First Savings Financial Group Inc
Form 10-Q
August 12, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2011

OR

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

For the transition period from ________ to ___________

Commission File No. 1-34155

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

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

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

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

Not applicable
(Former name, former address and former fiscal year, if changed since last report)

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

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

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

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

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

The number of shares outstanding of the registrant's common stock as of July 31, 2011 was 2,365,209.

FIRST SAVINGS FINANCIAL GROUP, INC.

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

(In thousands, except share and per share data)	June 30, 2011	September 30, 2010
ASSETS		
Cash and due from banks	$6,647	$10,184
Interest-bearing deposits with banks	2,289	1,094
Total cash and cash equivalents	8,936	11,278
Securities available for sale, at fair value	121,751	109,976
Securities held to maturity	2,667	3,929
Loans held for sale	-	1,884
Loans, net	352,710	343,615
Federal Home Loan Bank stock, at cost	4,400	4,170
Premises and equipment	10,180	9,492
Foreclosed real estate	948	1,331
Accrued interest receivable:		
Loans	1,506	1,646
Securities	1,070	746
Cash surrender value of life insurance	8,464	8,234
Goodwill	5,940	5,940
Core deposit intangible	2,227	2,447
Other assets	2,795	3,754
Total Assets	$523,594	$508,442
LIABILITIES		
Deposits:		
Noninterest-bearing	$30,725	$28,853
Interest-bearing	346,584	337,308
Total deposits	377,309	366,161
Repurchase agreements	16,507	16,821
Borrowings from Federal Home Loan Bank	69,411	67,159
Accrued interest payable	413	427
Advance payments by borrowers for taxes and insurance	201	252
Accrued expenses and other liabilities	1,763	2,471
Total Liabilities	465,604	453,291
STOCKHOLDERS' EQUITY		
Preferred stock of $.01 par value per share		
Authorized 1,000,000 shares; none issued	-	-

Common stock of $.01 par value per share		
Authorized 20,000,000 shares; issued 2,542,042 shares	25	25
Additional paid-in capital	24,513	24,310
Retained earnings - substantially restricted	35,080	31,889
Accumulated other comprehensive income	2,814	2,959
Unearned ESOP shares	(1,380)	(1,501)
Unearned stock compensation	(1,007)	(1,202)
Less treasury stock, at cost - 176,833 shares		
(127,102 shares at September 30, 2010)	(2,055)	(1,329)
Total Stockholders' Equity	57,990	55,151
Total Liabilities and Stockholders' Equity	$523,594	$508,442

See notes to consolidated financial statements.

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

(In thousands, except share and per share data)	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Nine Months Ended June 30, 2011	Nine Months Ended June 30, 2010
INTEREST INCOME				
Loans, including fees	$5,155	$5,575	$15,488	$16,782
Securities:				
Taxable	1,159	742	3,312	2,384
Tax-exempt	244	193	598	424
Dividend income	26	27	84	59
Interest-bearing deposits with banks	8	4	15	13
Total interest income	6,592	6,541	19,497	19,662
INTEREST EXPENSE				
Deposits	970	1,125	3,017	3,674
Repurchase agreements	84	83	241	255
Borrowings from Federal Home Loan Bank	273	267	828	724
Total interest expense	1,327	1,475	4,086	4,653
Net interest income	5,265	5,066	15,411	15,009
Provision for loan losses	435	300	1,074	1,246
Net interest income after provision for loan losses	4,830	4,766	14,337	13,763
NONINTEREST INCOME				
Service charges on deposit accounts	348	405	1,022	1,184
Net gain on sales of securities available for sale	-	34	68	34
Unrealized gain (loss) on derivative contract	(31)	(16)	2	(88)
Net gain on sales of loans	124	29	263	72
Increase in cash surrender value of life insurance	81	64	230	174
Commission income	74	55	160	125
Other income	196	168	531	500
Total noninterest income	792	739	2,276	2,001
NONINTEREST EXPENSE				
Compensation and benefits	2,130	2,638	6,387	6,654
Occupancy and equipment	445	554	1,343	1,638
Data processing	273	530	828	1,263
Advertising	76	81	238	242
Professional fees	141	216	414	540
FDIC insurance premiums	149	177	432	459
Net loss on foreclosed real estate	108	8	340	25
Other operating expenses	734	718	2,145	2,109
Total noninterest expense	4,056	4,922	12,127	12,930

