amount in cash equal to two (2) times the Executive's Average Annual Compensation. For purposes of this Agreement, "Average Annual Compensation" means the Executive's taxable income reported by the Corporation and the Bank (or any Affiliate of the Corporation and the Bank) in Box 5, Form W-2, Wage and Tax Statement, or on any Form 1099, for the five (5) calendar years immediately preceding the calendar year in which the Change in Control occurs. The payment required under this paragraph is payable no later than five (5) business days after the Executive's termination. If the Executive receives payment under this Section 5.1, the Executive shall not be entitled to any additional severance benefits under Section 4.1 of this Agreement. In addition, the Corporation and the Bank shall provide the Executive and dependents with the post-termination insurance coverage described in Section 4.2 of this Agreement.

**5.2 Change in Control Defined.** For purposes of this Agreement, "Change in Control" means a change in control as defined in Section 409A of the Code and rules, regulations, and guidance of general application thereunder issued by the Department of the Treasury, including:

(a) Change in ownership. a change in ownership of the Corporation or the Bank occurs on the date any one (1) person or group accumulates ownership of Corporation or Bank stock constituting more than 50% of the total fair market value or total voting power of Corporation or Bank stock,

(b) Change in effective control. (i) any one (1) person or more than one (1) person acting as a group acquires within a twelve (12)-month period ownership of Corporation or Bank stock possessing 30% or more of the total voting power of Corporation or Bank stock, or (ii) a majority of the directors on the board of directors of the Corporation or the Bank is replaced during any twelve (12)-month period by directors whose appointment or election is not endorsed in advance by a majority of the directors on the board of directors of the Corporation or the Bank, or

(c) Change in ownership of a substantial portion of assets. a change in ownership of a substantial portion of the Corporation's or the Bank's assets occurs if in a twelve (12)-month period any one person or more than one person acting as a group acquires from the Corporation's or the Bank's assets having a total gross fair market value equal to or exceeding 40% of the total gross fair market value of all of the Corporation's or the Bank's assets immediately before the acquisition or acquisitions. For this purpose, gross fair market value means the value of the Corporation's or the Bank's assets, or the value of the assets being disposed of, determined without regard to any liabilities associated with the assets.

**ARTICLE 6**  
**CONFIDENTIALITY AND CREATIVE WORK**

**6.1 Non-disclosure.** The Executive covenants and agrees not to reveal to any person, firm, or corporation any Confidential Information of any nature concerning the Corporation or the Bank or their business, or anything connected therewith. As used in this Article 6, the term "Confidential Information" means all of the confidential and proprietary information and trade secrets of the Corporation and the Bank and their Affiliates in existence on the date hereof or existing at any time during the term of this Agreement, including but not limited to:

- (a) the whole or any portion or phase of any business plans, financial information, purchasing data, supplier data, accounting data, or other financial information;
- (b) the whole or any portion or phase of any research and development information, design procedures, algorithms or processes, or other technical information;
- (c) the whole or any portion or phase of any marketing or sales information, sales records, customer lists, prices, sales projections, or other sales information; and
- (d) trade secrets, as defined from time to time by the laws of Indiana.

This Section 6.1 does not prohibit disclosure required by an order of a court having jurisdiction or a subpoena from an appropriate governmental agency or disclosure made by the Executive in the ordinary course of business and within the scope of the Executive's authority.

The term "Confidential Information" shall not include information (i) which at the time of disclosure has been published or is otherwise in the public domain; (ii) which, after disclosure, becomes part of the public domain other than through a breach of this Agreement; (iii) which was known to the recipient prior to receipt from the Executive, provided such prior knowledge can be adequately substantiated; (iv) which becomes known to a recipient from a source which legally derives such information independently of the Executive under this Agreement; (v) which is freely disclosed by the Corporation or the Bank to a third party without an obligation of confidentiality or nondisclosure; or, (vi) which is disclosed pursuant to law, regulation or lawful order or process.

**6.2 Return of Materials.** The Executive agrees to immediately deliver or return to the Corporation and the Bank upon termination of employment, upon expiration of this Agreement, or as soon thereafter as possible, all written information and any other similar items furnished by the Corporation and the Bank or prepared by the Executive in connection with the Executive's services hereunder and to immediately delete all electronically stored data of the Corporation and the Bank maintained on the Executive's personal computers or communication devices (i.e. laptop, tablet, cellular phone, etc.) and to return all employer-provided computers or communication devices. The Executive will retain no copies thereof after termination of this Agreement or termination of the Executive's employment.

