First Savings Financial Group Inc
Form 10-Q
August 14, 2015

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, 2015

OR

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

For the transition period from______________________ to__________________

Commission File No. 1-34155

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

Indiana **37-1567871**

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

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

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

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock								164,301 (1)	D	
Common Stock								8,997 (2)	I	PNM Common Stock Fund - PNM Resources, Inc. 401(k) Plan

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares	

Phantom Stock Shares	(3)	06/10/2008	A	90	(4)	(4)	Common Stock	90	(4)

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
STERBA JEFFRY E ALVARADO SQUARE MS 2824 ALBUQUERQUE, NM 87158	X		CHMN, PRES AND CEO	

Signatures

Jim Acosta, POA for Jeffry E. Sterba	06/11/2008
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Total includes 3,815 shares of PNM Resources, Inc. Common Stock acquired under the PNM Resources, Inc. Employee Stock Purchase Plan. Information is based on a plan statement dated 5/15/08.

(2) Total represents shares of PNM Resources, Inc. Common Stock acquired under the PNM Resources, Inc. 401(k) Plan. Information is based on a plan statement dated 5/31/08.

(3) The security converts to common stock on a one-for-one basis.

(4) The phantom stock shares were acquired under the PNM Resources, Inc. Executive Savings Plan, and will settled upon the Reporting Person's retirement or other termination of service.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
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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, 2015	September 30, 2014
ASSETS		
Cash and due from banks	$7,963	$ 8,853
Interest-bearing deposits with banks	13,428	11,477
Total cash and cash equivalents	21,391	20,330
Interest-bearing time deposits	2,235	1,500
Trading account securities, at fair value	8,770	5,319
Securities available for sale, at fair value	180,087	184,697
Securities held to maturity	4,941	5,419
Loans held for sale	306	281
Loans, net	447,665	433,876
Federal Reserve Bank and Federal Home Loan Bank stock, at cost	6,647	6,517
Real estate development and construction	7,129	7,202
Premises and equipment	13,948	14,275
Other real estate owned, held for sale	558	953
Accrued interest receivable:		
Loans	1,263	1,276
Securities	1,561	1,235
Cash surrender value of life insurance	17,652	18,021
Goodwill	7,936	7,936
Core deposit intangibles	1,467	1,725
Other assets	7,369	2,567
Total Assets	$730,925	$ 713,129
LIABILITIES		
Deposits:		
Noninterest-bearing	$67,479	$ 56,092
Interest-bearing	461,476	477,102
Total deposits	528,955	533,194
Repurchase agreements	1,341	1,338

Borrowings from Federal Home Loan Bank	94,626	79,548
Other long-term debt	4,678	4,812
Accrued interest payable	179	175
Advance payments by borrowers for taxes and insurance	641	748
Accrued expenses and other liabilities	8,551	6,234
Total Liabilities	638,971	626,049
STOCKHOLDERS' EQUITY		
Preferred stock of $.01 par value per share Authorized 982,880 shares; none issued	-	-
Senior Non-Cumulative Perpetual Preferred Stock, Series A, $.01 par value; Authorized 17,120 shares; issued and outstanding 17,120 shares; aggregate liquidation preference of $17,120	-	-
Common stock of $.01 par value per share Authorized 20,000,000 shares; issued 2,542,042 shares; outstanding 2,183,510 shares (2,171,812 shares at September 30, 2014)	25	25
Additional paid-in capital - preferred	17,120	17,120
Additional paid-in capital - common	26,710	26,079
Retained earnings - substantially restricted	51,235	47,175
Accumulated other comprehensive income	3,460	3,853
Unearned ESOP shares	(239)	(537)
Unearned stock compensation	-	(162)
Less treasury stock, at cost - 358,532 shares (370,230 shares at September 30, 2014)	(6,357)	(6,473)
Total Stockholders' Equity	91,954	87,080
Total Liabilities and Stockholders' Equity	$730,925	$ 713,129

See notes to consolidated financial statements.

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PART I - FINANCIAL INFORMATION

FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

	Three Months Ended June 30,		Nine Months Ended June 30,	
(In thousands, except share and per share data)	2015	2014	2015	2014
INTEREST INCOME				
Loans, including fees	$5,284	$5,262	$16,004	$15,744
Securities:				
Taxable	996	1,147	3,080	3,400
Tax-exempt	546	445	1,506	1,289
Dividend income	77	58	223	186
Interest-bearing deposits with banks	12	10	35	27
Total interest income	6,915	6,922	20,848	20,646
INTEREST EXPENSE				
Deposits	594	589	1,834	1,799
Repurchase agreements	1	1	3	3
Borrowings from Federal Home Loan Bank	297	233	845	726
Loans payable	41	50	134	155
Total interest expense	933	873	2,816	2,683
Net interest income	5,982	6,049	18,032	17,963
Provision for loan losses	208	300	627	904
Net interest income after provision for loan losses	5,774	5,749	17,405	17,059
NONINTEREST INCOME				
Service charges on deposit accounts	317	322	993	919
Net gain on sales of available for sale securities	-	122	-	123
Net gain on trading account securities	45	210	205	572
Unrealized loss on derivative contract	-	(5)	(1)	(10)
Net gain on sales of loans	86	72	220	191
Increase in cash surrender value of life insurance	119	133	364	364
Gain on life insurance	831	-	831	-
Commission income	92	77	260	217
Real estate lease income	164	157	465	418
Other income	283	203	789	983
Total noninterest income	1,937	1,291	4,126	3,777

NONINTEREST EXPENSE				
Compensation and benefits	2,989	2,742	8,627	8,451
Occupancy and equipment	675	626	1,931	1,901
Data processing	309	313	1,038	917
Advertising	159	134	412	274
Professional fees	282	310	797	942
FDIC insurance premiums	117	112	341	334
Net (gain) loss on other real estate owned	(38)	82	(17)	190
Other operating expenses	704	731	2,318	2,226
Total noninterest expense	5,197	5,050	15,447	15,235
Income before income taxes	2,514	1,990	6,084	5,601
Income tax expense	318	534	1,161	1,581
Net Income	$2,196	$1,456	$4,923	$4,020
Preferred stock dividends declared	43	43	129	129
Net Income Available to Common Shareholders	$2,153	$1,413	$4,794	$3,891
Net income per common share:				
Basic	$1.00	$0.68	$2.25	$1.83
Diluted	$0.95	$0.64	$2.14	$1.74
Weighted average common shares outstanding:				
Basic	2,149,931	2,092,938	2,133,557	2,130,599
Diluted	2,259,170	2,201,323	2,240,922	2,237,193
Dividends per common share	$0.12	$0.11	$0.35	$0.32

See notes to consolidated financial statements.

PART I - FINANCIAL INFORMATION

FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(In thousands)	Three Months Ended June 30, 2015	2014	Nine Months Ended June 30, 2015	2014
Net Income	$ 2,196	$ 1,456	$ 4,923	$ 4,020
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX				
Unrealized gains (losses) on securities available for sale:				
Unrealized holding gains (losses) arising during the period	(2,767)	2,086	(599)	3,189
Income tax (expense) benefit	976	(743)	206	(1,123)
Net of tax amount	(1,791)	1,343	(393)	2,066
Less: reclassification adjustment for realized gains included in net income	-	(122)	-	(123)
Income tax expense	-	48	-	48
Net of tax amount	-	(74)	-	(75)
Other Comprehensive Income (Loss)	(1,791)	1,269	(393)	1,991
Comprehensive Income	$ 405	$ 2,725	$ 4,530	$ 6,011

See notes to consolidated financial statements.

PART I - FINANCIAL INFORMATION

FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(Unaudited)

(In thousands, except share and per share data)	**Preferred Stock**	**Common Stock**	**Additional Paid-in Capital**	**Retained Earnings**	**Accumulated Other Comprehensive Income**	**Unearned Stock Compensation and ESOP**	**Treasury Stock**	**Total**
Nine Months Ended June 30, 2014:								
Balances at October 1, 2013	$-	$25	$42,584	$42,870	$1,468	$(1,287)	$(3,407)	$82,253
Net income	-	-	-	4,020	-	-	-	4,020
Other comprehensive income	-	-	-	-	1,991	-	-	1,991
Preferred stock dividends	-	-	-	(129)	-	-	-	(129)
Common stock dividends ($0.32 per share)	-	-	-	(674)	-	-	-	(674)
Stock compensation expense	-	-	197	-	-	195	-	392
Shares released by ESOP trust	-	-	366	-	-	288	-	654
Purchase of 122,242 treasury shares	-	-	-	-	-	-	(2,844)	(2,844)
Balances at June 30, 2014	$-	$25	$43,147	$46,087	$3,459	$(804)	$(6,251)	$85,663
Nine Months Ended June 30, 2015:								
Balances at October 1, 2014	$-	$25	$43,199	$47,175	$3,853	$(699)	$(6,473)	$87,080
Net income	-	-	-	4,923	-	-	-	4,923
Other comprehensive loss	-	-	-	-	(393)	-	-	(393)
Preferred stock dividends	-	-	-	(129)	-	-	-	(129)
Common stock dividends ($0.35 per share)	-	-	-	(734)	-	-	-	(734)
Stock compensation expense	-	-	243	-	-	162	-	405

Shares released by ESOP trust	-	-	477	-	-	298	-	775
Stock options exercise - 20,972 shares	-	-	(89)	-	-	-	367	278
Purchase of 9,274 treasury shares	-	-	-	-	-	-	(251)	(251)
Balances at June 30, 2015	$-	$25	$43,830	$51,235	$3,460	$(239)	$(6,357)	$91,954

See notes to consolidated financial statements.

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PART I - FINANCIAL INFORMATION

FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)	Nine Months Ended June 30, 2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$4,923	$4,020
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	627	904
Depreciation and amortization	1,081	1,084
Amortization of premiums and accretion of discounts on securities, net	557	466
Increase in trading account securities	(3,451)	(2,044)
Loans originated for sale	(7,178)	(5,517)
Proceeds on sales of loans	7,373	5,985
Net gain on sales of loans	(220)	(191)
Net realized and unrealized gain on other real estate owned	(29)	(64)
Net gain on sales of available for sale securities	-	(123)
Unrealized loss on derivative contract	1	10
Gain on life insurance	(831)	-
Increase in cash surrender value of life insurance	(364)	(364)
Deferred income taxes	(284)	(118)
ESOP and stock compensation expense	980	926
Increase in accrued interest receivable	(313)	(353)
Increase (decrease) in accrued interest payable	4	(21)
Change in other assets and liabilities, net	164	135
Net Cash Provided By Operating Activities	3,040	4,735
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment in interest-bearing time deposits	(735)	-
Purchase of securities available for sale	(19,096)	(35,809)
Proceeds from sales of securities available for sale	-	808
Proceeds from maturities of securities available for sale	8,417	6,233
Proceeds from maturities of securities held to maturity	367	409
Principal collected on securities	14,243	10,158
Net increase in loans	(14,647)	(16,705)
Purchase of Federal Reserve Bank stock	(945)	-
Purchase of Federal Home Loan Bank stock	(461)	(175)
Proceeds from redemption of Federal Home Loan Bank stock	1,276	-
Investment in cash surrender value of life insurance	-	(5,000)

Investment in historic tax credit entity	(417)	-
Proceeds from sale of other real estate owned	677	513
Investment in real estate development and construction	(73)	(216)
Purchase of premises and equipment	(350)	(299)
Net Cash Used In Investing Activities	(11,744)	(40,083)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase (decrease) in deposits	(4,239)	47,469
Net increase in repurchase agreements	3	2
Decrease in Federal Home Loan Bank line of credit	(4,922)	(4,599)
Proceeds from Federal Home Loan Bank advances	240,000	272,000
Repayment of Federal Home Loan Bank advances	(220,000)	(277,000)
Repayment of other long-term debt	(134)	(118)
Net decrease in advance payments by borrowers for taxes and insurance	(107)	(172)
Exercise of stock options	278	-
Purchase of treasury stock	(251)	(2,861)
Dividends paid on preferred stock	(129)	(129)
Dividends paid on common stock	(734)	(674)
Net Cash Provided By Financing Activities	9,765	33,918
Net Increase (Decrease) in Cash and Cash Equivalents	1,061	(1,430)
Cash and cash equivalents at beginning of year	20,330	20,815
Cash and Cash Equivalents at End of Year	$21,391	$19,385

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. (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 fourteen locations in southern Indiana. The Bank attracts deposits primarily from the general public and uses those funds, along with other borrowings, primarily to originate commercial mortgage, residential mortgage, construction, commercial business and consumer loans, and to a lesser extent, to invest in mortgage-backed securities and other securities. The Bank has three wholly-owned subsidiaries: First Savings Investments, Inc., a Nevada corporation that manages a securities portfolio; FFCC, Inc., which is an Indiana corporation that participates in commercial real estate development and leasing; and Southern Indiana Financial Corporation, which is currently inactive.

The Captive, which is a wholly-owned insurance subsidiary of the Company formed during the fourth fiscal quarter of 2014, is a Nevada corporation that provides property and casualty insurance to the Company, the Bank and the Bank's active subsidiaries. In addition, the Captive provides reinsurance to seven other third-party insurance captives for which insurance may not be currently available or economically feasible in the insurance marketplace.

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, 2015, the results of operations for the three- and nine-month periods ended June 30, 2015 and 2014, and the cash flows for the nine-month periods ended June 30, 2015 and 2014. 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 accounting principles generally accepted in the United States of America ("GAAP") for interim financial statements, conform to general practices within the banking industry and are presented as permitted by the instructions to Form 10-Q. Accordingly, they do not contain certain information included in the Company's audited consolidated financial statements and related notes for the year ended September 30, 2014 included in the Company's Annual Report on

Form 10-K.

The unaudited consolidated financial statements include the accounts of the Company and its subsidiaries. All material intercompany balances and transactions have been eliminated in consolidation. Certain prior period amounts have been reclassified to conform with the current period presentation.

FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

2. Investment Securities

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. The Company also holds a pass-through asset-backed security guaranteed by the Small Business Administration (“SBA”) representing participating interests in pools of long-term debentures issued by state and local development companies certified by the SBA. Privately-issued CMO and asset-backed securities (“ABS”) are complex securities issued by non-government special-purpose entities that are collateralized by residential mortgage loans and residential home equity loans.

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

Trading Account Securities

The Company invests in small and medium lot, investment grade municipal bonds through a managed brokerage account. The brokerage account is managed by an investment advisory firm registered with the U.S. Securities and Exchange Commission. At June 30, 2015 and September 30, 2014, trading account securities recorded at fair value totaled $8.8 million and $5.3 million, respectively, and were comprised of investment grade municipal bonds. During the nine-month period ended June 30, 2015, the Company reported net gains on trading account securities of $205,000, including net realized gains on the sale of securities of $194,000, and net unrealized gains on securities still held as of the balance sheet date of $11,000. During the three-month period ended June 30, 2015, the Company reported net gains on trading account securities of $45,000, including net realized gains on the sale of securities of $34,000 and net unrealized gains on securities still held as of the balance sheet date of $11,000. During the nine-month period ended June 30, 2014, the Company reported net gains on trading account securities of $572,000, including net realized gains on the sale of securities of $577,000, partially offset by net unrealized losses on securities still held as of the balance sheet date of $5,000. During the three-month period ended June 30, 2014, the Company reported net gains on trading account securities of $210,000, including net realized gains on the sale of securities of $159,000 and net unrealized gains on securities still held as of the balance sheet date of $51,000.

FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

Securities Available for Sale and Held to Maturity

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

	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
	(In thousands)			
June 30, 2015:				
Securities available for sale:				
Agency bonds and notes	$7,573	$ 8	$ 62	$7,519
Agency mortgage-backed	48,137	739	75	48,801
Agency CMO	21,431	98	85	21,444
Privately-issued CMO	3,104	495	-	3,599
Privately-issued ABS	4,994	1,448	-	6,442
SBA certificates	1,545	13	-	1,558
Municipal obligations	87,725	3,506	507	90,724
Total securities available for sale	$174,509	$ 6,307	$ 729	$180,087
Securities held to maturity:				
Agency mortgage-backed	$357	$ 34	$ -	$391
Municipal obligations	4,584	510	-	5,094
Total securities held to maturity	$4,941	$ 544	$ -	$5,485

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FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
September 30, 2014:				
Securities available for sale:				
Agency bonds and notes	$12,269	$ 12	$ 190	$12,091
Agency mortgage-backed	51,845	518	108	52,255
Agency CMO	29,648	95	259	29,484
Privately-issued CMO	3,302	618	-	3,920
Privately-issued ABS	5,552	1,801	-	7,353
SBA certificates	1,753	9	-	1,762
Municipal obligations	74,148	3,818	134	77,832
Total securities available for sale	$178,517	$ 6,871	$ 691	$184,697
Securities held to maturity:				
Agency mortgage-backed	$455	$ 37	$ -	$492
Municipal	4,964	393	-	5,357
Total securities held to maturity	$5,419	$ 430	$ -	$5,849

The amortized cost and fair value of investment securities as of June 30, 2015 by contractual maturity are shown below. Expected maturities of mortgage-backed securities, CMO and ABS 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	$530	$532	$ 604	$ 644
Due after one year through five years	5,745	5,992	1,785	2,010
Due after five years through ten years	20,536	21,527	1,391	1,565
Due after ten years	68,487	70,192	804	875
	95,298	98,243	4,584	5,094

CMO	24,535	25,043	-	-
ABS	4,994	6,442	-	-
SBA certificates	1,545	1,558	-	-
Mortgage-backed securities	48,137	48,801	357	391
	$174,509	$180,087	$4,941	$5,485

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FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

Information pertaining to investment securities with gross unrealized losses at June 30, 2015, 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	2	$4,467	$ 33
Agency mortgage-backed	2	2,643	37
Agency CMO	1	1,639	4
Municipal obligations	43	25,903	456
Total less than twelve months	48	34,652	530
Continuous loss position more than twelve months:			
Agency bonds and notes	1	1,971	29
Agency mortgage-backed	2	2,081	38
Agency CMO	3	7,955	81
Municipal obligations	2	1,232	51
Total more than twelve months	8	13,239	199
Total securities available for sale	56	$47,891	$ 729

At June 30, 2015, the Company did not have any securities held to maturity with an unrealized loss.

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

The total available for sale debt securities in loss positions at June 30, 2015, which consisted of U.S. government agency notes, mortgage-backed securities and CMOs, and municipal bonds, had depreciated approximately 1.50% from their amortized cost basis and are fixed and variable rate securities with a weighted-average yield of 2.47% and a weighted-average coupon rate of 3.28% at June 30, 2015. All of the agency and municipal securities are issued by U.S. government-sponsored enterprises and municipal governments, and are generally secured by first mortgage loans and municipal project revenues.

FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

The Company evaluates the existence of a potential credit loss component related to the decline in fair value of the privately-issued CMO and ABS portfolios each quarter using an independent third party analysis. At June 30, 2015, the Company held twenty privately-issued CMO and ABS securities acquired in a 2009 bank acquisition with an aggregate carrying value of $2.7 million and fair value of $3.9 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.

At June 30, 2015, there were no privately-issued CMOs or ABS in loss positions. Based on the independent third party analysis of the expected cash flows, management has determined that no other-than-temporary impairment is required to be recognized on the privately-issued CMO and ABS portfolios. While the Company did not recognize a credit-related impairment loss at June 30, 2015, additional deterioration in market and economic conditions may have an adverse impact on the credit quality in the future and therefore, require a credit-related impairment charge.

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

During the three- and nine-month periods ended June 30, 2015, the Company did not realize any gross gains or losses on sales of available for sale securities. During the three- and nine-month periods ended June 30, 2014, the Company realized gross gains on sales of available for sale U.S. government agency notes of $122,000 and $123,000, respectively.

Certain available for sale debt securities were pledged under repurchase agreements and to secure FHLB borrowings at June 30, 2015 and September 30, 2014, and may be pledged to secure federal funds borrowings.

FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

3. Loans and Allowance for Loan Losses

Loans at June 30, 2015 and September 30, 2014 consisted of the following:

	June 30, 2015	**September 30, 2014**
	(In thousands)	
Real estate mortgage:		
1-4 family residential	$ 182,454	$ 182,743
Commercial	160,706	153,896
Multifamily residential	23,026	21,286
Residential construction	16,114	14,528
Commercial construction	14,151	8,354
Land and land development	11,608	11,290
Commercial business loans	33,164	28,448
Consumer:		
Home equity loans	18,572	17,903
Auto loans	5,579	5,619
Other consumer loans	2,135	2,320
Gross loans	467,509	446,387
Undisbursed portion of construction loans	(13,245)	(6,271)
Principal loan balance	454,264	440,116
Deferred loan origination fees and costs, net	(79)	10
Allowance for loan losses	(6,520)	(6,250)
Loans, net	$ 447,665	$ 433,876

During the nine-month period ended June 30, 2015, 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, 2014.

FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

The following table provides the components of the recorded investment in loans as of June 30, 2015:

	Residential Real Estate	**Commercial Real Estate**	**Multifamily**	**Construction**	**Land & Land Development**	**Commercial Business**	**Consumer**	**Total**
	(In thousands)							
Recorded Investment in Loans:								
Principal loan balance	$ 182,454	$ 160,706	$ 23,026	$ 17,020	$ 11,608	$ 33,164	$ 26,286	$ 454,264
Accrued interest receivable	563	421	63	30	33	95	58	1,263
Net deferred loan origination fees and costs	294	(275)	(28)	(60)	7	(15)	(2)	(79)
Recorded investment in loans	$ 183,311	$ 160,852	$ 23,061	$ 16,990	$ 11,648	$ 33,244	$ 26,342	$ 455,448
Recorded Investment in Loans as Evaluated for Impairment:								
Individually evaluated for impairment	$ 4,916	$ 7,153	$ -	$ -	$ -	$ 321	$ 318	$ 12,708
Collectively evaluated for impairment	178,004	153,699	23,061	16,990	11,648	32,923	25,993	442,318
Acquired with deteriorated credit quality	391	-	-	-	-	-	31	422

Ending balance	$183,311	$160,852	$23,061	$16,990	$11,648	$33,244	$26,342	$455,448

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FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

The following table provides the components of the recorded investment in loans as of September 30, 2014:

	Residential Real Estate	**Commercial Real Estate**	**Multifamily**	**Construction**	**Land & Land Development**	**Commercial Business**	**Consumer**	**Total**
	(In thousands)							
Recorded Investment in Loans:								
Principal loan balance	$ 182,743	$ 153,896	$ 21,286	$ 16,611	$ 11,290	$ 28,448	$ 25,842	$ 440,116
Accrued interest receivable	590	384	53	44	31	111	63	1,276
Net deferred loan origination fees and costs	337	(252)	(28)	(54)	4	(9)	12	10
Recorded investment in loans	$ 183,670	$ 154,028	$ 21,311	$ 16,601	$ 11,325	$ 28,550	$ 25,917	$ 441,402
Recorded Investment in Loans as Evaluated for Impairment:								
Individually evaluated for impairment	$ 4,866	$ 5,705	$ -	$ -	$ -	$ 145	$ 350	$ 11,066
Collectively evaluated for impairment	178,298	148,323	21,311	16,601	11,325	28,405	25,535	429,798
Acquired with deteriorated credit quality	506	-	-	-	-	-	32	538

Ending balance	$183,670	$154,028	$21,311	$16,601	$11,325	$28,550	$25,917	$441,402

FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

An analysis of the allowance for loan losses as of June 30, 2015 is as follows:

	Residential Real Estate	**Commercial Real Estate**	**Multifamily**	**Construction**	**Land & Land Development**	**Commercial Business**	**Consumer**	**Total**
	(In thousands)							
Ending Allowance Balance Attributable to Loans:								
Individually evaluated for impairment	$11	$ -	$ -	$ -	$ -	$ -	$ 8	$19
Collectively evaluated for impairment	604	3,855	170	549	375	841	107	6,501
Acquired with deteriorated credit quality	-	-	-	-	-	-	-	-
Ending balance	$615	$ 3,855	$ 170	$ 549	$ 375	$ 841	$ 115	$6,520

An analysis of the allowance for loan losses as of September 30, 2014 is as follows:

	Residential Real Estate	**Commercial Real Estate**	**Multifamily**	**Construction**	**Land & Land Development**	**Commercial Business**	**Consumer**	**Total**
	(In thousands)							
Ending Allowance Balance Attributable to Loans:								
Individually evaluated for impairment	$13	$ -	$ -	$ -	$ -	$ -	$ 8	$21
Collectively evaluated for impairment	564	3,808	146	443	302	795	171	6,229
Acquired with deteriorated credit quality	-	-	-	-	-	-	-	-

Ending balance	$577	$ 3,808	$ 146	$ 443	$ 302	$ 795	$ 179	$6,250

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FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

An analysis of the changes in the allowance for loan losses for the three months ended June 30, 2015 is as follows:

	Residential Real Estate	Commercial Real Estate	**Multifamily**	**Construction**	Land & Land Development	Commercial Business	**Consumer**	**Total**
	(In thousands)							
Changes in Allowance for Loan Losses:								
Beginning balance	$457	$ 4,109	$ 163	$ 455	$ 316	$ 886	$ 128	$6,514
Provisions	300	(254)	7	94	59	3	(1)	208
Charge-offs	(156)	-	-	-	-	(48)	(30)	(234)
Recoveries	14	-	-	-	-	-	18	32
Ending balance	$615	$ 3,855	$ 170	$ 549	$ 375	$ 841	$ 115	$6,520

An analysis of the changes in the allowance for loan losses for the nine months ended June 30, 2015 is as follows:

	Residential Real Estate	Commercial Real Estate	**Multifamily**	**Construction**	Land & Land Development	Commercial Business	**Consumer**	**Total**
	(In thousands)							
Changes in Allowance for Loan Losses:								
Beginning balance	$577	$ 3,808	$ 146	$ 443	$ 302	$ 795	$ 179	$6,250
Provisions	298	47	24	106	73	93	(14)	627
Charge-offs	(299)	-	-	-	-	(48)	(103)	(450)
Recoveries	39	-	-	-	-	1	53	93
Ending balance	$615	$ 3,855	$ 170	$ 549	$ 375	$ 841	$ 115	$6,520

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FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

An analysis of the changes in the allowance for loan losses for the three months ended June 30, 2014 is as follows:

	Residential Real Estate	**Commercial Real Estate**	**Multifamily**	**Construction**	**Land & Land Development**	**Commercial Business**	**Consumer**	**Total**
	(In thousands)							
Changes in Allowance for Loan Losses:								
Beginning balance	$626	$ 3,440	$ 271	$ 222	$ 356	$ 907	$ 238	$6,060
Provisions	291	(587)	(106)	29	35	622	16	300
Charge-offs	(291)	144	-	-	-	(234)	(14)	(395)
Recoveries	15	-	-	-	-	-	12	27
Ending balance	$641	$ 2,997	$ 165	$ 251	$ 391	$ 1,295	$ 252	$5,992

An analysis of the changes in the allowance for loan losses for the nine months ended June 30, 2014 is as follows:

	Residential Real Estate	**Commercial Real Estate**	**Multifamily**	**Construction**	**Land & Land Development**	**Commercial Business**	**Consumer**	**Total**
	(In thousands)							
Changes in Allowance for Loan Losses:								
Beginning balance	$780	$ 2,826	$ 249	$ 229	$ 299	$ 907	$ 248	$5,538
Provisions	230	(48)	(84)	22	92	622	70	904
Charge-offs	(388)	-	-	-	-	(234)	(113)	(735)
Recoveries	19	219	-	-	-	-	47	285
Ending balance	$641	$ 2,997	$ 165	$ 251	$ 391	$ 1,295	$ 252	$5,992

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 June 30, 2015 and for the three and nine months ended June 30, 2015 and 2014.

	At June 30, 2015			Three Months Ended June 30,				Nine Months Ended June 30,			
				2015	2015	2014	2014	2015	2015	2014	2014
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
	(In thousands)										
Loans with no related allowance recorded:											
Residential real estate	$5,083	$5,568	$ -	$5,643	$ 36	$5,614	$ 33	$5,663	$ 109	$5,976	$ 98
Commercial real estate	7,130	7,165	-	6,047	55	5,816	65	5,842	168	5,896	176
Multifamily	-	-	-	-	-	2,214	27	-	-	2,227	83
Construction	-	-	-	-	-	-	-	-	-	-	-
Land and land development	-	-	-	-	-	-	-	-	-	-	-
Commercial business	321	304	-	305	-	164	-	242	1	333	1
Consumer	231	235	-	233	1	265	2	243	4	294	5
	$12,765	$13,272	$ -	$12,048	$ 92	$14,073	$ 127	$11,990	$ 282	$14,726	$ 363
Loans with an allowance recorded:											
Residential real estate	$75	$73	$ 11	$73	$ -	$55	$ -	$129	$ -	$55	$ -
Commercial real estate	23	22	-	22	-	-	-	9	-	-	-
Multifamily	-	-	-	-	-	-	-	-	-	-	-
Construction	-	-	-	-	-	-	-	-	-	-	-
Land and land development	-	-	-	-	-	-	-	-	-	-	-

Commercial business	-	-	-	12	-	-	-	5	-	-	-
Consumer	87	87	8	93	-	103	-	91	-	101	-
	$185	$182	$ 19	$200	$ -	$158	$ -	$234	$ -	$156	$ -
Total:											
Residential real estate	$5,158	$5,641	$ 11	$5,536	$ 36	$5,669	$ 33	$5,792	$ 109	$6,031	$ 98
Commercial real estate	7,153	7,187	-	6,069	55	5,816	65	5,851	168	5,896	176
Multifamily	-	-	-	-	-	2,214	27	-	-	2,227	83
Construction	-	-	-	-	-	-	-	-	-	-	-
Land and land development	-	-	-	-	-	-	-	-	-	-	-
Commercial business	321	304	-	317	-	164	-	247	1	333	1
Consumer	318	322	8	326	1	368	2	334	4	395	5
	$12,950	$13,454	$ 19	$12,248	$ 92	$14,231	$ 127	$12,224	$ 282	$14,882	$ 363

The Company recognized $5,000 and $52,000 of interest income on impaired commercial real estate loans using the cash receipts method during the nine-month periods ended June 30, 2015 and 2014, respectively. The Company did not recognize any interest income using the cash receipts method during the three-month period ended June 30, 2015. The Company recognized $11,000 of interest income on impaired commercial real estate loans using the cash receipts method during the three-month period ended June 30, 2014.

FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

The following table presents impaired loans individually evaluated for impairment as of September 30, 2014.

	Recorded Investment	**Unpaid Principal Balance**	**Related Allowance**
	(In thousands)		
Loans with no related allowance recorded:			
Residential real estate	$4,974	$ 5,426	$ -
Commercial real estate	5,705	5,739	-
Multifamily	-	-	-
Construction	-	-	-
Land and land development	-	-	-
Commercial business	145	133	-
Consumer	255	258	-
	$11,079	$ 11,556	$ -
Loans with an allowance recorded:			
Residential real estate	$167	$ 166	$ 13
Commercial real estate	-	-	-
Multifamily	-	-	-
Construction	-	-	-
Land and land development	-	-	-
Commercial business	-	-	-
Consumer	95	95	8
	$262	$ 261	$ 21
Total:			
Residential real estate	$5,141	$ 5,592	$ 13
Commercial real estate	5,705	5,739	-
Multifamily	-	-	-
Construction	-	-	-
Land and land development	-	-	-
Commercial business	145	133	-
Consumer	350	353	8

$11,341	$ 11,817	$ 21

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FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

Nonperforming loans consist of nonaccrual loans and loans over 90 days past due and still accruing interest. The following table presents the recorded investment in nonperforming loans at June 30, 2015:

	Nonaccrual Loans	**Loans 90+ Days Past Due Still Accruing**	**Total Nonperforming Loans**
	(In thousands)		
Residential real estate	$2,352	$ 178	$ 2,530
Commercial real estate	1,919	-	1,919
Multifamily	-	-	-
Construction	-	-	-
Land and land development	-	-	-
Commercial business	304	100	404
Consumer	189	-	189
Total	$4,764	$ 278	$ 5,042

The following table presents the recorded investment in nonperforming loans at September 30, 2014:

	Nonaccrual Loans	**Loans 90+ Days Past Due Still Accruing**	**Total Nonperforming Loans**
	(In thousands)		
Residential real estate	$2,431	$ 458	$ 2,889
Commercial real estate	1,034	-	1,034
Multifamily	-	-	-
Construction	-	-	-
Land and land development	-	-	-
Commercial business	123	-	123
Consumer	216	20	236

Total	$3,804	$ 478	$ 4,282

FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

The following table presents the aging of the recorded investment in past due loans at June 30, 2015:

	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	$3,522	$ 877	$ 1,777	$ 6,176	$177,135	$183,311
Commercial real estate	364	-	200	564	160,288	160,852
Multifamily	-	391	-	391	22,670	23,061
Construction	79	-	-	79	16,911	16,990
Land and land development	-	-	-	-	11,648	11,648
Commercial business	178	52	404	634	32,610	33,244
Consumer	41	31	20	92	26,250	26,342
Total	$4,184	$ 1,351	$ 2,401	$ 7,936	$447,512	$455,448

The following table presents the aging of the recorded investment in past due loans at September 30, 2014:

	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	$4,493	$ 1,639	$ 1,823	$ 7,955	$175,715	$183,670
Commercial real estate	115	54	59	228	153,800	154,028
Multifamily	297	-	-	297	21,014	21,311
Construction	-	-	-	-	16,601	16,601
Land and land development	6	205	-	211	11,114	11,325
Commercial business	259	-	123	382	28,168	28,550
Consumer	39	79	72	190	25,727	25,917
Total	$5,209	$ 1,977	$ 2,077	$ 9,263	$432,139	$441,402

FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

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

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

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

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.

FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

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, 2015, and based on the most recent analysis performed, the recorded investment in loans by risk category was as follows:

	Residential Real Estate	**Commercial Real Estate**	**Multifamily**	**Construction**	**Land and Land Development**	**Commercial Business**	**Consumer**	**Total**
	(In thousands)							
Pass	$174,242	$ 142,958	$ 23,061	$ 16,990	$ 11,298	$ 32,818	$ 25,946	$427,313
Special Mention	2,710	11,364	-	-	255	117	137	14,583
Substandard	5,992	6,530	-	-	95	309	251	13,177
Doubtful	367	-	-	-	-	-	8	375
Loss	-	-	-	-	-	-	-	-
Total	$183,311	$ 160,852	$ 23,061	$ 16,990	$ 11,648	$ 33,244	$ 26,342	$455,448

As of September 30, 2014, the recorded investment in loans by risk category was as follows:

	Residential Real Estate	**Commercial Real Estate**	**Multifamily**	**Construction**	**Land and Land Development**	**Commercial Business**	**Consumer**	**Total**
	(In thousands)							
Pass	$172,822	$ 138,854	$ 21,311	$ 16,601	$ 11,206	$ 28,127	$ 25,471	$414,392
Special Mention	4,233	10,226	-	-	6	278	89	14,832
Substandard	6,398	4,948	-	-	113	145	350	11,954
Doubtful	217	-	-	-	-	-	7	224
Loss	-	-	-	-	-	-	-	-

Total	$183,670	$ 154,028	$ 21,311	$ 16,601	$ 11,325	$ 28,550	$ 25,917	$441,402

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FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

Troubled Debt Restructurings

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

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

The following table summarizes the Company's recorded investment in TDRs at June 30, 2015 and September 30, 2014. There was no specific reserve included in the allowance for loan losses related to TDRs at June 30, 2015 and September 30, 2014.

	Accruing	**Nonaccrual**	**Total**
	(In thousands)		
June 30, 2015:			
Residential real estate	$2,806	$ 214	$3,020
Commercial real estate	5,234	-	5,234
Commercial business	17	-	17
Consumer	129	-	129

Total	$8,186	$ 214	$8,400
September 30, 2014:			
Residential real estate	$2,710	$ 214	$2,924
Commercial real estate	4,671	696	5,367
Commercial business	22	-	22
Consumer	134	-	134
Total	$7,537	$ 910	$8,447

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FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

The following table summarizes information in regard to TDRs that were restructured during the three- and nine-month periods ended June 30, 2015 and 2014:

	Number of Loans	Pre-Modification Principal Balance	Post-Modification Principal Balance
	(In thousands)		
June 30, 2015:			
Three Months Ended June 30, 2015:			
Consumer	1	$ 3	$ 3
Total	1	$ 3	$ 3
Nine Months Ended June 30, 2015:			
Residential real estate	2	$ 165	$ 172
Consumer	1	3	3
Total	3	$ 168	$ 175
June 30, 2014:			
Three Months Ended June 30, 2014:			
Residential real estate	2	$ 76	$ 76
Total	2	$ 76	$ 76
Nine Months Ended June 30, 2014:			
Residential real estate	5	$ 215	$ 235
Commercial real estate	1	716	724
Total	6	$ 931	$ 959

For the TDRs listed above, the terms of modification included reduction of the stated interest rate and extension of the maturity date where the debtor was unable to access funds elsewhere at a market interest rate for debt with similar risk characteristics.

The Company had not committed to lend any additional amounts as of June 30, 2015 and September 30, 2014 to customers with outstanding loans classified as TDRs at such dates.

There were no principal charge-offs recorded as a result of TDRs during the nine-month periods ended June 30, 2015 and 2014. There was no specific allowance for loan losses related to TDRs modified during the nine-month periods ended June 30, 2015 and 2014. 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 nine-month period ended June 30, 2015, the Company did not have any TDRs that were modified within the previous twelve months and for which there was a payment default (defined as more than 90 days past due or in the process of foreclosure). During the nine-month period ended June 30, 2014, the Company had two TDRs totaling $476,000 that were modified within the previous twelve months and for which there was a payment default. No charge-offs were recognized for TDRs with subsequent payment defaults for the nine-month periods ended June 30, 2015 and 2014.

FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

4. Real Estate Development and Construction

The Company is developing a parcel of land in New Albany, Indiana for retail purposes through the Bank's subsidiary, FFCC. The total cost of the development is expected to be approximately $7.7 million, including the $7.6 million paid as of June 30, 2015. The development costs were partially funded by a loan from another financial institution. The development is substantially completed, with only certain tenant improvements in a multi-tenant retail building to be completed for current and future lessees, and nine tenants have commenced occupancy as of June 30, 2015. The development plans provide for up to twelve tenants when fully occupied.

Depreciation expense of $48,000 and $146,000 was recognized for real estate development and construction for the three- and nine-month periods ended June 30, 2015, respectively. Depreciation expense of $47,000 and $141,000 was recognized for real estate development and construction for the three- and nine-month periods ended June 30, 2014, respectively.

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

5. Investment in Historic Tax Credit Entity

On October 15, 2014, the Company 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 expected to be allocated to the Bank include federal rehabilitation investment credits totaling $4.6 million available under Internal

Revenue Code Section 47. The Bank invested $417,000 on October 15, 2014 and has committed to invest an additional $417,000 when the project is 50% completed and the remaining $3.3 million when the project is fully completed and the certificate of occupancy is received. The project is expected to be fully completed in April 2016.

The Bank’s investment in the historic tax credit entity is accounted for under the equity method of accounting. At June 30, 2015, the Bank’s investment of $4.2 million was included in other assets and its unfunded capital contribution commitment of $3.8 million was included in other liabilities in the accompanying consolidated balance sheet.

FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

5. Supplemental Disclosure for Earnings Per Share

When presented, basic earnings per share are computed by dividing income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflect the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity. Earnings per share information is presented below for the three- and nine-month periods ended June 30, 2015 and 2014.

	Three Months Ended June 30,		**Nine Months Ended June 30,**	
	2015	**2014**	**2015**	**2014**
	(Dollars in thousands, except per share data)			
Basic:				
Earnings:				
Net income	$2,196	$1,456	$4,923	$4,020
Less: Preferred stock dividends declared	(43)	(43)	(129)	(129)
Net income available to common shareholders	$2,153	$1,413	$4,794	$3,891
Shares:				
Weighted average common shares outstanding	2,149,931	2,092,938	2,133,557	2,130,599
Net income per common share, basic	$1.00	$0.68	$2.25	$1.83
Diluted:				
Earnings:				
Net income	$2,196	$1,456	$4,923	$4,020
Less: Preferred stock dividends declared	(43)	(43)	(129)	(129)
Net income available to common shareholders	$2,153	$1,413	$4,794	$3,891
Shares:				
Weighted average common shares outstanding	2,149,931	2,092,938	2,133,557	2,130,599
Add: Dilutive effect of outstanding options	103,545	96,885	99,515	93,256
Add: Dilutive effect of restricted stock	5,694	11,500	7,850	13,338
Weighted average common shares outstanding as adjusted	2,259,170	2,201,323	2,240,922	2,237,193

Net income per common share, diluted	$0.95	$0.64	$2.14	$1.74

Unearned ESOP and nonvested restricted stock shares are not considered as outstanding for purposes of computing weighted average common shares outstanding.

FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

7. Supplemental Disclosures of Cash Flow Information

	Nine Months Ended June 30,	
	2015	**2014**
	(*In thousands*)	
Cash payments for:		
Interest	$ 2,913	$ 2,889
Taxes	894	1,351
Transfers from loans to foreclosed real estate	543	1,018
Proceeds from sales of foreclosed real estate financed through loans	290	496

8. 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; quoted market prices for identical or similar assets or liabilities in markets that are not active; or inputs that are derived principally from or can be corroborated by observable market data by correlation or other means.

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

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 tables below present the balances of financial assets measured at fair value on a recurring and nonrecurring basis as of June 30, 2015 and September 30, 2014. The Company had no liabilities measured at fair value as of June 30, 2015 or September 30, 2014.

FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

	Carrying Value			
	Level 1	**Level 2**	**Level 3**	**Total**
	(In thousands)			
June 30, 2015:				
Assets Measured - Recurring Basis:				
Trading account securities	$-	$8,770	$-	$8,770
Securities available for sale:				
Agency bonds and notes	$-	$7,519	$-	$7,519
Agency mortgage-backed	-	48,801	-	48,801
Agency CMO	-	21,444	-	21,444
Privately-issued CMO	-	3,599	-	3,599
Privately-issued ABS	-	6,442	-	6,442
SBA certificates	-	1,558	-	1,558
Municipal	-	90,724	-	90,724
Total securities available for sale	$-	$180,087	$-	$180,087
Assets Measured - Nonrecurring Basis:				
Impaired loans:				
Residential real estate	$-	$-	$5,147	$5,147
Commercial real estate	-	-	7,153	7,153
Commercial business	-	-	321	321
Consumer	-	-	310	310
Total impaired loans	$-	$-	$12,931	$12,931
Loans held for sale	$-	$306	$-	$306
Other real estate owned, held for sale:				
Residential real estate	$-	$-	$344	$344
Commercial real estate	-	-	211	211
Land and land development	-	-	3	3
Total other real estate owned	$-	$-	$558	$558

FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

	Carrying Value			
	Level 1	**Level 2**	**Level 3**	**Total**
	(In thousands)			
September 30, 2014:				
Assets Measured - Recurring Basis:				
Trading account securities	$-	$5,319	$-	$5,319
Securities available for sale:				
Agency bonds and notes	$-	$12,091	$-	$12,091
Agency mortgage-backed	-	52,255	-	52,255
Agency CMO	-	29,484	-	29,484
Privately-issued CMO	-	3,920	-	3,920
Privately-issued ABS	-	7,353	-	7,353
SBA certificates	-	1,762		1,762
Municipal	-	77,832	-	77,832
Total securities available for sale	$-	$184,697	$-	$184,697
Interest rate cap contract	$-	$1	$-	$1
Assets Measured - Nonrecurring Basis:				
Impaired loans:				
Residential real estate	$-	$-	$5,128	$5,128
Commercial real estate	-	-	5,705	5,705
Commercial business	-	-	145	145
Consumer	-	-	342	342
Total impaired loans	$-	$-	$11,320	$11,320
Loans held for sale	$-	$281	$-	$281
Other real estate owned, held for sale:				
Residential real estate	$-	$-	$518	$518
Commercial real estate	-	-	377	377
Land and land development	-	-	58	58
Total other real estate owned	$-	$-	$953	$953

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.

FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

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. There were no changes in the valuation techniques and related inputs used for assets measured at fair value during the nine-month period ended June 30, 2015.

Trading Account Securities and Securities Available for Sale. Securities classified as trading and 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 trading account 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.

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 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. Collateral may be real estate and/or business assets, including equipment, inventory and/or accounts receivable, and its fair value is generally determined based on real estate appraisals or other independent evaluations by qualified professionals. The appraisals are generally then discounted by management in order to reflect management’s estimate of the fair value of the collateral given the current market conditions and the condition of the collateral. At June 30, 2015 and September 30, 2014, the significant unobservable inputs used in the fair value measurement of impaired loans included a discount from appraised value ranging from 0.0% to 15.0% and estimated costs to sell the collateral ranging from 0.0% to 6.0%. During the nine-month periods ended June 30, 2015 and 2014, the Company recognized provisions for loan losses of $49,000 and $2,000, respectively, for impaired loans. No provisions for loan losses were recognized for the three-month periods ended June 30, 2015 and 2014 for impaired loans.

FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

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 sales to investors. The fair value of loans held for sale is classified as Level 2 in the fair value hierarchy.