Income before income taxes	1,566	583	4,486	2,834
Income tax expense	443	83	1,309	742
Net Income	$1,123	$500	$3,177	$2,092
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX				
Unrealized gain (loss) on securities:				
Unrealized holding gains (losses) arising during the period	$709	$731	$(100)	$1,622
Less: reclassification adjustment	-	(21)	(45)	(21)
Unrealized gain (loss) on securities	709	710	(145)	1,601
Reclassification adjustment - net realized loss on settlement of pension plan	-	(428)	-	(428)
Other comprehensive income (loss)	709	282	(145)	1,173
Comprehensive Income	$1,832	$782	$3,032	$3,265
Net Income per common share, basic	$0.53	$0.23	$1.48	$0.92
Net Income per common share, diluted	$0.51	$0.23	$1.45	$0.92
Dividends per common share	$-	$-	$-	$0.08

See notes to consolidated financial statements.

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

	Nine Months Ended June 30,	
(In thousands)	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$3,177	$2,092
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	1,074	1,246
Depreciation and amortization	678	870
Amortization of premiums and accretion of discounts on securities, net	(151)	77
Mortgage loans originated for sale	(8,721)	(7,439)
Proceeds on sale of loans	10,764	7,353
Gain on sale of loans	(263)	(72)
Net realized and unrealized (gain) loss on foreclosed real estate	204	(113)
Net gain on sales of securities available for sale	(68)	(34)
Unrealized (gain) loss on derivative contract	(2)	88
Increase in cash surrender value of life insurance	(230)	(174)
Deferred income taxes	287	96
ESOP and stock compensation expense	517	333
Increase in accrued interest receivable	(184)	(380)
Decrease in accrued interest payable	(14)	(55)
Change in other assets and liabilities, net	79	290
Net Cash Provided By Operating Activities	7,147	4,178
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of securities available for sale	(39,657)	(71,170)
Proceeds from sales of securities available for sale	3,914	13,640
Proceeds from maturities of securities available for sale	15,853	18,582
Proceeds from maturities of securities held to maturity	303	-
Principal collected on mortgage-backed securities	9,065	12,611
Net (increase) decrease in loans	(10,851)	8,435
Purchase of Federal Home Loan Bank Stock	(351)	-
Proceeds from redemption of Federal Home Loan Bank stock	121	-
Investment in cash surrender value of life insurance	-	(4,200)
Proceeds from sale of foreclosed real estate	951	788
Purchase of premises and equipment	(1,146)	(258)
Net Cash Used In Investing Activities	(21,798)	(21,572)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits	11,148	13,782
Net decrease in federal funds purchased	-	(1,180)
Net decrease in repurchase agreements	(314)	(314)
Increase (decrease) in Federal Home Loan Bank line of credit	(667)	1,596

Proceeds from Federal Home Loan Bank advances	105,000	92,439
Repayment of Federal Home Loan Bank advances	(102,081)	(85,758)
Net decrease in advance payments by borrowers		
for taxes and insurance	(51)	(173)
Purchase of treasury stock	(726)	(1,329)
Purchase of common shares for restricted stock grants	-	(1,388)
Dividends paid	-	(193)
Net Cash Provided By Financing Activities	12,309	17,482
Net Increase (Decrease) in Cash and Cash Equivalents	(2,342)	88
Cash and cash equivalents at beginning of period	11,278	10,404
Cash and Cash Equivalents at End of Period	$8,936	$10,492

See notes to consolidated financial statements.

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

1. Presentation of Interim Information

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

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

In the opinion of management, the unaudited consolidated financial statements include all adjustments considered necessary to present fairly the financial position as of June 30, 2011, the results of operations for the three- and nine-month periods ended June 30, 2011 and 2010 and the cash flows for the nine-month periods ended June 30, 2011 and 2010. All of these adjustments are of a normal, recurring nature. Such adjustments are the only adjustments included in the unaudited consolidated financial statements. Interim results are not necessarily indicative of results for a full year.