**6.3 Creative Work.** The Executive agrees that all creative work and work product, including but not limited to all technology, business management tools, processes, software, patents, trademarks, and copyrights developed by the Executive during the term of this Agreement, regardless of when or where such work or work product was produced, constitutes work made for hire, all rights of which are owned by the Corporation and the Bank. The Executive hereby assigns to the Corporation and the Bank all rights, title, and interest, whether by way of copyrights, trade secret, trademark, patent, or otherwise, in all such work or work product, regardless of whether the same is subject to protection by patent, trademark, or copyright laws.

**6.4 Affiliates' Confidential Information is Covered.** For purposes of this Agreement, "Affiliate" of the Corporation or the Bank includes any entity that directly, or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with the Corporation or the Bank.

**6.5 Injunctive Relief.** The Executive acknowledges that it is impossible to measure in money the damages that will accrue to the Corporation and the Bank if the Executive fails to observe the obligations imposed by this Article 6. Accordingly, if the Corporation or the Bank institutes an action to enforce the provisions hereof, the Executive hereby waives the claim or defense that an adequate remedy at law is available to the Corporation or the Bank, and the Executive agrees not to urge in any such action the claim or defense that an adequate remedy at law exists. The confidentiality and remedies provisions of this Article 6 shall be in addition to and shall not be deemed to supersede or restrict, limit, or impair the Corporation's or the Bank's rights under applicable state or federal statute or regulation dealing with or providing a remedy for the wrongful disclosure, misuse, or misappropriation of trade secrets or proprietary or Confidential Information.

**6.6 Confidentiality Obligation Survives Termination.** The rights and obligations set forth in this Article 6 shall survive termination of this Agreement.

## **ARTICLE 7 SOLICITATION AND COMPETITION AFTER EMPLOYMENT TERMINATION**

**7.1 Covenant Not to Solicit Employees.** The Executive covenants and agrees not to, directly or indirectly, solicit or employ the services of any officer or employee of the Corporation or the Bank or an Affiliate (including an individual who was an officer or employee of the Corporation or the Bank or an Affiliate during the one-year period following the Executive's termination) for two years after the Executive's employment termination.

**7.2 Covenant Not to Compete.**

(a) The Executive covenants and agrees not to Compete, Directly or Indirectly, with the Corporation or the Bank or an Affiliate for one year after employment termination. For purposes of this Section 7.2:

- (1) the term "Compete" means:
  - (i) providing Financial Products or Services on behalf of any Financial Institution for any Person residing in the Territory;
  - (ii) assisting (other than through the performance of ministerial or clerical duties) any Financial Institution in providing Financial Products or Services to any Person residing in the Territory; or
  - (iii) inducing or attempting to induce any Person who was a Customer of the Corporation or the Bank or an Affiliate at the date of the Executive's employment termination to seek Financial Products or Services from another Financial Institution.
- (2) the terms "Directly" and "Indirectly" mean:
  - (i) acting as a consultant, officer, director, independent contractor, or employee of any Financial Institution in competition with the Corporation or the Bank or an Affiliate in the Territory; or

- (ii) communicating to such Financial Institution the names or addresses or any financial information concerning any Person who was a Customer of the Corporation or the Bank or an Affiliate when the Executive's employment terminated.
- (3) the term "Customer" means any Person to whom the Corporation or the Bank or an Affiliate is providing Financial Products or Services on the date of the Executive's employment termination or within one year thereafter.
- (4) the term "Financial Institution" means any bank, savings association, or bank or savings association holding company, or any other institution, the business of which is engaging in activities that are financial in nature or incidental to such financial activities as described in Section 4(k) of the Bank Holding Company Act of 1956, other than the Corporation or the Bank or an Affiliate.
- (5) the term "Financial Product or Service" means any product or service that a Financial Institution or a financial holding company could offer by engaging in any activity that is financial in nature or incidental to such a financial activity under Section 4(k) of the Bank Holding Company Act of 1956 and that is offered by the Corporation or the Bank or an Affiliate on the date of the Executive's employment termination, including but not limited to banking activities and activities that are closely related and a proper incident to banking.
- (6) the term "Person" means any individual or individuals, corporation, partnership, fiduciary or association.
- (7) the term "Territory" means the area within a twenty-five (25) mile radius of the Headquarters or any office of the Corporation or the Bank or an Affiliate in which the Bank operates a Retail Depository Branch as of the Effective Date and provided, however, that the term "Territory" shall not extend to any area outside the State of Indiana. For purposes of this Agreement, "Retail Depository Branch" means any office location of the Bank in which consumer, personal and commercial depository services are offered and facilitated.