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

Other real estate owned is reported at fair value less estimated costs to dispose of the property. The fair values are determined by real estate appraisals, which are then generally discounted by management in order to reflect management's estimate of the fair value of the property given current market conditions and the condition of the property. At June 30, 2015, the significant unobservable inputs used in the fair value measurement of other real estate owned included a discount from appraised value ranging from 15.0% to 56.5% with a weighted average of 21.3%. At September 30, 2014, the significant unobservable inputs used in the fair value measurement of other real estate owned included a discount from appraised value ranging from 13.3% to 50.0% with a weighted average of 18.7%. The Company did not recognize any charges to write down other real estate owned to fair value for the three months ended June 30, 2015. The Company recognized charges of $33,000 to write down other real estate owned to fair value for the nine months ended June 30, 2015. The Company recognized charges of $80,000 and $181,000 to write down other real estate owned to fair value for the three and nine months ended June 30, 2014, respectively.

Transfers Between Categories. There were no transfers into or out of Level 3 financial assets for the nine-month periods ended June 30, 2015 and 2014. In addition, there were no transfers into or out of Levels 1 and 2 of the fair value hierarchy during the nine-month periods ended June 30, 2015 and 2014.

FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

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

	Carrying	Fair Value Measurements Using:		
	Amount	Level 1	Level 2	Level 3
	(In thousands)			
June 30, 2015:				
Financial assets:				
Cash and due from banks	$7,963	$7,963	$-	$-
Interest-bearing deposits with banks	13,428	13,428	-	-
Interest-bearing time deposits	2,235	-	2,240	-
Trading account securities	8,770	-	8,770	-
Securities available for sale	180,087	-	180,087	-
Securities held to maturity	4,941	-	5,485	-
Loans, net	447,665	-	-	447,102
Loans held for sale	306	-	306	-
FRB and FHLB stock	6,647	-	6,647	-
Accrued interest receivable	2,824	-	2,824	-
Investment in historic tax credit entity (included in other assets)	4,169	-	4,169	-
Financial liabilities:				
Deposits	528,955	-	-	531,902
Short-term repurchase agreements	1,341	-	1,341	-
Borrowings from FHLB	94,626	-	96,119	-
Other long-term debt	4,678	-	4,678	-
Accrued interest payable	179	-	179	-
Advance payments by borrowers for taxes and insurance	641	-	641	-

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FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

	Carrying Amount	Fair Value Measurements Using: Level 1	Level 2	Level 3
	(In thousands)			
September 30, 2014:				
Financial assets:				
Cash and due from banks	$8,853	$8,853	$-	$-
Interest-bearing deposits with banks	11,477	11,477	-	-
Interest-bearing time deposits	1,500	-	1,496	-
Trading account securities	5,319	-	5,319	-
Securities available for sale	184,697	-	184,697	-
Securities held to maturity	5,419	-	5,849	-
Loans, net	433,876	-	-	434,023
Loans held for sale	281	-	281	-
FHLB stock	6,517	-	6,517	-
Accrued interest receivable	2,511	-	2,511	-
Interest rate cap (included in other assets)	1	-	1	-
Financial liabilities:				
Deposits	533,194	-	-	535,364
Short-term repurchase agreements	1,338	-	1,338	-
Borrowings from FHLB	79,548	-	79,455	-
Other long-term debt	4,812	-	4,812	-
Accrued interest payable	175	-	175	-
Advance payments by borrowers for taxes and insurance	748	-	748	-

The carrying amounts in the preceding tables 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:

FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

Cash and Cash Equivalents

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

Investment Securities and Interest-Bearing Time Deposits

For debt securities and interest-bearing time deposits, 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 FRB and FHLB stock, which are restricted equity securities, the carrying amount is a reasonable estimate of fair value because they are not marketable.

Loans

The fair value of loans, excluding loans held for sale, 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. Impaired loans are valued at the lower of their carrying value or fair value, as previously described. The carrying amount of accrued interest receivable approximates its fair value.

The fair value of loans held for sale is estimated based on specific prices of underlying contracts for sales to investors, as previously described.

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

FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

9. Employee Stock Ownership Plan

On October 6, 2008, the Company established a leveraged employee stock ownership plan ("ESOP") covering substantially all employees. The ESOP trust acquired 203,363 shares of Company common stock at a cost of $10.00 per share financed by a term loan with the Company. The employer loan and the related interest income are not recognized in the consolidated financial statements because the debt is serviced from Company contributions. Dividends payable on allocated shares are charged to retained earnings and are satisfied by the allocation of cash dividends to participant accounts or by utilizing the dividends as additional debt service on the ESOP loan. Dividends payable on unallocated shares are not considered dividends for financial reporting purposes. Shares held by the ESOP trust are allocated to participant accounts based on the ratio of the current year principal and interest payments to the total of the current year and future years' principal and interest to be paid on the employer loan. Compensation expense is recognized based on the average fair value of shares released for allocation to participant accounts during the year with a corresponding credit to stockholders' equity. Compensation expense recognized for the three- and nine-month periods ended June 30, 2015 amounted to $122,000 and $722,000, respectively. Compensation expense recognized for the three- and nine-month periods ended June 30, 2014 amounted to $96,000 and $617,000, respectively. Company common stock held by the ESOP trust at June 30, 2015 and September 30, 2014 was as follows:

	June 30, 2015	September 30, 2014
Allocated shares	160,750	132,339
Unearned shares	23,882	53,706
Total ESOP shares	184,632	186,045
Fair value of unearned shares	$710,000	$ 1,341,000

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.

FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

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, 2015 amounted to $31,000 and $162,000, respectively. Compensation expense related to restricted stock recognized for the three- and nine-month periods ended June 30, 2014 amounted to $65,000 and $195,000, respectively. A summary of the Company’s nonvested restricted shares activity under the Plan as of June 30, 2015 and changes during the nine-month period then ended is presented below.

	Number of Shares	**Weighted Average Grant Date Fair Value**
Nonvested at October 1, 2014	19,610	$ 13.25
Granted	-	-
Vested	(19,610)	$ 13.25
Forfeited	-	-
Nonvested at June 30, 2015	-	$ -

There were 19,610 and 19,620 restricted shares that vested during the nine-month periods ended June 30, 2015 and 2014, respectively. The total fair value of restricted shares that vested during the nine-month periods ended June 30, 2015 and 2014 were $575,000 and $479,000, respectively. At June 30, 2015, all restricted shares granted under the Plan were fully vested and therefore there was no unrecognized compensation expense related to nonvested restricted shares at that date.

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

FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

A summary of stock option activity under the Plan as of June 30, 2015, and changes during the nine-month period then ended is presented below.

	Number of Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
	(Dollars in thousands, except per share data)			
Outstanding at October 1, 2014	234,232	$ 13.25	5.6	$ 2,743
Granted	-	-		
Exercised	(20,972)	$ 13.25		$ 250
Forfeited or expired	-	-		
Outstanding at June 30, 2015	213,260	$ 13.25	4.9	$ 3,519
Exercisable at June 30, 2015	213,260	$ 13.25	4.9	$ 3,519

There were no stock options granted but 20,972 stock options were exercised during the nine-month period ended June 30, 2015. There were no stock options granted or exercised during the nine-month period ended June 30, 2014. The Company recognized compensation expense related to stock options of $18,000 and $95,000 for the three- and nine-month periods ended June 30, 2015, respectively. The Company recognized compensation expense related to stock options of $38,000 and $114,000 for the three- and nine-month periods ended June 30, 2014. At June 30, 2015, all stock options granted under the Plan were fully vested and therefore there was no unrecognized compensation expense related to nonvested stock options at that date.

FIRST SAVINGS FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

11. Preferred Stock

On August 11, 2011, the Company entered into a Securities Purchase Agreement ("Purchase Agreement") with the United States Department of the Treasury, pursuant to which the Company issued 17,120 shares of the its Senior Non-Cumulative Perpetual Preferred Stock, Series A ("Series A Preferred Stock"), having a liquidation amount per share equal to $1,000, for a total purchase price of $17,120,000. The Purchase Agreement was entered into, and the Series A Preferred Stock was issued, pursuant to the Small Business Lending Fund ("SBLF") program, a $30 billion fund established under the Small Business Jobs Act of 2010, that encourages lending to small businesses by providing Tier 1 capital to qualified community banks with assets of less than $10 billion.

Holders of the Series A Preferred Stock are entitled to receive non-cumulative dividends, payable quarterly, on each January 1, April 1, July 1 and October 1, beginning October 1, 2011. The dividend rate, as a percentage of the liquidation amount, can fluctuate on a quarterly basis during the first ten quarters during which the Series A Preferred Stock is outstanding and may be adjusted between 1.0% and 5.0% per annum, to reflect the amount of change in the Bank's level of Qualified Small Business Lending ("QSBL") (as defined in the Purchase Agreement) over the baseline level calculated under the terms of the Purchase Agreement ("Baseline"). In addition to the dividend, in the event the Bank's level of QSBL has not increased relative to the Baseline, at the beginning of the tenth calendar quarter, the Company will be subject to an additional lending incentive fee equal to 2.0% per annum. For the eleventh dividend period through the eighteenth dividend period, inclusive, and that portion of the nineteenth dividend period before, but not including, the four and one half (4½) year anniversary of the date of issuance, the dividend rate will be fixed at between 1.0% and 7.0% per annum based upon the increase in QSBL as compared to the Baseline. After four and one half (4½) years from issuance, the dividend rate will increase to nine 9.0%. Based upon the Bank's level of QSBL over the Baseline for purposes of calculating the dividend rate for the initial dividend period, the dividend rate for the initial dividend period ended September 30, 2011 was 4.84%. The dividend rate for the sixteenth dividend period ended June 30, 2015 was 1.0% and the weighted average dividend rate for the nine-month period ended June 30, 2015 was 1.0%. The dividend rate for the seventeenth dividend period through the eighteenth dividend period will be 1.0%.

The Series A Preferred Stock is non-voting, except in limited circumstances. In the event that the Company fails to timely make five dividend payments, whether or not consecutive, the holder of the Series A Preferred Stock will have the right, but not the obligation, to appoint a representative as an observer on the Company's board of directors.

The Series A Preferred Stock may be redeemed at any time at the Company's option, at a redemption price of one hundred percent (100%) of the liquidation amount plus accrued but unpaid dividends to the date of redemption for the current period, subject to the approval of its federal banking regulator.

The Series A Preferred Stock was issued in a private placement exempt from registration pursuant to Section 4(2) of the Securities Act of 1933, as amended. The Company has agreed to register the Series A Preferred Stock under certain circumstances set forth in the Purchase Agreement. The Series A Preferred Stock is not subject to any contractual restrictions on transfer.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

12. Recent Accounting Pronouncements

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

In January 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-04, *Receivables – Troubled Debt Restructurings by Creditors (Subtopic 310-40), Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure.* The objective of the amendments in this update is to reduce diversity by clarifying when an in substance repossession or foreclosure occurs, that is, when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan receivable should be derecognized and the real estate property recognized. The amendments in the update clarify that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure, or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the amendments require interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor, and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. The amendments in the update are effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. The adoption of this update is not expected to have a material impact on the Company’s consolidated financial position or results of operations.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The update provides a five-step revenue recognition model for all revenue arising from contracts with customer and affects all entities that enter into contracts to provide goods or services to their customers (unless the contracts are included in the scope of other standards). The guidance requires an entity to recognize the revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. For public entities, the guidance was originally effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. However, in July 2015 the FASB affirmed its proposal to defer the effective date of ASU 2014-09 by one year, making the amendments effective for public entities for annual reporting periods beginning after December 15, 2017, including interim periods within those reporting periods. Companies have the option to apply ASU 2014-09 as of the original effective date. Early adoption is not permitted. Management is evaluating the new guidance, but does not expect the adoption of this guidance to have a material impact on the Company’s consolidated financial position or results of operations.

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Safe Harbor Statement for Forward-Looking Statements

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

Forward-looking statements are not guarantees of future performance. Numerous risks and uncertainties could cause or contribute to the Company's actual results, performance and achievements being materially different from those expressed or implied by the forward-looking statements. Factors that may cause or contribute to these differences include, without limitation, general economic conditions, including changes in market interest rates and changes in monetary and fiscal policies of the federal government; legislative and regulatory changes; the quality and composition of the loan and investment securities portfolio; loan demand; deposit flows; competition; and changes in accounting principles and guidelines. Additional factors that may affect our results are discussed herein and in our Annual Report on Form 10-K for the year ended September 30, 2014 under "Part II, Item 1A. Risk Factors." These factors should be considered in evaluating the forward-looking statements and undue reliance should not be placed on such statements. Except as required by applicable law or regulation, the Company assumes no obligation and disclaims any obligation to update any forward-looking statements.

Critical Accounting Policies

During the nine-month period ended June 30, 2015, there was no significant change in the Company's critical accounting policies or the application of critical accounting policies as disclosed in the Company's Annual Report on Form 10-K for the year ended September 30, 2014.

Comparison of Financial Condition at June 30, 2015 and September 30, 2014

Cash and Cash Equivalents. Cash and cash equivalents increased $1.1 million, from $20.3 million at September 30, 2014 to $21.4 million at June 30, 2015.

Loans. Net loans receivable increased $13.8 million, from $433.9 million at September 30, 2014 to $447.7 million at June 30, 2015, due primarily to increases in commercial real estate and commercial business loans of $6.8 million and $4.7 million, respectively.

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Trading Account Securities. Trading account securities increased $3.5 million, from $5.3 million at September 30, 2014 to $8.8 million at June 30, 2015. Trading account securities are comprised of investment grade municipal bonds and the portfolio is managed by an investment advisory firm registered with the U.S. Securities and Exchange Commission.

Securities Available for Sale. Securities available for sale decreased $4.6 million, from $184.7 million at September 30, 2014 to $180.1 million at June 30, 2015, due primarily to maturities of $8.4 million and principal repayments of $14.1 million, which more than offset purchases of $19.1 million. The decrease in securities available for sale, primarily in U.S. government agency and sponsored enterprises securities, including mortgage-backed securities and CMOs, was due primarily to principal repayments.

Securities Held to Maturity. Investment securities held-to-maturity decreased $478,000, from $5.4 million at September 30, 2014 to $4.9 million at June 30, 2015. There were no purchases of securities held to maturity, and partial calls and principal repayments on mortgage-backed securities totaled $473,000 during the nine-month period ended June 30, 2015.

Other Assets. Other assets increased $4.8 million, from $2.6 million at September 30, 2014 to $7.4 million at June 30, 2015, due primarily to the Bank's $4.2 million commitment to invest in a historic tax credit entity. See Note 5 of the Notes to Consolidated Financial Statements beginning on page 8 of this quarterly report for additional information regarding the investment in the historic tax credit entity.

Deposits. Total deposits decreased $4.2 million, from $533.2 million at September 30, 2014 to $529.0 million at June 30, 2015, due primarily to decreases in money market accounts and certificates of deposit of $15.4 million and $9.7 million, respectively, which more than offset increases in noninterest-bearing demand deposit accounts, interest-bearing demand deposit accounts and savings accounts of $11.4 million, $7.3 million and $2.2 million, respectively, during the period. The decrease in money market accounts and the increase in interest-bearing demand deposit accounts are due primarily to the reclassification of a single depository relationship of $13.4 million from money market accounts to interest-bearing demand deposit accounts. The decrease in retail certificates of deposit is primarily attributed to maturities that customers are investing in more liquid deposit accounts given the low interest rate environment. Management continues to utilize brokered certificates of deposit in order to take advantage of historically low interest rates, provide short-term liquidity, replace attrition of retail certificates of deposit and provide funding for loan originations. Brokered certificates of deposit totaled $57.8 million at June 30, 2015 and September 30, 2014.