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

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

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

2. Investment Securities

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

	Amortized Cost (In thousands)	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2011:				
Securities available for sale:				
Agency bonds and notes	$ 24,769	$ 173	$ 43	$ 24,899
Agency mortgage-backed	14,715	439	-	15,154
Agency CMO	23,600	361	18	23,943
Privately-issued CMO	10,091	2,513	155	12,449
Municipal	44,060	1,316	157	45,219
Subtotal – debt securities	117,235	4,802	373	121,664
Equity securities	-	87	-	87
Total securities available for sale	$ 117,235	$ 4,889	$ 373	$ 121,751
Securities held to maturity:				
Agency mortgage-backed	$ 2,667	$ 192	$ -	$ 2,859
Total securities held to maturity	$ 2,667	$ 192	$ -	$ 2,859
September 30, 2010:				
Securities available for sale:				
Agency bonds and notes	$ 25,510	$ 196	$ 1	$ 25,705
Agency mortgage-backed	13,944	226	29	14,141
Agency CMO	22,325	224	61	22,488
Privately-issued CMO	10,342	2,418	72	12,688
Municipal	33,109	1,920	152	34,877
Subtotal – debt securities	105,230	4,984	315	109,899
Equity securities	-	77	-	77
Total securities available for sale	$ 105,230	$ 5,061	$ 315	$ 109,976
Securities held to maturity:				
Agency mortgage-backed	$ 3,625	$ 211	$ -	$ 3,836
Municipal	304	4	-	308
Total securities held to maturity	$ 3,929	$ 215	$ -	$ 4,144

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

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

The amortized cost and fair value of investment securities as of June 30, 2011 by contractual maturity are shown below. Expected maturities of mortgage-backed securities and CMO may differ from contractual maturities because the mortgages underlying the obligations may be prepaid without penalty.

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)			
Due within one year	$ 412	$ 411	$ -	$ -
Due after one year through five years	3,995	3,979	-	-
Due after five years through ten years	6,895	7,070	-	-
Due after ten years	57,527	58,658	-	-
	68,829	70,118	-	-
Equity securities	-	87	-	-
CMO	33,691	36,392	-	-
Mortgage-backed securities	14,715	15,154	2,667	2,859
	$ 117,235	$ 121,751	$ 2,667	$ 2,859

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

Information pertaining to available for sale securities with gross unrealized losses at June 30, 2011, aggregated by investment category and the length of time that individual securities have been in a continuous loss position, follows:

	Number of Investment Positions	Fair Value	Gross Unrealized Losses
		(Dollars in thousands)	
Securities available for sale:			
Continuous loss position less than twelve months:			
Agency bonds and notes	4	$ 4,456	$ 43
Agency CMO	1	2,111	18
Privately-issued CMO	3	908	84
Municipal bonds	7	2,925	29
	15	10,400	174
Continuous loss position more than twelve months:			
Privately-issued CMO	3	172	71
Municipal bonds	1	1,821	128
	4	1,993	199
Total securities available for sale	19	$ 12,393	$ 373

At June 30, 2011, the Company did not have any securities held to maturity with an unrealized loss.

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

The total available for sale debt securities in loss positions at June 30, 2011 have depreciated approximately 2.9% from their amortized cost basis and had a weighted-average yield of 4.11% and a weighted-average coupon rate of 3.73%.

U.S. government agency debt securities, including mortgage-backed securities and CMO securities, and municipal bonds in loss positions at June 30, 2011 had depreciated approximately 1.9% from their amortized cost basis. All of the U.S. government agency and municipal securities are issued by U.S. government agencies, government-sponsored enterprises and municipal governments, or are secured by first mortgage loans and municipal project revenues.

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

The unrealized losses on U.S. government agency and municipal securities 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.

At June 30, 2011, the six privately-issued CMO securities in loss positions had depreciated approximately 12.5% from the amortized cost basis and include securities collateralized by home equity lines of credit or other mortgage-related loan products. Two of the these securities continued to be rated by a nationally recognized statistical rating organization as investment grade assets and the remaining four securities have fair values totaling $970,000 and unrealized losses of $129,000 at June 30, 2011.