(b) If any provision of this Section 7.2 or any word, phrase, clause, sentence or other portion thereof (including, without limitation, the geographical and temporal restrictions contained therein) is held to be unenforceable or invalid for any reason, the unenforceable or invalid provision or portion shall be modified or deleted so that the provisions hereof, as modified, are legal and enforceable to the fullest extent permitted under applicable law.

(c) The Executive acknowledges that the Corporation's and the Bank's willingness to enter into this Agreement and to make the payments contemplated by Articles 3 and 4 of this Agreement is conditioned on the Executive's acceptance of and adherence to the covenants set forth in Articles 6 and 7 of this Agreement and that the Corporation and the Bank would not have entered into this Agreement without such covenants in force.

**7.3 Injunctive and Other Relief.** Because of the unique character of the services to be rendered by the Executive hereunder, the Executive understands that the Corporation and the Bank would not have an adequate remedy at law for the material breach or threatened breach by the Executive of any one or more of the Executive's covenants in this Article 7. Accordingly, the Executive agrees that the Corporation's and the Bank's remedies for a breach of this Article 7 include, but are not limited to, (i) forfeiture of any money representing accrued salary, contingent payments, or other fringe benefits (including any amount payable pursuant to Article 4) due and payable to the Executive during the period of any breach by Executive, (ii) a suit in equity by the Corporation or the Bank to enjoin the Executive from the breach or threatened breach of such covenants, and (iii) its attorney's fees and costs incurred to enforce the rights of the Corporation or the Bank under any article of this Agreement. The Executive hereby waives the claim or defense that an adequate remedy at law is available to the Corporation or the Bank and the Executive agrees not to urge in any such action the claim or defense that an adequate remedy at law exists. Nothing herein shall be construed to prohibit the Corporation or the Bank from pursuing any other or additional remedies for the breach or threatened breach.

**7.4 Article 7 Survives Termination But Is Void Upon a Change in Control.** The rights and obligations set forth in this Article 7 shall survive termination of this Agreement. However, Article 7 shall become null and void effective immediately upon a Change in Control if the Executive is employed by the Corporation or the Bank at the effective time of the Change in Control.

## **ARTICLE 8 MISCELLANEOUS**

### **8.1 Successors and Assigns.**

(a) This Agreement shall be binding upon the Corporation and the Bank and any successors to the Corporation and the Bank, including any persons acquiring directly or indirectly all or substantially all of the business or assets of the Corporation or the Bank by purchase, merger, consolidation, reorganization, or otherwise, but this Agreement and the Corporation's and the Bank's obligations under this Agreement are not otherwise assignable, transferable, or delegable by the Corporation or the Bank. By agreement in form and substance satisfactory to the Executive, the Corporation and the Bank shall require any successor to all or substantially all of the business or assets of the Corporation or the Bank expressly to assume and agree to perform this Agreement in the same manner and to the same extent the Corporation and the Bank would be required to perform had no succession occurred.

(b) This Agreement shall inure to the benefit of and be enforceable by the Executive's personal or legal representatives, executors, administrators, successors, heirs, distributees, and legatees.

(c) Without written consent of the other parties, no party shall assign, transfer, or delegate this Agreement or any rights or obligations under this Agreement, except as expressly provided herein. Without limiting the generality or effect of the foregoing, the Executive's right to receive payments hereunder is not assignable or transferable, whether by pledge, creation of a security interest, or otherwise, except for a transfer by the Executive's will or by the laws of descent and distribution. If the Executive attempts an assignment or transfer that is contrary to this Section 8.1, the Corporation and the Bank shall have no liability to pay any amount to the assignee or transferee.

**8.2 Governing Law, Jurisdiction and Forum.** This Agreement shall be construed under and governed by the internal laws of the State of Indiana, without giving effect to any conflict of laws provision or rule that would cause the application of the laws of any jurisdiction other than Indiana. By entering into this Agreement, the Executive acknowledges that the Executive is subject to the jurisdiction of both the federal and state courts in Indiana.

**8.3 Entire Agreement.** This Agreement sets forth the entire agreement of the parties concerning the employment of the Executive by the Corporation and the Bank. Any oral or written statements, representations, agreements, or understandings made or entered into prior to or contemporaneously with the execution of this Agreement are hereby rescinded, revoked, and rendered null and void by the parties.

**8.4 Notices.** All notices, requests, demands, and other communications hereunder shall be in writing and shall be deemed to have been duly given if delivered by hand or mailed, certified or registered mail, return receipt requested, with postage prepaid. Unless otherwise changed by notice, notice shall be properly addressed to the Executive if addressed to the address of the Executive on the books and records of the Corporation and the Bank at the time of the delivery of such notice, and properly addressed to the Corporation or the Bank if addressed to the board(s) of directors of the Corporation or the Bank at the Headquarters.