Borrowings. Borrowings from the FHLB increased $15.1 million, from $79.5 million at September 30, 2014 to $94.6 million at June 30, 2015. Borrowings from the FHLB have increased in order to provide funding for loan originations.

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Stockholders' Equity. Stockholders' equity increased $4.9 million, from $87.1 million at September 30, 2014 to $92.0 million at June 30, 2015. Retained earnings increased $4.1 million due to net income available to common shareholders of $4.8 million, partially offset by common stock cash dividends of $734,000. Accumulated other comprehensive income decreased $393,000 as a result of a decrease in net unrealized gains on securities available for sale, which is due to changes in the yield curve and long-term rate forecasts. Book value (common stockholders' equity) per common share was $34.27 at June 30, 2015 as compared to $32.21 at September 30, 2014. Tangible book value (common stockholders' equity, less goodwill and core deposit intangibles) per common share was $29.97 at June 30, 2015 as compared to $27.76 at September 30, 2014.

Results of Operations for the Nine Months Ended June 30, 2015 and 2014

Overview. The Company reported net income of $4.9 million and net income available to common shareholders of $4.8 million, or $2.14 per diluted share, for the nine-month period ended June 30, 2015 compared to net income of $4.0 million and net income available to common shareholders of $3.9 million, or $1.74 per diluted share, for the nine-month period ended June 30, 2014. The increase in net income and net income available to common shareholders was due primarily to a gain on life insurance of $831,000 recognized in the 2015 period. The annualized return on average assets, average equity and average common stockholders' equity were 0.91%, 7.28% and 8.98%, respectively, for the nine-month period ended June 30, 2015. The annualized return on average assets, average equity and average common stockholders' equity were 0.78%, 6.40% and 8.04%, respectively, for the nine-month period ended June 30, 2014.

Net Interest Income. Net interest income increased $69,000, or 0.4%, for the nine-month period ended June 30, 2015 compared to the same period in 2014. Average interest-earnings assets increased $27.2 million and average interest-bearing liabilities increased $14.3 million when comparing the two periods. The tax-equivalent interest rate spread was 3.74% for 2015 compared to 3.87% for 2014.

Total interest income increased $202,000, or 1.0%, when comparing the two periods due primarily to an increase in the average balance of interest-earning assets of $27.2 million, from $630.7 million for 2014 to $657.9 million for 2015, which more than offset the change in interest income due to a decrease in the average tax-equivalent yield on interest-earning assets from 4.52% for 2014 to 4.40% for 2015. The average balance of loans and interest-bearing deposits with banks increased $21.9 million and $4.0 million, respectively, when comparing the two periods.

Total interest expense increased $133,000, or 4.9%, due primarily to an increase in the average balance of interest-bearing liabilities of $14.3 million, from $551.2 million for 2014 to $565.5 million for 2015, and a slight increase in the average tax-equivalent yield on interest-bearing liabilities from 0.65% for 2014 to 0.66% for 2015. The average balance of total interest-bearing deposits increased $10.4 million and the average balance of borrowings increased $3.9 million when comparing the two periods.

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Average Balance Sheets. The following table presents information regarding average balances of assets and liabilities, the total dollar amounts of interest income and dividends from average interest-earning assets, the total dollar amounts of interest expense on average interest-bearing liabilities, and the resulting annualized average yields and costs for the nine-month periods ended June 30, 2015 and 2014. The yields and costs for the periods indicated are derived by dividing income or expense by the average balances of assets or liabilities, respectively, for the periods presented. Nonaccrual loans are included in average balances only. Loan fees are included in interest income on loans and are not material. Tax exempt income on loans and investment securities has been calculated on a tax equivalent basis using a federal marginal tax rate of 34%.

	Nine Months Ended June 30,							
	2015				**2014**			
	Average Balance	**Interest and Dividends**	**Yield/ Cost**		**Average Balance**	**Interest and Dividends**	**Yield/ Cost**	
	(Dollars in thousands)							
Assets:								
Interest-bearing deposits with banks	$16,253	$ 35	0.29	%	$12,257	$ 27	0.29	%
Loans	449,641	16,070	4.77		427,752	15,808	4.93	
Investment securities	135,102	4,584	4.52		136,410	4,589	4.49	
Agency mortgage-backed securities	49,825	778	2.08		48,599	764	2.10	
FRB and FHLB stock	7,068	223	4.21		5,644	186	4.39	
Total interest-earning assets	657,889	21,690	4.40		630,662	21,374	4.52	
Non-interest-earning assets	66,747				59,564			
Total assets	$724,636				$690,226			
Liabilities and equity:								
NOW accounts	$114,000	$ 170	0.20	%	$116,108	$ 181	0.21	%
Money market deposit accounts	79,581	170	0.28		72,810	181	0.33	
Savings accounts	71,628	34	0.06		69,636	33	0.06	
Time deposits	201,101	1,460	0.97		197,383	1,404	0.95	
Total interest-bearing deposits	466,310	1,834	0.52		455,937	1,799	0.53	

Borrowings (1)	99,223	982	1.32		95,276	884	1.24	
Total interest-bearing liabilities	565,533	2,816	0.66		551,213	2,683	0.65	
Non-interest-bearing deposits	59,603				50,649			
Other non-interest-bearing liabilities	9,326				4,562			
Total liabilities	634,462				606,424			
Total equity	90,174				83,802			
Total liabilities and equity	$724,636				$690,226			
Net interest income		$ 18,874				$ 18,691		
Interest rate spread			3.74	%			3.87	%
Net interest margin			3.83	%			3.95	%
Average interest-earning assets to average interest-bearing liabilities			116.33	%			114.41	%

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

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Rate/Volume Analysis. The following table sets forth the effects of changing rates and volumes on our net interest income for the nine-month periods ended June 30, 2015 and 2014. The rate column shows the effects attributable to changes in rate (changes in rate multiplied by prior volume). The volume column shows the effects attributable to changes in volume (changes in volume multiplied by prior rate). The net column represents the sum of the prior columns. Changes attributable to changes in both rate and volume have been allocated proportionally based on the absolute dollar amounts of change in each.

	Nine Months Ended June 30, 2015 Compared to Nine Months Ended June 30, 2014 Increase (Decrease)		
	Due to Rate	**Volume**	**Net**
	(In thousands)		
Interest income:			
Interest-bearing deposits with banks	$ -	$ 8	$ 8
Loans	(454)	716	262
Investment securities	11	(16)	(5)
Agency mortgage-backed securities	(9)	23	14
Other interest-earning assets	(7)	44	37
Total interest-earning assets	(459)	775	316
Interest expense:			
Deposits	(179)	214	35
Borrowings (1)	60	38	98
Total interest-bearing liabilities	(119)	252	133
Net increase (decrease) in net interest income	$ (340)	$ 523	$ 183

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

Provision for Loan Losses. The provision for loan losses was $627,000 for the nine-month period ended June 30, 2015 compared to $904,000 for the same period in 2014. The decrease in the provision for loans losses for 2015 as compared to the prior period was due primarily to an improvement in asset quality and a decrease in net charge-offs when comparing the two periods.

The Company recognized net charge-offs of $357,000 for the nine-month period ended June 30, 2015 compared to net charge-offs of $450,000 for the same period in 2014.

The recorded investment in nonperforming loans was $5.0 million at June 30, 2015 compared to $4.3 million at September 30, 2014 and $4.9 million at June 30, 2014. Nonperforming loans at June 30, 2015 include nonaccrual loans of $4.8 million and loans totaling $278,000 that are over 90 days past due but still accruing interest. These loans are still accruing interest because the estimated value of the collateral and collection efforts are deemed sufficient to ensure their full recovery. The increase in nonperforming loans from September 30, 2014 to June 30, 2015 is due primarily to a single commercial real estate loan with an outstanding balance of $1.5 million that was placed on nonaccrual status as of June 30, 2015. At June 30, 2015, this loan was current but in that month the borrower requested a six-month payment deferral beginning in July 2015. Although a restructuring of this loan did not occur as of the balance sheet date, it was placed on nonaccrual status.

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Gross loans receivable increased $31.7 million from $435.8 million at June 30, 2014 to $467.5 million at June 30, 2015, primarily due to increases in permanent commercial real estate, commercial real estate construction and residential real estate construction, and commercial business loans of $19.7 million, $8.2 million, $3.2 million and $2.6 million respectively, which more than offset a decrease in multi-family loans of $4.2 million. The increase in commercial real estate loans when comparing the two periods is due primarily to an increase in loans originated to high net worth individuals that are secured by low loan-to-value, single-tenant commercial properties located outside of the Company's primary market area and that are primarily leased to investment grade national-brand retailers. At June 30, 2015, $47.8 million, or 29.7% of the commercial real estate loan portfolio and 10.2% of the total loan portfolio, consisted of these loans as compared to $27.1 million, or 19.2%, of the commercial real estate loan portfolio and 6.2% of the total loan portfolio, at June 30, 2014.

The allowance for loan losses was $6.5 million at June 30, 2015 compared to $6.3 million at September 30, 2014 and $6.0 million at June 30, 2014. Management has deemed these amounts as adequate on those dates based on its best estimate of probable known and inherent loan losses. The consistent application of management's allowance for loan losses methodology resulted in an increase in the level of the allowance for loan losses consistent with changes in the loan portfolio and overall economic conditions.

Noninterest Income. Noninterest income increased $349,000 for the nine-month period ended June 30, 2015 as compared to the same period in 2014. The increase was due primarily to the gain on life insurance of $831,000, which more than offset decreases in net gain on sale of trading account securities, other income and net gain on sales of available for sale securities of $367,000, $194,000 and $123,000, respectively. The Company did not sell any available for sale securities during the 2015 period. The decrease in other income is due primarily to a litigation settlement of $277,000 received in the March 2014 quarter as a partial recovery of losses on commercial bond investments recognized by Community First Bank in 2008.

Noninterest Expense. Noninterest expenses increased $212,000 for the nine-month period ended June 30, 2015 as compared to the same period in 2014. The increase was due primarily to increases in compensation and benefits expense, advertising and data processing of $176,000, $138,000 and $121,000, respectively, which more than offset decreases in losses and expenses related to other real estate owned and professional fees of $207,000 and $145,000, respectively. The increase in compensation and benefits expense is due primarily to normal salary, wages and benefits increases; increased incentive compensation based on Company performance; and increased staffing as a result of the Company's enhanced focus on U.S. Small Business Administration program lending. The increase in data processing expense is due primarily to contract termination costs of $68,000 incurred during the 2015 period. The decrease in professional fees expense is due primarily to $257,000 of expense incurred in the 2014 period for consulting services related to a revenue enhancement and operating expense efficiencies project.

Income Tax Expense. The Company recognized income tax expense of $1.2 million for the nine months ended June 30, 2015, for an effective tax rate of 19.1%, compared to income tax expense of $1.6 million, for an effective tax rate of 28.2%, for the same period in 2014. The decreases in income tax expense and the effective tax rate for the 2015 period were due primarily to a higher level of nontaxable income as a result of the gain on life insurance and the Company's captive insurance subsidiary, which was formed in September 2014.

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Results of Operations for the Three Months Ended June 30, 2015 and 2014

Overview. The Company reported net income and net income available to common shareholders of $2.2 million, or $0.95 per diluted share, for the three-month period ended June 30, 2015 compared to net income of $1.5 million and net income available to common shareholders of $1.4 million, or $0.64 per diluted share, for the three-month period ended June 30, 2014. The increase in net income and net income available to a common shareholders was due primarily to the gain on life insurance of $831,000 recognized in the 2015 period. The annualized return on average assets, average equity and average common stockholders' equity were 1.21%, 9.60% and 11.82%, respectively, for the three-month period ended June 30, 2015. The annualized return on average assets, average equity and average common stockholders' equity were 0.83%, 6.88% and 8.62%, respectively, for the three-month period ended June 30, 2014.

Net Interest Income. Net interest income decreased $67,000, or 1.1%, for the three-month period ended June 30, 2015 compared to the same period in 2014. Average interest-earnings assets increased $16.4 million and the tax-equivalent interest rate spread was 3.72% for 2015 as compared to 3.84% for 2014.

Total interest income decreased $7,000, or 0.1%, when comparing the two periods due primarily to a decrease in the average tax-equivalent yield on interest-earning assets from 4.46% for 2014 to 4.38% for 2015, which more than offset the change in interest income due to an increase in the average balance of interest-earning assets of $16.4 million, from $643.4 million for 2014 to $659.8 million for 2015. The average balance of loans and interest-bearing deposits with banks increased $19.0 million and $4.9 million, respectively, which more than offset a decrease in the average balance of total investment securities of $9.0 million, when comparing the two periods.

Total interest expense increased $60,000, or 6.7%, due primarily to an increase in the average cost of interest-bearing liabilities from 0.62% for 2014 to 0.66% for 2015. The average balance of interest-bearing liabilities was $561.8 million for both the 2014 and 2015 periods. The average balance of borrowings increased $2.1 million and the average balance of total interest-bearing deposits decreased $2.2 million when comparing the two periods.

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Average Balance Sheets. The following table presents information regarding average balances of assets and liabilities, the total dollar amounts of interest income and dividends from average interest-earning assets, the total dollar amounts of interest expense on average interest-bearing liabilities, and the resulting annualized average yields and costs for the three-month periods ended June 30, 2015 and 2014. The yields and costs for the periods indicated are derived by dividing income or expense by the average balances of assets or liabilities, respectively, for the periods presented. Nonaccrual loans are included in average balances only. Loan fees are included in interest income on loans and are not material. Tax exempt income on loans and investment securities has been calculated on a tax equivalent basis using a federal marginal tax rate of 34%.

	Three Months Ended June 30,							
	2015				**2014**			
	Average Balance	**Interest and Dividends**	**Yield/ Cost**		**Average Balance**	**Interest and Dividends**	**Yield/ Cost**	
	(Dollars in thousands)							
Assets:								
Interest-bearing deposits with banks	$17,708	$ 12	0.27	%	$12,788	$ 10	0.31	%
Loans	452,324	5,306	4.69		433,291	5,284	4.88	
Investment securities	134,616	1,569	4.66		141,111	1,551	4.40	
Agency mortgage-backed securities	48,039	254	2.11		50,532	270	2.14	
FRB and FHLB stock	7,157	77	4.30		5,675	58	4.09	
Total interest-earning assets	659,844	7,218	4.38		643,397	7,173	4.46	
Non-interest-earning assets	67,549				62,004			
Total assets	$727,393				$705,401			
Liabilities and equity:								
NOW accounts	$115,114	$ 57	0.20	%	$115,828	$ 59	0.20	%
Money market deposit accounts	77,890	45	0.23		74,794	61	0.33	
Savings accounts	73,500	12	0.07		71,354	12	0.07	
Time deposits	203,303	480	0.94		209,998	457	0.87	
Total interest-bearing deposits	469,807	594	0.51		471,974	589	0.50	

Borrowings (1)	92,003	339	1.47	89,873	284	1.26
Total interest-bearing liabilities	561,810	933	0.66	561,847	873	0.62
Non-interest-bearing deposits	63,870			53,794		
Other non-interest-bearing liabilities	10,260			5,049		
Total liabilities	635,940			620,690		
Total equity	91,453			84,711		
Total liabilities and equity	$727,393			$705,401		
Net interest income		$ 6,285			$ 6,300	
Interest rate spread			3.72 %			3.84 %
Net interest margin			3.81 %			3.92 %
Average interest-earning assets to average interest-bearing liabilities			117.45%			114.51%

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

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Rate/Volume Analysis. The following table sets forth the effects of changing rates and volumes on our net interest income for the three-month periods ended June 30, 2015 and 2014. The rate column shows the effects attributable to changes in rate (changes in rate multiplied by prior volume). The volume column shows the effects attributable to changes in volume (changes in volume multiplied by prior rate). The net column represents the sum of the prior columns. Changes attributable to changes in both rate and volume have been allocated proportionally based on the absolute dollar amounts of change in each.