The Company evaluates the existence of a potential credit loss component related to the decline in fair value of the privately-issued CMO portfolio each quarter using an independent third party analysis. At June 30, 2011, the Company held nineteen privately-issued CMO securities with an aggregate amortized cost of $5.5 million and fair value of $7.1 million that have been downgraded to a substandard regulatory classification due to a downgrade of the security's credit quality rating by various rating agencies. Based on the independent third party analysis, the Bank expects to collect the contractual principal and interest cash flows for these securities and, as a result, no other-than-temporary impairment was recognized on the privately-issued CMO portfolio during the three and nine months ended June 30, 2011. While there was no credit-related impairment loss at June 30, 2011, additional deterioration in market and economic conditions may have an adverse impact on the credit quality in the future.

During the nine months ended June 30, 2011, the Company realized gross gains on sales of available for sale municipal securities of $68,000. The Company had no realized gains on sales of available for sale securities during the three months ended June 30, 2011. The Company realized net gains on sales of available for sale securities of $34,000 for the three and nine months ended June 30, 2010.

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

3. Loans and Allowance for Loan Losses

Loans at June 30, 2011 and September 30, 2010 consisted of the following:

	June 30, 2011	September 30, 2010
	(In thousands)	
Real estate mortgage:		
1-4 family residential	$ 173,626	$ 172,007
Multi-family residential	24,887	20,360
Commercial	68,534	53,869
Residential construction	6,486	15,867
Commercial construction	3,048	9,851
Land and land development	12,828	9,076
Commercial business loans	38,826	30,905
Consumer:		
Home equity loans	15,779	16,335
Auto loans	10,503	13,405
Other consumer loans	4,962	7,030
Gross loans	359,479	348,705
Deferred loan origination fees and costs, net	620	778
Undisbursed portion of loans in process	(2,942)	(2,057)
Allowance for loan losses	(4,447)	(3,811)
Loans, net	$ 352,710	$ 343,615

During the nine-month period ended June 30, 2011, there was no significant change in the Company's lending activities or methodology used to estimate the allowance for loan losses as disclosed in the Company's Annual Report on Form 10-K for the year ended September 30, 2010.

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

The following table provides the components of the recorded investment in loans for each portfolio class as of June 30, 2011:

	Residential Real Estate	Commercial Real Estate	Multifamily	Construction	Land & Land Development	Commercial Business	Consumer	Total
				(In thousands)				
Recorded Investment in Loans:								
Principal loan balance	$173,626	$ 68,534	$ 24,887	$ 6,592	$ 12,828	$ 38,826	$31,244	$356,537
Accrued interest receivable	678	330	93	20	73	189	123	1,506
Net deferred loan origination fees and costs	662	(35)	(1)	(4)	(2)	(35)	35	620
Recorded investment in loans	$174,966	$ 68,829	$ 24,979	$ 6,608	$ 12,899	$ 38,980	$31,402	$358,663
Recorded Investment in Loans as Evaluated for Impairment:								
Individually evaluated for impairment	$5,021	$ 1,989	$ -	$ 287	$ 340	$ 16	$222	$7,875
Collectively evaluated for impairment	169,171	66,276	24,979	6,321	12,559	38,964	31,140	349,410
Acquired with deteriorated credit quality	774	564	-	-	-	-	40	1,378
Ending balance	$174,966	$ 68,829	$ 24,979	$ 6,608	$ 12,899	$ 38,980	$31,402	$358,663

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

An analysis of the allowance for loan losses as of and for the three and nine months ended June 30, 2011 is as follows:

	Residential Real Estate	Commercial Real Estate	Multifamily	Construction	Land & Land Development	Commercial Business	Consumer	Unallocated	Total
					(In thousands)				
Changes in Allowance for Loan Losses for the three-months ended June 30, 2011:									
Beginning balance	$ 1,236	$ 880	$ 554	$ 145	$ 37	$ 961	$ 344	$ -	$ 4,157
Provisions	(203)	210	135	(91)	57	193	134	-	435
Charge-offs	(177)	-	-	-	-	(19)	(117)	-	(313)
Recoveries	-	-	-	-	-	153	15	-	168
Ending balance	$ 856	$ 1,090	$ 689	$ 54	$ 94	$ 1,288	$ 376	$ -	$ 4,447
Changes in Allowance for Loan Losses for the nine-months ended June 30, 2011:									
Beginning balance	$ 1,242	$ 600	$ 369	$ 218	$ 62	$ 891	$ 429	$ -	$ 3,811
Provisions	15	495	320	(156)	32	255	113	-	1,074
Charge-offs	(414)	(5)	-	(8)	-	(72)	(211)	-	(710)
Recoveries	13	-	-	-	-	214	45	-	272
Ending balance	$ 856	$ 1,090	$ 689	$ 54	$ 94	$ 1,288	$ 376	$ -	$ 4,447
Ending Allowance Balance Attributable to Loans:									
Individually evaluated for impairment	$ 80	$ 110	$ -	$ -	$ -	$ 14	$ 40	$ -	$ 244
Collectively evaluated for impairment	776	980	689	54	94	1,274	336	-	4,203
Acquired with deteriorated credit quality	-	-	-	-	-	-	-	-	-
Ending balance	$ 856	$ 1,090	$ 689	$ 54	$ 94	$ 1,288	$ 376	$ -	$ 4,447

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

The following table presents impaired loans individually evaluated for impairment as of and for the three and nine months ended June 30, 2011.

	At June 30, 2011			Three Months Ended June 30, 2011			Nine Months Ended June 30, 2011		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Interest Recognized Cash-Method	Average Recorded Investment	Interest Income Recognized	Interest Recognized Cash-Method
	(In thousands)								
Loans with no related allowance recorded:									
Residential real estate	$ 4,805	$ 4,762	$ -	$ 3,835	$ 14	$ 13	$ 3,092	$ 30	$ 26
Commercial real estate	1,439	1,426	-	1,422	13	13	1,250	15	14
Multifamily	-	-	-	16	-	-	8	1	-
Construction	287	284	-	447	-	-	467	5	1
Land and land development	340	340	-	369	-	-	284	-	-
Commercial business	2	2	-	74	-	-	163	3	2
Consumer	98	98	-	177	-	-	209	2	1
	$ 6,971	$ 6,912	$ -	$ 6,340	$ 27	$ 26	$ 5,473	$ 56	$ 44
Loans with an allowance recorded:									
Residential real estate	$ 216	$ 216	$ 80	$ 284	$ -	$ -	$ 468	$ -	$ -
Commercial real estate	550	550	110	513	-	-	380	-	-
Multifamily	-	-	-	-	-	-	-	-	-
Construction	-	-	-	10	-	-	105	-	-
Land and land development	-	-	-	-	-	-	-	-	-
Commercial business	14	14	14	7	-	-	4	-	-
Consumer	124	124	40	109	-	-	104	-	-
	$ 904	$ 904	$ 244	$ 923	$ -	$ -	$ 1,061	$ -	$ -
Total:									
Residential real estate	$ 5,021	$ 4,978	$ 80	$ 4,119	$ 14	$ 13	$ 3,560	$ 30	$ 26
Commercial real estate	1,989	1,976	110	1,935	13	13	1,630	15	14

Multifamily	-	-	-	16	-	-	8	1	-
Construction	287	284	-	457	-	-	572	5	1
Land and land development	340	340	-	369	-	-	284	-	-
Commercial business	16	16	14	81	-	-	167	3	2
Consumer	222	222	40	286	-	-	313	2	1
	$ 7,875	$ 7,816	$ 244	$ 7,263	$ 27	$ 26	$ 6,534	$ 56	$ 44

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Nonperforming loans consists of nonaccrual loans and loans over 90 days past due and still accruing interest. The following table presents the recorded investment in nonperforming loans by class of loans at June 30, 2011:

	Nonaccrual Loans	Loans 90+ Days Past Due Still Accruing	Total Nonperforming Loans
		(In thousands)	
Residential real estate	$ 4,297	$ 724	$ 5,021
Commercial real estate	1,260	729	1,989
Multifamily	-	-	-
Construction	174	113	287
Land and land development	340	-	340
Commercial business	16	-	16
Consumer	217	5	222
Total	$ 6,304	$ 1,571	$ 7,875

The following table presents the aging of the recorded investment in past due loans at June 30, 2011 by class of loans:

	30-59 Days Past Due	60-89 Days Past Due	90 + Days Past Due	Total Past Due	Current	Total Loans
			(In thousands)			
Residential real estate	$ 6,634	$ 863	$ 2,109	$ 9,606	$ 165,360	$ 174,966
Commercial real estate	373	715	1,909	2,997	65,832	68,829
Multifamily	-	-	-	-	24,979	24,979
Construction	-	-	287	287	6,321	6,608
Land and land development	-	-	340	340	12,559	12,899
Commercial business	108	379	16	503	38,477	38,980
Consumer	279	180	96	555	30,847	31,402
Total	$ 7,394	$ 2,137	$ 4,757	$ 14,288	$ 344,375	$ 358,663

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

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

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

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

Loss: Loans classified as loss are considered uncollectible and of such little value that their continuance on the Company's books as an asset, without establishment of a specific valuation allowance or charge-off, is not warranted.

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans. As of June 30, 2011, and based on the most recent analysis performed, the recorded investment in loans by risk category is as follows:

	Residential Real Estate	Commercial Real Estate	Multi-family	Construction	Land and Land Development	Commercial Business	Consumer	Total
	(In thousands)							
Pass	$ 161,150	$ 62,372	$ 22,677	$ 6,434	$ 12,092	$ 36,811	$ 30,535	$ 332,071
Special Mention	1,987	2,264	329	-	432	865	103	5,980
Substandard	11,105	3,643	1,973	174	375	1,290	702	19,262
Doubtful	724	550	-	-	-	14	62	1,350
Loss	-	-	-	-	-	-	-	-
Total	$ 174,966	$ 68,829	$ 24,979	$ 6,608	$ 12,899	$ 38,980	$ 31,402	$ 358,663

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

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4. Supplemental Disclosure for Earnings Per Share

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

	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Nine Months Ended June 30, 2011	Nine Months Ended June 30, 2010
	(Dollars in thousands, except per share data)			
Basic:				
Earnings:				
Net income	$ 1,123	$ 500	$ 3,177	$ 2,092
Shares:				
Weighted average common shares outstanding	2,134,841	2,211,353	2,141,023	2,272,182
Net income per common share, basic	$ 0.53	$ 0.23	$ 1.48	$ 0.92
Diluted:				
Earnings:				
Net income	$ 1,123	$ 500	$ 3,177	$ 2,092
Shares:				
Weighted average common shares outstanding	2,134,841	2,211,353	2,141,023	2,272,182
Add: Dilutive effect of outstanding options	37,062	-	31,005	-
Add: Dilutive effect of restricted stock	16,879	-	13,993	-
Weighted average common shares outstanding as adjusted	2,188,782	2,211,353	2,186,021	2,272,182
Net income per common share, diluted	$ 0.51	$ 0.23	$ 1.45	$ 0.92

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5. Comprehensive Income

Comprehensive income is defined as the change in equity (net assets) of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners. Comprehensive income for the Company includes net income and other comprehensive income representing the net unrealized gains and losses on securities available for sale and the Bank's defined benefit pension plan (see Note 8). The following tables set forth the components of other comprehensive income and the allocated tax amounts for the three-month and nine-month periods ended June 30, 2011 and 2010:

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2011	2010	2011	2010
	(In thousands)			
Unrealized gains (losses) on securities:				
Unrealized holding gains (losses) arising during the period	$ 1,173	$ 1,210	$ (152)	$ 2,685
Income tax (expense) benefit	(464)	(479)	52	(1,063)
Net of tax amount	709	731	(100)	1,622
Less: reclassification adjustment for realized gains included in net income	-	(34)	(68)	(34)
Income tax expense	-	13	23	13
Net of tax amount	-	(21)	(45)	(21)
	709	710	(145)	1,601
Defined benefit pension plan:				
Reclassification adjustment – realized loss on settlement of pension plan	-	(708)	-	(708)
Income tax benefit	-	280	-	280
	-	(428)	-	(428)
Other comprehensive income (loss), net of tax	$ 709	$ 282	$ (145)	$ 1,173

6. Supplemental Disclosures of Cash Flow Information

	Nine Months Ended June 30,	
	2011	2010
	(In thousands)	
Cash payments for:		
Interest	$ 4,904	$ 6,313
Taxes	972	521
Transfers from loans to foreclosed real estate	1,274	685
Proceeds from sales of foreclosed real estate financed through loans	492	403

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

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

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

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

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

A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below. These valuation methodologies were applied to all of the Company's financial assets carried at fair value or the lower of cost or fair value. The table below presents the balances of financial assets measured at fair value on a recurring and nonrecurring basis as of June 30, 2011 and September 30, 2010. The Company had no liabilities measured at fair value as of June 30, 2011 or September 30, 2010.