**8.5 Severability.** If there is a conflict between any provision of this Agreement and any statute, regulation, or judicial precedent, the latter shall prevail, but the affected provisions of this Agreement shall be curtailed and limited solely to the extent necessary to bring them within the requirements of law. If any provisions of this Agreement is held by a court of competent jurisdiction to be indefinite, invalid, void or voidable, or otherwise unenforceable, the remainder of this Agreement shall continue in full force and effect unless that would clearly be contrary to the intentions of the parties or would result in an injustice.

**8.6 Captions and Counterparts.** The captions in this Agreement are solely for convenience. The captions do not define, limit, or describe the scope or intent of this Agreement. This Agreement may be executed in several counterparts, each of which shall be deemed to be an original but all of which together shall constitute one and the same instrument.

**8.7 No Duty to Mitigate.** The Executive shall not be required to mitigate the amount of any payment provided for in this Agreement by seeking other employment. Moreover, provided the Executive is not in breach of any obligation under Articles 6 and 7 of this Agreement, the amount of any payment provided for in this Agreement shall not be reduced by any compensation earned or benefits provided as the result of employment of the Executive or as a result of the Executive being self-employed after employment termination.

**8.8 Amendment and Waiver.** This Agreement may not be amended, released, discharged, abandoned, changed, or modified in any manner, except by an instrument in writing signed by each of the parties hereto. The failure of any party hereto to enforce at any time any of the provisions of this Agreement shall not be construed to be a waiver of any such provision, nor affect the validity of this Agreement or any part thereof or the right of any party thereafter to enforce each and every such provision. No waiver or any breach of this Agreement shall be held to be a waiver of any other or subsequent breach.

## **8.9 Compliance with Internal Revenue Code Section 409A.**

(a) The Corporation, the Bank and the Executive intend that their exercise of authority or discretion under this Agreement shall comply with Section 409A of the Code. If any provision of this Agreement does not satisfy the requirements of Section 409A of the Code, such provision shall nevertheless be applied in a manner consistent with those requirements. If any provision of this Agreement would subject the Executive to additional tax or interest under Section 409A of the Code, the Corporation and the Bank shall reform the provision. However, the Corporation and the Bank shall maintain to the maximum extent practicable the original intent of the applicable provision without subjecting the Executive to additional tax or interest, and the Corporation and the Bank shall not be required to incur any additional compensation expense as a result of the reformed provision.

(b) This Agreement is intended to comply with the requirements of Section 409A of the Code, and specifically, where applicable, with the “short-term deferral exception” under Treasury Regulation Section 1.409A-1(b)(4) and the “separation pay exception” under Treasury Regulation Section 1.409A-1(b)(9)(iii), and shall in all respects be administered in accordance with Section 409A of the Code. If any payment or benefit hereunder cannot be provided or made at the time specified herein without incurring sanctions on the Executive under Section 409A of the Code, then such payment or benefit shall be provided in full at the earliest time thereafter when such sanctions will not be imposed. For purposes of Section 409A of the Code, all payments to be made upon a termination of employment under this Agreement may only be made upon a “separation from service” (within the meaning of such term under Section 409A of the Code), each payment made under this Agreement shall be treated as a separate payment, the right to a series of installment payments under this Agreement (if any) is to be treated as a right to a series of separate payments, and if a payment is not made by the designated payment date under this Agreement, the payment shall be made by December 31 of the calendar year in which the designated date occurs. To the extent that any payment provided for hereunder would be subject to additional tax under Section 409A of the Code, or would cause the administration of this Agreement to fail to satisfy the requirements of Section 409A of the Code, such provision shall be deemed null and void to the extent permitted by applicable law, and any such amount shall be payable in accordance with Section 8.9(c). In no event shall the Executive, directly or indirectly, designate the calendar year of payment.