	Three Months Ended June 30, 2015 Compared to Three Months Ended June 30, 2014 Increase (Decrease) Due to		
	Rate	**Volume**	**Net**
		(In thousands)	
Interest income:			
Interest-bearing deposits with banks	$ (1)	$ 3	$ 2
Loans	(171)	193	22
Investment securities	82	(64)	18
Agency mortgage-backed securities	(4)	(12)	(16)
Other interest-earning assets	3	16	19
Total interest-earning assets	(91)	136	45
Interest expense:			
Deposits	7	(2)	5
Borrowings (1)	48	7	55
Total interest-bearing liabilities	55	5	60
Net increase (decrease) in net interest income	$ (146)	$ 131	$ (15)

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

Provision for Loan Losses. The provision for loan losses was $208,000 for the three-month period ended June 30, 2015 compared to $300,000 for the same period in 2014. The decrease in the provision for loans losses for 2015 as compared to the prior period was due primarily to an improvement in asset quality and a decrease in net charge-offs when comparing the two periods.

The Company recognized net charge-offs of $202,000 for the three-month period ended June 30, 2015 compared to net charge-offs of $368,000 for the same period in 2014.

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Noninterest Income. Noninterest income increased $646,000 for the three-month period ended June 30, 2015 as compared to the same period in 2014. The increase was due primarily to the $831,000 gain on life insurance, which more than offset decreases in net gain on trading account securities and net gain on sales of available for sale securities of $165,000 and $122,000, respectively. The Company did not sell any available for sale securities during the 2015 period.

Noninterest Expense. Noninterest expenses increased $147,000 for the three-month period ended June 30, 2015 as compared to the same period in 2014. The increase was due primarily to an increase in compensation and benefits expense of $247,000, which more than offset a decrease in net loss on other real estate owned of $120,000. The increase in compensation and benefits expense is due primarily to normal salary, wages and benefits increases; increased incentive compensation based on Company performance; and increased staffing as a result of the Company's enhanced focus on U.S. Small Business Administration program lending. The decrease in net loss on other real estate owned is due primarily to $181,000 in provisions for losses on other real estate owned during the 2014 period as compared to $33,000 in provisions for losses for the 2015 period.

Income Tax Expense. The Company recognized income tax expense of $318,000 for the three months ended June 30, 2015, for an effective tax rate of 12.6%, compared to income tax expense of $534,000, for an effective tax rate of 26.8%, for the same period in 2014. The decreases in income tax expense and the effective tax rate for the three months ended June 30, 2015 were due primarily to a higher level of nontaxable income as a result of the gain on life insurance and the Company's captive insurance subsidiary, which was formed in September 2014.

FIRST SAVINGS FINANCIAL GROUP, INC.

PART I - ITEM 2

MANAGEMENT'S DISCUSSION AND

ANALYSIS OF FINANCIAL CONDITION AND

RESULTS OF OPERATIONS

Liquidity and Capital Resources

Liquidity Management. Liquidity is the ability to meet current and future financial obligations of a short-term nature. The Bank's primary sources of funds are customer deposits, proceeds from loan repayments, maturing securities and FHLB borrowings. While loan repayments and maturities are a predictable source of funds, deposit flows and mortgage prepayments are greatly influenced by market interest rates, general economic conditions and competition. At June 30, 2015, the Bank had cash and cash equivalents of $21.4 million, trading account securities with a fair value of $8.8 million and securities available-for-sale with a fair value of $180.1 million. If the Bank requires funds beyond its ability to generate them internally, it has additional borrowing capacity with the FHLB, borrowing capacity on a federal funds purchased line of credit facility with another financial institution and additional collateral eligible for repurchase agreements.

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

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

The Company is a separate legal entity from the Bank and must provide for its own liquidity to pay its operating expenses and other financial obligations, to pay any dividends and to repurchase any of its outstanding common stock.

The Company's primary source of income is dividends received from the Bank. The amount of dividends that the Bank may declare and pay to the Company in any calendar year cannot exceed net income for that year to date plus retained net income (as defined) for the preceding two calendar years. During the nine months ended June 30, 2015 the Bank declared and paid dividends to the Company totaling $8.5 million. At June 30, 2015, the Company (unconsolidated basis) had liquid assets of $15.2 million.

Capital Management. The Bank is required to maintain specific amounts of capital pursuant to regulatory requirements. As of June 30, 2015, the Bank was in compliance with all regulatory capital requirements that were effective as of such date, with Tier 1 capital (to average total assets), common equity Tier 1 capital (to risk-weighted assets), Tier 1 capital (to risk-weighted assets) and total capital (to risk-weighted assets) ratios of 8.58%, 11.79%, 11.79% and 13.04%, respectively. The regulatory requirements at that date were 5.0%, 6.5%, 8.0% and 10.0%, respectively, in order to be categorized as "well capitalized" under applicable regulatory guidelines. At June 30, 2015, the Bank was considered "well-capitalized" under applicable regulatory guidelines.

FIRST SAVINGS FINANCIAL GROUP, INC.

PART I - ITEM 2

MANAGEMENT’S DISCUSSION AND

ANALYSIS OF FINANCIAL CONDITION AND

RESULTS OF OPERATIONS

Off-Balance Sheet Arrangements

In the normal course of operations, the Company engages in a variety of financial transactions that, in accordance with GAAP, are not recorded on the Company's financial statements. These transactions involve, to varying degrees, elements of credit, interest rate and liquidity risk. Such transactions are primarily used to manage customers’ requests for funding and take the form of loan commitments and letters of credit. A further presentation of the Company’s off-balance sheet arrangements is presented in the Company’s Annual Report on Form 10-K for the year ended September 30, 2014.

For the nine-months ended June 30, 2015, the Company did not engage in any off-balance sheet transactions reasonably likely to have a material effect on the Company's financial condition, results of operations or cash flows.

FIRST SAVINGS FINANCIAL GROUP, INC.

PART I – ITEM 3

QUANTITATIVE AND QUALITATIVE DISCLOSURES

ABOUT MARKET RISK

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

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

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

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

FIRST SAVINGS FINANCIAL GROUP, INC.

PART I – ITEM 3

QUANTITATIVE AND QUALITATIVE DISCLOSURES

ABOUT MARKET RISK

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.

	At June 30, 2015		At September, 2014	
Immediate Change	One Year Horizon		One Year Horizon	
in the Level	Dollar	Percent	Dollar	Percent
of Interest Rates	Change	Change	Change	Change
	(Dollars in thousands)			
300bp	$1,619	3.37 %	$ (1,754)	(7.04)%
200bp	1,104	2.30	(1,132)	(4.54)
100bp	471	0.98	(552)	(2.22)
Static	-	-	-	-
(100)bp	(1,562)	(3.25)	(239)	(0.96)

At June 30, 2015, 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 $471,000 or 0.98% over a one year horizon compared to a flat interest rate scenario. Furthermore, rate increases of 2.00% and 3.00% would cause net interest income to increase by 2.30% and 3.37%, respectively.

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.

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FIRST SAVINGS FINANCIAL GROUP, INC.

PART I – ITEM 3

QUANTITATIVE AND QUALITATIVE DISCLOSURES

ABOUT MARKET RISK

Results of our simulation modeling, which assumes an immediate and sustained parallel shift in market interest rates, project that Company's EVE could change as follows, relative to our base case scenario.

	At June 30, 2015				
Immediate Change	**Economic Value of Equity**			**Economic Value of Equity as a**	
in the Level	**Dollar**	**Dollar**	**Percent**	**Percent of Present Value of Assets**	
of Interest Rates	**Amount**	**Change**	**Change**	**EVE Ratio**	**Change**
	(Dollars in thousands)				
300bp	$113,358	$(4,265)	(3.63)%	17.27 %	110 bp
200bp	119,957	2,334	1.98	17.55	138 bp
100bp	123,140	5,517	4.69	17.37	120 bp
Static	117,623	-	-	16.17	- bp
(100)bp	106,368	(11,255)	(9.57)	14.40	(177)bp

	At September 30, 2014				
Immediate Change	**Economic Value of Equity**			**Economic Value of Equity as a**	
in the Level	**Dollar**	**Dollar**	**Percent**	**Percent of Present Value of Assets**	
of Interest Rates	**Amount**	**Change**	**Change**	**EVE Ratio**	**Change**
	(Dollars in thousands)				
300bp	$106,910	$(14,317)	(11.81)%	16.91 %	(28)bp
200bp	114,585	(6,642)	(5.48)	17.44	25 bp
100bp	122,696	1,469	1.21	17.92	73 bp
Static	121,227	-	-	17.19	- bp
(100)bp	111,206	(10,021)	(8.27)	15.52	(167)bp

The previous table indicates that at June 30, 2015, the Company would expect an increase in its EVE in the event of a sudden and sustained 100 to 200 basis point increase but a decrease in EVE in the event of a sudden and sustained 300 basis point increase and/or a 100 basis point decrease in prevailing interest rates. The expected decrease in the Company's EVE given a larger increase in rates is primarily attributable to the relatively high percentage of fixed-rate loans in the Company's loan portfolio, which at June 30, 2015 comprised approximately 44.5% of the loan portfolio.

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's 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 certificates of deposit could deviate significantly from those assumed in calculating the table.

FIRST SAVINGS FINANCIAL GROUP, INC.

PART I - ITEM 4

CONTROLS AND PROCEDURES

Controls and Procedures

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

During the quarter ended June 30, 2015, there were no changes in the Company's internal control over financial reporting that materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

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FIRST SAVINGS FINANCIAL GROUP, INC.

PART II

OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended September 30, 2014 which could materially affect our business, financial condition or future results. There have been no material changes to the risk factors described in our Annual Report on Form 10-K, however, these are not the only risks that we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or results of operations.

FIRST SAVINGS FINANCIAL GROUP, INC.

PART II

OTHER INFORMATION

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

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

Period	**(a) Total number of shares (or units) purchased**	**(b) Average price paid per share (or unit)**	**(c) Total number of shares (or units) purchased as part of publicly announced plans or programs (1)**	**(d) Maximum number (or appropriate dollar value) of shares (or units) that may yet be purchased under the plans or programs**
April 1, 2015 through April 30, 2015	-	$ -	-	83,073
May 1, 2015 through May 31, 2015	4,483	$ 29.50	4,483	78,590
June 1, 2015 through June 30, 2015	-	$ -	-	78.590
Total	-	$ -	-	78,590

(1) On November 16, 2012, the Company announced that its Board of Directors authorized a stock repurchase program to acquire up to 230,217 shares, or 10.0% of the Company's outstanding common stock. Under the program, 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.

Item 3. Defaults upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

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FIRST SAVINGS FINANCIAL GROUP, INC.

PART II

OTHER INFORMATION

Item 5. Other Information

None.

Item 6. Exhibits

31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
32.1	Section 1350 Certification of Chief Executive Officer
32.2	Section 1350 Certification of Chief Financial Officer
101	The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2015, formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statement of Changes in Stockholders' Equity, (v) the Consolidated Statements of Cash Flows and (vi) related notes

SIGNATURES

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

FIRST SAVINGS FINANCIAL GROUP, INC.
(Registrant)

Dated August 14, 2015 **BY**: /s/ Larry W. Myers
Larry W. Myers
President and Chief Executive Officer

Dated August 14, 2015 **BY:** /s/ Anthony A. Schoen
Anthony A. Schoen
Chief Financial Officer

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(1,480)

Other taxes

(780)

(386)

(460)

Legal, administrative and arbitration proceedings

(269)

(716)

130

Institutional relations and cultural projects

(821)

(777)

(884)

Unscheduled stoppages and pre-operating expenses

(923)

(856)

(901)

Expenditures on health, safety and environment

(225)

(289)

(474)

Inventory write-down to net realizable value (market value)

(580)

(742)

(643)

Impairment

(544)

(137)

(369)

Gains / (losses) on disposal/write-offs of assets

1,764

(2)

7

(125,768)

(127,727)

(119,497)

Cost of sales

(108,254)

(107,534)

(99,595)

Selling expenses

(4,904)

(4,927)

(5,346)

General and Administrative expenses

(4,982)

(5,034)

(5,161)

Exploration costs

(2,959)

(3,994)

(2,630)

Research and development expenses

(1,132)

(1,143)

(1,454)

Other taxes

(780)

(386)

(460)

Other operating expenses, net

(2,237)

(4,185)

(3,984)

Profit sharing

(520)

(524)

(867)

(125,768)

(127,727)

(119,497)

Petróleo Brasileiro S.A. – Petrobras

Notes to the financial statements

(Expressed in millions of US Dollars, unless otherwise indicated)

28. Net finance income (expense)

	2013	2012	2011
Foreign exchange and inflation indexation charges on net debt (*)	(1,603)	(3,327)	(2,918)
Debt interest and charges	(5,491)	(5,152)	(4,866)
Income from investments and marketable securities	1,278	1,716	2,948
Financial result on net debt	(5,816)	(6,763)	(4,836)
Capitalized borrowing costs	3,921	3,807	4,403
Gains (losses) on derivatives	(181)	(52)	(215)
Interest income from marketable securities	(95)	919	286
Other finance expense and income, net	(320)	404	(39)
Other exchange and indexation charges, net	(300)	(241)	477
Finance income (expenses), net	(2,791)	(1,926)	76
Income	1,815	3,659	3,943
Expenses	(2,673)	(2,016)	(1,424)
Foreign exchange and inflation indexation charges, net	(1,933)	(3,569)	(2,443)
	(2,791)	(1,926)	76

(*) Includes indexation charges on debt in local currency indexed to the U.S. dollar.