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	Carrying Value			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
June 30, 2011:				
Assets Measured - Recurring Basis:				
Securities available for sale:				
Agency bonds and notes	$ -	$ 24,899	$ -	$ 24,899
Agency mortgage-backed	-	15,154	-	15,154
Agency CMO	-	23,943	-	23,943
Privately-issued CMO	-	12,449	-	12,449
Municipal	-	45,219	-	45,219
Equity securities	87	-	-	87
Total securities available for sale	$ 87	$ 121,664	$ -	$ 121,751
Interest rate cap contract	$ -	$ 79	$ -	$ 79
Assets Measured - Nonrecurring Basis:				
Impaired loans	-	7,572	-	7,572
Foreclosed real estate	-	948	-	948
September 30, 2010:				
Assets Measured - Recurring Basis:				
Securities available for sale:				
Agency bonds and notes	$ -	$ 25,705	$ -	$ 25,705
Agency mortgage-backed	-	14,141	-	14,141
Agency CMO	-	22,488	-	22,488
Privately-issued CMO	-	12,688	-	12,688
Municipal	-	34,877	-	34,877
Equity securities	77	-	-	77
Total securities available for sale	$ 77	$ 109,899	$ -	$ 109,976
Interest rate cap contract	$ -	$ 77	$ -	$ 77
Assets Measured - Nonrecurring Basis:				
Impaired loans	-	5,637	-	5,637
Loans held for sale	-	1,884	-	1,884
Foreclosed real estate	-	1,331	-	1,331

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

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The Company's valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While management believes the Company's valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

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

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

Impaired Loans. Impaired loans are carried at the present value of estimated future cash flows using the loan's existing rate or the fair value of collateral if the loan is collateral dependent. Impaired loans are evaluated and valued at the time the loan is identified as impaired at the lower of cost or market value. For collateral dependent impaired loans, market value is measured based on the value of the collateral securing these loans and is classified as Level 2 in the fair value hierarchy. Collateral may be real estate and/or business assets, including equipment, inventory and/or accounts receivable, and its fair value is generally determined based on real estate appraisals or other independent evaluations by qualified professionals. Impaired loans are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly, based on the same factors identified above.

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

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

Transfers Between Categories. There were no transfers into or out of the Company's Level 3 financial assets for the nine-month period ended June 30, 2011. In addition, there were no transfers into or out of Levels 1 and 2 of the fair value hierarchy during the nine-month period ended June 30, 2011.

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

	June 30, 2011		September 30, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In thousands)			
Financial assets:				
Cash and due from banks	$ 6,647	$ 6,647	$ 10,184	$ 10,184
Interest-bearing deposits with banks	2,289	2,289	1,094	1,094
Securities available for sale	121,751	121,751	109,976	109,976
Securities held to maturity	2,667	2,859	3,929	4,144
Loans, net	352,710	363,682	343,615	357,508
Loans held for sale	-	-	1,884	1,884
Federal Home Loan Bank stock	4,400	4,400	4,170	4,170
Accrued interest receivable	2,576	2,576	2,392	2,392
Financial liabilities:				
Deposits	377,309	380,615	366,161	371,869
Short-term repurchase agreements	1,318	1,318	1,312	1,312
Long-term repurchase agreements	15,189	15,159	15,509	15,602
Borrowings from Federal Home Loan Bank	69,411	70,608	67,159	68,531
Accrued interest payable	413	413	427	427
Advance payments by borrowers for taxes and insurance	201	201	252	252
Derivative financial instruments included in other assets:				
Interest rate cap	79	79	77	77
Off-balance-sheet financial instruments:				
Asset related to commitments to extend credit	-	(50)	-	265