(c) Notwithstanding anything herein to the contrary, if the Executive is a “specified employee” (within the meaning of Section 409A of the Code) and it is necessary to postpone the commencement of any payments or benefits otherwise payable under this Agreement as a result of the Executive’s separation from service with the Corporation and the Bank to prevent any accelerated or additional tax under Section 409A of the Code, then the Corporation and the Bank will postpone the commencement of the payment of any such payments or benefits hereunder (without any reduction in such payments or benefits ultimately paid or provided to the Executive) that are not otherwise paid with the “short-term deferral exception” under Treasury Regulations Section 1.409A-1(b)(4) and the “separation pay exception” under Treasury Regulations Section 1.409A-1(b)(9)(iii), until the first payroll date that occurs after the date that is six (6) months following the Executive’s separation of service with the Corporation and the Bank. If any payments are postponed due to such requirements, such postponed amounts will be paid to the Executive in a lump sum on the first payroll date that occurs after the date that is six months following the Executive’s separation of service with the Corporation and the Bank. If the Executive dies during the postponement period prior to the payment of postponed amount, the amounts withheld on account of Section 409(A) of the Code shall be paid to the personal representative of the Executive’s estate within sixty (60) days after the date of the Executive’s death.

**8.10 Required Provisions.** In the event any of the foregoing provisions of this Agreement conflict with the terms of this Section 8.10, this Section 8.10 shall prevail.

(a) All obligations under this Agreement shall be terminated, except to the extent a determination is made that continuation of the contract is necessary for the continued operation of the Bank (i) by the Comptroller of the Currency, or designee (the "Comptroller"), at the time the Federal Deposit Insurance Corporation enters into an agreement to provide assistance to or on behalf of the Bank under the authority contained in Section 13(c) of the FDIA; or (ii) by the Comptroller, at the time the Comptroller approves a supervisory merger to resolve problems related to operation of the Bank or when the Bank is determined by the Comptroller to be in an unsafe and unsound condition. Any rights of the Officer that have already vested, however, shall not be affected by such action.

(b) Any payments made to the Executive pursuant to this Agreement, or otherwise, are subject to, and conditioned upon, their compliance with 12 U.S.C. Section 1828(k) and FDIC Regulation 12 C.F.R. Part 359, Golden Parachute and Indemnification Payments.

**[signature page follows]**



**IN WITNESS WHEREOF**, the parties have executed this Employment Agreement as of the date first written above.

**FIRST SAVINGS FINANCIAL GROUP, INC.**

/s/ John E. Colin  
Chairman of the Board of Directors

**FIRST SAVINGS BANK**

/s/ John E. Colin  
Chairman of the Board of Directors

**EXECUTIVE**

/s/ Jacqueline R. Journell  
Jacqueline R. Journell

## SUBSIDIARIES

<b>Registrant</b>	<b>Percentage Ownership</b>	<b>Jurisdiction or State of Incorporation</b>
First Savings Financial Group, Inc.	N/A	Indiana
<b>Subsidiaries</b>		
First Savings Insurance Risk Management, Inc. (1)	100 %	Nevada
First Savings Bank (1)	100 %	Indiana
Southern Indiana Financial Corporation (2)	100 %	Indiana
First Savings Investments, Inc. (2)	100 %	Nevada
Q2 Business Capital, LLC. (2)	51 %	Indiana

(1) Subsidiary of First Savings Financial Group, Inc.

(2) Subsidiary of First Savings Bank



222 EAST MARKET STREET, P.O. BOX 1407, NEW ALBANY, INDIANA 47150 • PHONE: 812.945.2311 • FAX: 812.945.2603

We consent to the incorporation by reference in First Savings Financial Group, Inc.'s Registration Statements on Form S-8 (File Nos. 333-154417, 333-166430 and 333-211554) of our report dated December 16, 2020 relating to the consolidated financial statements contained in this Annual Report on Form 10-K for the year ended September 30, 2020.

/s/ Monroe Shine & Co., Inc.

New Albany, Indiana

December 16, 2020

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## CERTIFICATION

I, Larry W. Myers, certify that:

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

Date: December 16, 2020

/s/ Larry W. Myers  
Larry W. Myers  
President and Chief Executive Officer  
(principal executive officer)

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## CERTIFICATION

I, Anthony A. Schoen, certify that:

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

Date: December 16, 2020

/s/ Anthony A. Schoen  
Anthony A. Schoen  
Chief Financial Officer  
(principal financial and accounting officer)

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

In connection with the Annual Report of First Savings Financial Group, Inc. (the "Company") on Form 10-K for the year ended September 30, 2020 as filed with the Securities and Exchange Commission (the "Report"), the undersigned hereby certify, pursuant to 18 U.S.C. §1350, as added by § 906 of the Sarbanes-Oxley Act of 2002, that:

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

/s/ Larry W. Myers  
\_\_\_\_\_  
President and Chief Executive Officer  
(principal executive officer)

/s/ Anthony A. Schoen  
\_\_\_\_\_  
Anthony A. Schoen  
Chief Financial Officer  
(principal financial and accounting officer)

December 16, 2020

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