29. Supplemental information on statement of cash flows

	2013	2012	2011
Additional information on cash flows:			
Amounts paid during the period			
Income taxes paid	1,244	1,093	2,049
Withholding income tax paid for third-parties	1,733	2,045	2,377
	2,977	3,138	4,426

Investing and financing transactions not involving cash			
Purchase of property, plant and equipment on credit	209	187	8
Finance leases	−	−	19
Amounts related to the recognition (reversal) of a provision for decommissioning costs	(629)	5,208	1,407

Petróleo Brasileiro S.A. – Petrobras

Notes to the financial statements

(Expressed in millions of US Dollars, unless otherwise indicated)

30. Segment Information

Consolidated assets by Business Area - 12.31.2013

	Exploration and Production	**Refining, Transportation & Marketing**	**Gas & Power**	**Biofuels**	**Distribution**	**International**	**Corporate**	**El**
Current assets	5,902	19,064	3,864	77	2,457	5,089	21,643	(5
Non-current assets	146,805	73,043	23,839	1,119	5,224	13,034	6,897	(1
Long-term receivables	6,251	4,387	1,853	2	2,253	1,987	3,168	(1
Investments	94	2,318	749	895	6	2,511	93	−
Property, plant and equipment	126,716	66,200	20,882	222	2,672	7,971	3,312	(7
Operating assets	90,888	32,313	16,698	205	2,009	3,792	2,312	(7
Under construction	35,828	33,887	4,184	17	663	4,179	1,000	−
Intangible assets	13,744	138	355	−	293	565	324	−
Total Assets	152,707	92,107	27,703	1,196	7,681	18,123	28,540	(6

Consolidated assets by Business Area - 12.31.2012

Current assets	6,565	20,362	3,610	117	3,176	3,517	27,382	(6
Non-current assets	144,873	70,973	24,593	1,131	4,954	15,087	8,482	(4
Long-term receivables	4,760	4,459	1,464	16	1,852	2,102	4,694	(4
Investments	80	2,897	1,160	860	15	937	157	−
Property, plant and equipment	102,779	63,463	21,585	255	2,733	10,882	3,204	−
Operating assets	64,455	29,327	18,106	237	2,061	6,814	2,237	−

Under construction	38,324	34,136	3,479	18	672	4,068	967	–
Intangible assets	37,254	154	384	–	354	1,166	427	–
Total Assets	151,438	91,335	28,203	1,248	8,130	18,604	35,864	(7

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Petróleo Brasileiro S.A. – Petrobras

Notes to the financial statements

(Expressed in millions of US Dollars, unless otherwise indicated)

Consolidated Statement of Income by Business Area - 2013

	2013						
	Exploration and Production	**Refining, Transportation & Marketing**	**Gas & Power**	**Biofuels**	**Distribution**	**International**	**Corpo**
Sales revenues	68,210	111,051	14,017	388	41,365	16,302	–
Intersegments	67,096	38,103	1,191	324	995	2,162	–
Third parties	1,114	72,948	12,826	64	40,370	14,140	–
Cost of sales	(34,279)	(119,617)	(12,149)	(433)	(37,580)	(13,886)	–
Gross profit (loss)	33,931	(8,566)	1,868	(45)	3,785	2,416	–
Income (expenses)	(4,133)	(3,791)	(1,167)	(102)	(2,424)	(541)	(4,932
Selling, administrative and general expenses	(443)	(2,781)	(1,087)	(55)	(2,417)	(860)	(2,406
Exploration costs	(2,784)	–	–	–	–	(175)	–
Research and development expenses	(523)	(242)	(57)	(16)	(2)	(2)	(290)
Other taxes	(238)	(162)	(81)	(1)	(19)	(141)	(138)
Other operating expenses, net	(145)	(606)	58	(30)	14	637	(2,098
Income / (loss) before financial results and income taxes	29,798	(12,357)	701	(147)	1,361	1,875	(4,932
Net finance income (expense)	–	–	–	–	–	–	(2,791
Share of profit of equity-accounted investments	2	73	243	(20)	2	174	33
Profit sharing	(181)	(133)	(23)	(1)	(40)	(14)	(128)
Income / (loss) before income taxes	29,619	(12,417)	921	(168)	1,323	2,035	(7,818
Income taxes	(10,070)	4,247	(230)	51	(447)	(246)	4,087

Net income (Loss)	19,549	(8,170)	691	(117)	876	1,789	(3,731)
Net income attributable to:							
Shareholders of Petrobras	19,523	(8,162)	631	(117)	876	1,729	(3,331)
Non-controlling interests	26	(8)	60	–	–	60	(400)
	19,549	(8,170)	691	(117)	876	1,789	(3,731)

Petróleo Brasileiro S.A. – Petrobras

Notes to the financial statements

(Expressed in millions of US Dollars, unless otherwise indicated)

Consolidated Statement of Income by Business Area - 2012

	2012						
	Exploration and Production	**Refining, Transportation & Marketing**	**Gas & Power**	**Biofuels**	**Distribution**	**International**	**Corpora**
Sales revenues	74,714	116,710	11,803	455	40,712	17,929	−
Intersegments	73,871	37,950	1,288	365	878	3,868	−
Third parties	843	78,760	10,515	90	39,834	14,061	−
Cost of sales	(33,622)	(130,088)	(9,621)	(481)	(36,997)	(14,082)	−
Gross profit (loss)	41,092	(13,378)	2,182	(26)	3,715	3,847	−
Income (expenses)	(5,448)	(4,075)	(1,080)	(102)	(2,290)	(1,886)	(4,937)
Selling, administrative and general expenses	(494)	(3,052)	(967)	(64)	(2,235)	(922)	(2,376)
Exploration costs	(3,613)	−	−	−	−	(381)	−
Research and development expenses	(540)	(228)	(36)	(34)	(2)	−	(303)
Other taxes	(53)	(66)	(57)	(1)	(12)	(111)	(86)
Other operating expenses, net	(748)	(729)	(20)	(3)	(41)	(472)	(2,172)
Income / (loss) before financial results and income taxes	35,644	(17,453)	1,102	(128)	1,425	1,961	(4,937)
Net finance income (expense)	−	−	−	−	−	−	(1,926)
Share of profit of equity-accounted investments	(1)	(104)	193	(27)	1	(14)	(5)
Profit sharing	(178)	(142)	(18)	(1)	(40)	(14)	(131)
Income / (loss) before income taxes	35,465	(17,699)	1,277	(156)	1,386	1,933	(6,999)
Income taxes	(12,057)	5,981	(367)	44	(472)	(1,147)	4,213

Net income (Loss)	23,408	(11,718)	910	(112)	914	786	(2,786)
Net income attributable to:							
Shareholders of Petrobras	23,406	(11,718)	861	(112)	914	719	(2,565)
Non-controlling interests	2	–	49	–	–	67	(221)
	23,408	(11,718)	910	(112)	914	786	(2,786)

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(Expressed in millions of US Dollars, unless otherwise indicated)

Consolidated Statement of Income by Business Area - 2011

	2011						
	Exploration and Production	**Refining, Transportation & Marketing**	**Gas & Power**	**Biofuels**	**Distribution**	**International**	**Corpora**
Sales revenues	74,117	118,630	9,738	320	44,001	16,956	−
Intersegments	73,601	38,146	1,304	288	731	3,777	−
Third parties	516	80,484	8,434	32	43,270	13,179	−
Cost of sales	(32,883)	(122,897)	(5,698)	(351)	(40,347)	(12,933)	−
Gross profit (loss)	41,234	(4,267)	4,040	(31)	3,654	4,023	−
Income (expenses)	(4,198)	(4,194)	(1,519)	(134)	(2,459)	(1,901)	(4,809)
Selling, administrative and general expenses	(489)	(3,306)	(1,038)	(66)	(2,403)	(928)	(2,456)
Exploration costs	(2,182)	−	−	−	−	(448)	−
Research and development expenses	(743)	(280)	(69)	(30)	(5)	−	(327)
Other taxes	(48)	(53)	(97)	(1)	(24)	(113)	(124)
Other operating expenses, net	(736)	(555)	(315)	(37)	(27)	(412)	(1,902)
Income / (loss) before financial results and income taxes	37,036	(8,461)	2,521	(165)	1,195	2,122	(4,809)
Net finance income (expense)	−	−	−	−	−	−	76
Share of profit of equity-accounted investments	44	(98)	238	15	5	24	2
Profit sharing	(271)	(194)	(34)	(1)	(66)	(29)	(272)
Income / (loss) before income taxes	36,809	(8,753)	2,725	(151)	1,134	2,117	(5,003)
Income taxes	(12,495)	3,025	(845)	56	(360)	(926)	4,145
Net income (Loss)	24,314	(5,728)	1,880	(95)	774	1,191	(858)

Net income attributable to:							
Shareholders of Petrobras	24,326	(5,718)	1,862	(95)	774	1,179	(721)
Non-controlling interests	(12)	(10)	18	–	–	12	(137)
	24,314	(5,728)	1,880	(95)	774	1,191	(858)

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Statement of Income - breakdown of International Business Area

	2013						
	Exploration & Production	**Refining, Transportation & Marketing**	**Gas & Power**	**Distribution**	**Corporate**	**Eliminations**	**Total**
Sales revenues	4,134	8,633	556	5,223	7	(2,251)	16,302
Intersegments	2,382	1,982	37	7	5	(2,251)	2,162
Third parties	1,752	6,651	519	5,216	2	−	14,140
Income before financial results, profit sharing and income taxes	2,030	(22)	66	105	(303)	(1)	1,875
Net income attributable to shareholders of Petrobras	1,644	(12)	68	92	(62)	(1)	1,729

	2012						
	Exploration & Production	**Refining, Transportation & Marketing**	**Gas & Power**	**Distribution**	**Corporate**	**Eliminations**	**Total**
Sales revenues	5,369	8,989	601	5,184	−	(2,214)	17,929
Intersegments	3,834	2,194	38	16	−	(2,214)	3,868
Third parties	1,535	6,795	563	5,168	−	−	14,061
Income before financial results, profit sharing and income taxes	2,438	(407)	132	73	(291)	16	1,961

Net income attributable to shareholders of Petrobras	1,317	(400)	121	70	(403)	14	719

	2011						
	Exploration & Production	**Refining, Transportation & Marketing**	**Gas & Power**	**Distribution**	**Corporate**	**Eliminations**	**Total**
Sales revenues	5,148	8,510	543	4,972	−	(2,217)	16,956
Intersegments	3,808	2,142	23	27	−	(2,223)	3,777
Third parties	1,340	6,368	520	4,945	−	6	13,179
Income before financial results, profit sharing and income taxes	2,379	(136)	115	80	(304)	(12)	2,122
Net income attributable to shareholders of Petrobras	1,331	(128)	158	67	(237)	(12)	1,179

	Exploration & Production	**Refining, Transportation & Marketing**	**Gas & Power**	**Distribution**	**Corporate**	**Eliminations**	**Total**
Total assets - breakdown of International Business Area							
At 12.31.2013	13,656	2,652	602	1,085	1,970	(1,842)	18,123
At 12.31.2012	15,080	2,404	759	1,085	1,449	(2,173)	18,604

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31. Provisions for legal proceedings, contingent liabilities and contingent assets

Legal proceedings provided for, contingent liabilities and judicial deposits are set out following.

31.1. Provisions for legal proceedings

The Company has recognized provisions for the best estimate of the costs of proceedings for which it is probable that an outflow of resources embodying economic benefits will be required and that can be reasonably estimated. These proceedings are mainly comprised of labor claims, losses and damages resulting from the cancellation of an assignment of excise tax (IPI) credits to a third party and fishermen seeking indemnification from the Company for a January 2000 oil spill in the State of Rio de Janeiro.

The Company has provisions for legal proceedings, in the amounts set out below:

Non-current liabilities	**2013**	**2012**
Labor claims	569	336
Tax claims	94	341
Civil claims	545	514
Environmental Claims	26	63
Other claims	12	11
	1,246	1,265

	2013	**2012**
Opening Balance	1,265	1,088
New provisions, net (*)	415	647
Payments made	(249)	(440)
Accruals and charges	77	99
Others	(57)	(26)
Cumulative translation adjustment	(205)	(103)
Closing Balance	1,246	1,265

(*) Includes reversal of tax claims provisions due to the adherence to REFIS, as set out in note 31.5.

31.2. Judicial Deposits

Judicial deposits made in connection with legal proceedings and guarantees are set out in the table below according to the nature of the corresponding lawsuits:

Non-current assets	**2013**	**2012**
Labor	882	869
Tax	1,002	1,117
Civil	529	638
Environmental	83	69
Others	8	3
	2,504	2,696

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31.3. Contingent Liabilities

Contingent liabilities for which the likelihood of loss is considered to be possible are not recognized in the financial statements but are disclosed unless the expected outflow of resources embodying economic benefits is considered remote.

The estimated contingent liabilities for legal proceedings for which the likelihood of loss is considered to be possible are set out in the table below.

Nature	**Estimate**
Tax	30,395
Civil - General	2,496
Labor	2,402
Civil - Environmental	1,248
Others	2
	36,543

A brief description of the nature of the main contingent liabilities (tax, civil and environmental) is set out in the following tables. Labor claims include a large number of individual claims and, therefore, are not presented.

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a) Tax Proceedings

Description of tax proceedings	**Estimate**
Plaintiff: Secretariat of the Federal Revenue of Brazil	
1) Deduction of expenses from the renegotiation of the Petros Plan from the calculation basis of income tax (IRPJ) and social contribution (CSLL) and penalty charged. Current status: Awaiting the hearing of an appeal at the administrative level.	1,962
2) Profits of subsidiaries and associates domiciled abroad in the years of 2005, 2006, 2007, 2008 and 2009 not included in Petrobras' calculation basis of IRPJ and CSLL. Current status: Awaiting the hearing of an appeal at the administrative level.	2,020
3) Deduction from the calculation basis of IRPJ and CSLL of expenses incurred in 2007 and 2008 related to employee benefits and Petros. Current status: This claim is being disputed at the administrative level, involving three administrative proceedings.	786
4) Non-payment of withhold income tax (IRRF) and Contribution of Intervention in the Economic Domain (CIDE) over remittances for payment of platforms' affreightment. Current status: This claim involves lawsuits in different administrative and judicial stages, in which the Company is taking legal actions to ensure its rights.	5,771
5) Non-payment of CIDE on imports of naphtha. Current status: This claim is being discussed at the administrative level.	1,553
6) Non-payment of CIDE in the period from March 2002 until October 2003 in transactions with distributors and service stations that were holders of judicial injunctions that determined the sale of fuel without the gross-up of such tax. Current status: This claim is in judicial stage, in which the Company is taking legal actions to ensure its rights.	647
7) Non-payment of tax on financial operations (IOF) over intercompany loans with, PifCo, Brasoil and BOC in 2007, 2008 and 2009. Current status: Awaiting the hearing of an appeal at the administrative level.	2,437