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

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Cash and Cash Equivalents

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

Debt and Equity Securities

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

Loans

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

Deposits

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

Borrowed Funds

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

Derivative Financial Instruments

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

Off-Balance-Sheet Financial Instruments

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

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8. Defined Benefit Plan

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

Effective June 30, 2008, the Bank curtailed the accrual of benefits for active participants in the Plan. As a result of the curtailment, each active participant's pension benefit was determined based on the participant's compensation and duration of employment as of June 30, 2008, and compensation and employment after that date was not taken into account in determining pension benefits under the Plan. In April 2010, the Bank received approval from the Internal Revenue Service to terminate the Plan. The termination of the Plan and the settlement of the Plan obligations resulted in the allocation of excess Plan assets to the active Plan participants in April 2010. The breakdown of net periodic benefit expense for the three and nine months ended June 30, 2010 follows. No net periodic benefit expense was recognized for the three or nine months ended June 30, 2011.

	Three Months Ended June 30, 2010	Nine Months Ended June 30, 2010
	(In thousands)	
Net periodic benefit expense:		
Service cost	$ -	$ -
Interest cost on projected benefit obligation	-	149
Expected return on plan assets	-	(72)
Amortization of unrecognized gain	-	(2)
Net loss on settlement	705	705
Net periodic benefit expense	$ 705	$ 780

The Bank made no contributions to the Plan after June 30, 2008.

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9. Employee Stock Ownership Plan

On October 6, 2008, the Company established a leveraged employee stock ownership plan ("ESOP") covering substantially all employees. The ESOP trust acquired 203,363 shares of Company common stock at a cost of $10.00 per share financed by a term loan with the Company. The employer loan and the related interest income are not recognized in the consolidated financial statements as the debt is serviced from Company contributions. Dividends payable on allocated shares are charged to retained earnings and are satisfied by the allocation of cash dividends to participant accounts. Dividends payable on unallocated shares are not considered dividends for financial reporting purposes. Shares held by the ESOP trust are allocated to participant accounts based on the ratio of the current year principal and interest payments to the total of the current year and future years' principal and interest to be paid on the employer loan. Compensation expense is recognized based on the average fair value of shares released for allocation to participant accounts during the year with a corresponding credit to stockholders' equity. Compensation expense recognized for the three- and nine-month periods ended June 30, 2011 amounted to $58,000 and $183,000, respectively. Compensation expense recognized for the three- and nine-month periods ended June 30, 2010 amounted to $47,000 and $280,000, respectively. Company common stock held by the ESOP trust at June 30, 2011 was as follows:

Allocated shares	65,390
Unearned shares	137,973
Total ESOP shares	203,363
Fair value of unearned shares	$2,206,188

10. Stock Based Compensation Plans

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

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In April 2010, the Company funded a trust, administered by an independent trustee, which acquired 101,681 common shares in the open market at a price per share of $13.60 for a total cost of $1.4 million. These acquired common shares were later granted to directors, officers and key employees in the form of restricted stock in May 2010 at a price per share of $13.25 for a total of $1.3 million. The difference between the purchase price and grant price of the common shares issued as restricted stock, totaling $41,000, was recognized by the Company as a reduction of additional paid in capital. The restricted stock vests ratably over a five-year period from the grant date. Compensation expense is measured based on the fair market value of the restricted stock at the grant date and is recognized ratably over the period during which the shares are earned (the vesting period). Compensation expense related to restricted stock recognized for the three- and nine-month periods ended June 30, 2011 amounted to $65,000 and $195,000, respectively. Compensation expense related to restricted stock recognized for both the three- and nine-month periods ended June 30, 2010 amounted to $34,000. A summary of the Company's nonvested restricted shares is as follows:

	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested at October 1, 2010	98,092	$ 13.25
Granted	-	-
Vested	(19,622)	13.25
Forfeited	-	-
Nonvested at June 30, 2011	78,470	$ 13.25

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

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A summary of stock option activity under the plan as of June 30, 2011, and changes during the nine-month period then ended is presented below.

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
	(Dollars in thousands, except per share data)			
Outstanding at October 1, 2010	254,204	$ 13.25		
Granted	-	-		
Exercised	-	-		
Forfeited or expired	-	-		
Outstanding at end of year	254,204	$ 13.25	8.9	$ 697
Exercisable at June 30, 2011	58,022			