8) Non-payment of withhold income tax (IRRF) over remittances abroad for payment of crude oil imports. Current status: This claim involves lawsuits in different administrative and judicial stages, in which the Company is taking legal actions to ensure its rights.	1,722
9) Tax credits recovery denied due to failure to comply with an accessory obligation. Current status: Awaiting the hearing of an appeal at the administrative level.	1,813
Plaintiff: State Finance Department of AM, BA, DF, ES, PA, PE and RJ	
10)Non-payment of ICMS on crude oil and natural gas sales due to differences in measuring beginning and ending inventory. Current status: This claim involves lawsuits in different administrative levels, in which the Company is taking legal actions to ensure its rights.	1,646
Plaintiff: State Finance Department of Rio de Janeiro	
11) ICMS on exit operations of liquid natural gas (LNG) without issuance of tax document by the main establishment. Current status: This claim involves lawsuits in different administrative and judicial stages, in which the Company is taking legal actions to ensure its rights.	1,366
12) Dispute over ICMS tax levy in operations of sale of jet fuel, as Decree 36,454/2004 was declared as unconstitutional. Current status: This claim involves lawsuits in different administrative and judicial stages, in which the Company is taking legal actions to ensure its rights.	772
Plaintiff: State Finance Department of São Paulo	
13) Dispute over ICMS tax levy on the importing of a drilling rig – temporary admission in São Paulo and clearance in Rio de Janeiro and a fine for breach of accessory obligations. Current status: This claim involves lawsuits in different administrative and judicial stages, in which the Company is taking legal actions to ensure its rights.	1,921
Plaintiff: Municipal governments of Anchieta, Aracruz, Guarapari, Itapemirim, Marataízes, Linhares, Vila Velha, Vitória and Maragogipe.	
14) Failure to withhold and collect tax on services provided offshore (ISSQN) in some municipalities located in the State of Espírito Santo, despite Petrobras having made the withholding and payment of these taxes to the municipalities where the respective service providers are established, in accordance with Complementary Law No. 116/03. Current status: This claim involves lawsuits in different administrative and judicial stages, in which the Company is taking legal actions to ensure its rights.	923

Plaintiff: State Finance Departments of Rio de Janeiro and Sergipe	
15) Use of ICMS tax credits on the purchase of drilling rig bits and chemical products used in formulating drilling fluid. Current status: This claim involves lawsuits in different administrative and judicial stages, in which the Company is taking legal actions to ensure its rights.	409
16) Other tax proceedings	4,647
Total for tax proceedings	30,395

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b) Civil Proceedings – General

Description of civil proceedings	**Estimate**
Plaintiff: Agência Nacional de Petróleo, Gás Natural e Biocombustíveis - ANP	
1) Dispute on differences in the payment of special participation charge in fields of the Campos Basin. In addition, the plaintiff is claiming fines for alleged non-compliance with minimum exploratory programs. Administrative proceedings are in course in connection with alleged irregularities in the platforms' measurement system.	
Current status: This claim involves proceedings in different administrative and/or judicial stages, in which the Company is taking legal actions to ensure its rights.	1,252
2) Other civil proceedings	1,244
Total for civil proceedings	2,496

c) Environmental Proceedings – General

Description of environmental proceedings	**Estimate**
Plaintiff: Ministério Público Federal, Ministério Público Estadual do Paraná, AMAR - Associação de Defesa do Meio Ambiente de Araucária e IAP - Instuituto Ambiental do Paraná	
1) Legal proceeding related to specific performance obligations, indemnification and compensation for damages related to an environmental accident that occurred in the State of Paraná on July 16, 2000.	
Current status: The court partially ruled for the plaintiff, however both parties (the plaintiff and the Company) filed an appeal.	764
2) Other environmental proceedings	483

Total for environmental proceedings	1,247

31.4. Contingent assets

31.4.1. Legal proceeding in the United States - P-19 and P-31

In 2002, Braspetro Oil Service Company (Brasoil) and Petrobras obtained a favorable decision in related lawsuits filed before U.S. courts by the insurance companies United States Fidelity & Guaranty Company and American Home Assurance Company in which they were seeking to obtain (since 1997 and regarding Brasoil) a judicial order exempting them from their payment obligations under the performance bond related to platforms P- 19 and P-31, and seeking reimbursement from Petrobras for any amounts for which they could ultimately be held liable in the context of the execution proceedings of such performance bond.

On July 21, 2006, the U.S. courts issued an executive decision, conditioning the payment of the amounts owed to Brasoil on a definitive dismissal of the legal proceedings involving identical claims that are currently in course before Brazilian courts.

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Brasoil, Petrobras and the insurance companies already pleaded the dismissal of the Brazilian legal proceedings but their definitive dismissal is awaiting the hearing of an appeal filed by the platforms' shipbuilding company before the Superior Court for Non-Constitutional Matters (STJ).

The Company is intensifying actions taken, in an attempt to settle this lawsuit. The amount of damages claimed is approximately US$ 245.

31.4.2. Recovery of PIS and COFINS

Petrobras and its subsidiaries filed a civil lawsuit against the Federal Government claiming to recover, through offsetting, amounts paid as taxes on finance income and foreign exchange variation gains (PIS) in the period between February 1999 and November 2002 and COFINS between February 1999 and January 2004 claiming that paragraph 1 of article 3 of Law 9,718/98 is unconstitutional.

On November 9, 2005, the Federal Supreme Court declared such paragraph as unconstitutional.

On November 18, 2010, the Superior Court of Justice upheld the claim filed by Petrobras in 2006 to recover the COFINS for the period from January 2003 to January 2004. Petrobras then recognized the amount of US$ 290 as recoverable taxes in its non-current assets.

At December 31, 2013, the Company had US$ 975 related to this lawsuit that is not yet recognized in the financial statements due to the lack of a final favorable decision.

31.5. Tax settlement program (REFIS)

In December 2013, the Company decided to adhere to the federal tax amnesty and refinancing program (Programa de Recuperação Fiscal – REFIS), introduced by Federal Laws No. 11,941/2009 and No. 12,249/2010, the deadlines for which were extended pursuant to Federal Law No. 12,865/2013.

REFIS includes tax debts and tax claims related to CIDE (taxation on fuel), II (import tax), IPI (tax on industrial production), IOF (tax on financial operations), IRRF (withholding income tax), as well as COFINS (tax on revenues). By deciding to adhere the program, the Company disbursed US$ 570 related to tax expenses, along with the use of judicial deposits of US$ 17.

The adherence to REFIS resulted in savings of US$ 432 from penalties and interest reductions pursuant to regulations. Amounts recognized in profit or loss, including reversals of provisions related to tax claims are set out below:

	2013
Taxes	(313)
Finance income (expenses), net	(306)
	(619)
Other operating income (expenses), net (*)	358
Income taxes	76
	(185)

(*) Reversal of provision for tax claims

The Company has complied with all legal requirements necessary to adhere to the REFIS and is now awaiting approval from the Brazilian Internal Revenue Service (*Receita Federal do Brasil*) and the Office of the Attorney-General of the National Treasury (Procuradoria Geral da Fazenda Nacional - PGFN) regarding payments made in connection with the Company's adherence to the REFIS in order to settle such tax proceedings.

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32. Natural Gas Purchase Commitments

Petrobras has entered into an agreement with Yacimientos Petrolíferos Fiscales Bolivianos (YPFB) to purchase 201.9 billion m³ of natural gas during the term of the agreement and to purchase a minimum annual volume commitment at a price calculated based on a formula comprising the price of fuel oil. The agreement is valid until 2019, renewable until the total volume commitment has been consumed.

At December 31, 2013, the minimum purchase commitment from 2014 to 2020 is approximately 52.7 billion m³ of natural gas, equivalent to 24.06 million m³ per day, which corresponds to an estimated amount of US$ 15.17 billion.

33. Collateral in connection with concession agreements for petroleum exploration

The Company has granted collateral to the Agência Nacional de Petróleo, Gás Natural e Biocombustíveis (ANP) in connection with the performance of the Minimum Exploration Programs established in the concession agreements for petroleum exploration areas in the total amount of US$ 3,408, of which US$ 3,088 are still in force, net of commitments that have been undertaken. The collateral comprises crude oil from previously identified producing fields, pledged as security, amounting to US$ 1,943 and bank guarantees in the amount of US$ 1,145.

34. Risk management and derivative instruments

The Company is exposed to a variety of risks arising from its operations: market risk (including price risk related to crude oil and oil products), foreign exchange risk, interest rate risk, credit risk and liquidity risk.

34.1. Risk management

Petrobras' officers are responsible for performing risk management based on a corporate policy. The objective of the overall risk management policy of the company, which considers all positions held and their respective risks in the analysis and decisions made, is to achieve an appropriate balance between growth, increased return on investments and risk exposure level, which can arise from its normal activities or from the context within which the Company operates, so that, through effective allocation of its physical, financial and human resources it may achieve its strategic goals.

34.2. Market risk

34.2.1. Risk management of price risk (related to crude oil and oil products)

Petrobras does not use derivative instruments to hedge exposures to commodity price cycles related to products purchased and sold to fulfill operational needs.

Derivatives are used as hedging instruments to manage the price risk of certain transactions carried out abroad, which are usually short-term transactions similar to commercial transactions.

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a) Notional amount, fair value and guarantees of crude oil and oil products derivatives

	Notional value (in thousands of bbl)*		**Fair value****		**Maturity**
Statement of Financial Position	**2013**	**2012**	**2013**	**2012**	
Futures contracts	10,224	(3,380)	(20)	(18)	2014
Purchase commitments	52,267	16,500			
Sale commitments	(42,043)	(19,880)			
Options contracts	−	(2,050)	−	(1.5)	2014
Call	−	(1,080)	−	(1)	
Long position	2,200	3,204			
Short position	(2,200)	(4,284)			
Put	−	(970)	−	(0.5)	
Long position	1,869	2,029			
Short position	(1,869)	(2,999)			
Total recognized in other current assets and liabilities			(20)	(19.5)	

* Negative notional values (in bbl) represent short positions.
** Negative fair values were recorded in liabilities and positive fair values in assets.

Finance income	**2013**	**2012**	**2011**
Gain / (Loss) recognized in profit or loss for the period	(105)	(103)	(199)

Guarantees given as collateral	**2013**	**2012**
Generally consist of deposits	143	103

b) Sensitivity analysis of crude oil and oil products derivatives

The probable scenario is the fair value at December 31, 2013. The stressed scenarios consider price changes of 25% and 50% on the risk variable, respectively, comparatively to December 31, 2013.

Crude Oil and Oil Products	**Risk**	**Probable Scenario at 2013**	**Stressed Scenario (Δ of 25%)**	**Stressed Scenario (Δ of 50%)**
Crude oil	Derivative (WTI prices decrease)	(23)	(187)	(347)
	Inventories (WTI prices increase)	16	177	337
		(7)	(10)	(10)
Diesel	Derivative (Diesel prices decrease)	7	(33)	(72)
	Inventories (Diesel prices increase)	(8)	31	70
		(1)	(2)	(2)
Gasoline	Derivative (Gasoline prices increase)	(1)	(10)	(18)
	Inventories (Gasoline prices decrease)	3	11	19
		2	1	1
Fuel Oil	Derivative (Fuel Oil prices increase)	(1)	(50)	(97)
	Inventories (Fuel Oil prices decrease)	3	51	99
		2	1	2
Propane	Derivative (Propane prices increase)	(2)	(28)	(53)
	Inventories (Propane prices decrease)	1	26	52
		(1)	(2)	(1)

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c) Embedded derivatives – sale of ethanol

On March 8, 2013 the Company entered into an agreement to amend the ethanol sale contract, modifying prices and quantities. The selling price of each future ethanol shipment will be based on the price of ethanol in the Brazilian market (ESALQ) plus a spread. The amended agreement therefore no longer has a derivative instrument measured as an embedded derivative.

The notional value, fair value and the sensitivity analysis of the swap are presented below:

		Fair Value		**Sensitivity analysis at 2013**			
Forward Contract	**Notional value (in thousands of m³)**	**2013**	**2012**	**Risk**	**Probable Scenario**	**Stressed Scenario (Δ 25%)**	**Stressed Scenario (Δ 50%)**
Long position (maturity in 2015)		–	36	Decrease in spread (Naphtha x Ethanol)	–	–	–

Finance Income	**2013**	**2012**	**2011**
Gain/ (loss) recognized in profit or loss for the period	(37)	10	(31)

34.2.2. Foreign exchange risk management

Petrobras seeks to identify and manage foreign exchange risk in an integrated manner, considering an integrated analysis of natural hedges, to benefit from the correlation between income and expenses. The Company chooses the currency in which to hold cash, such as the Brazilian Real, U.S. dollar or other currency for short-term risk management.

The risk management strategy of the Company may involve the use of derivative instruments to hedge certain liabilities, minimizing foreign exchange exposure.

a) Hedge Accounting

i) Cash Flow Hedge involving the Company's future exports

Effective mid-May 2013, the Company formally documented and designated hedging relationships to account for the effects of the existing natural hedge between a portion of its obligations denominated in U.S. dollars and a portion of its future export revenues in U.S. dollars, relative to foreign currency rates risk. The foreign currency rates risk is related to the spot rates and the hedged future exports are those considered highly probable.

Individual hedging relationships were designated, in a one-to-one proportion, meaning that a portion of the total monthly exports will be the hedged transaction of an individual hedging relationship, for which a portion of the company's long-term debt in U.S. dollars is the hedging instrument. The hedging instruments (long-term debt) have different maturities, with an average of approximately 7.1 years.

The principal amounts and the carrying amount of the hedging instruments as of December 31, 2013, along with the foreign currency losses recognized in other comprehensive income (shareholders' equity) are set out below:

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Hedging Instrument	Hedged Transactions	Nature of the Risk	Maturity Date	Principal Amount (US$)	Carrying amount of the Hedging Instruments on 2013 (R$)
Non-Derivative Financial Instruments	Portion of Highly Probable Future Monthly Export Revenues	Foreign Currency – Real vs U.S. Dollar Spot Rate	January 2014 to November 2020	40,742	95,443

Changes in the Principal Amount	US$
Amounts designated in May 2013	43,859
New hedging instruments designated	3,062
Exports affecting profit or loss	(2,904)
Principal repayments / amortization	(3,274)
Amounts designated as of December 31, 2013	40,742

Finance income and shareholders' equity	2013	2012
Gain /(loss) recognized in profit or loss for the period	(303)	–
Gain/ (loss) recognized in other comprehensive income - shareholders' equity	(5,924)	–

A schedule of the expected reclassification to profit or loss of the balance of losses recognized in other comprehensive income in the shareholders' equity as of December 31, 2013 is set out below:

Period	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**Total**
Expected reclassification	(820)	(852)	(1,031)	(1,101)	(936)	(834)	(350)	(5,924)

ii) Cash flow hedges involving swap contracts – Yen x Dollar

The Company has a cross currency swap to fix in U.S. dollars the payments related to bonds denominated in Japanese yen. The Company does not intend to settle these contracts before the maturity. The relationship between the derivative and the loan qualify as cash flow hedge and hedge accounting is applied.

b) Notional value, fair value and guarantees of derivative financial instruments

	Notional value (in millions)		**Fair Value**	
Statement of financial position	**2013**	**2012**	**2013**	**2012**
Cross Currency Swap (Maturity in 2016)			11	76
Long position (JPY) - 2.15% p.a.	JPY 35,000	JPY 35,000	353	434
Short position (USD) - 5.69% p.a.	USD 298	USD 298	(342)	(358)
U.S. dollar forward			(1)	0.5
U.S. dollar forward (short position)	USD 17	USD 1,077	(1)	0.5
Total recognized in other current assets and liabilities			10	76.5

Finance income and shareholders' equity	**2013**	**2012**	**2011**
Gain /(loss) recognized in profit or loss for the period	(39)	41	15
Gain/ (loss) recognized in other comprehensive income - shareholders' equity	10	7	4

Margin is not required for the operations the Company has entered into, related to foreign currency derivatives.

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c) Sensitivity analysis for foreign exchange risk on financial instruments

The Company has assets and liabilities subject to foreign exchange risk. The main exposure involves the Brazilian Real, relative to the U.S. dollar. Foreign exchange risk arises on financial instruments that are denominated in a currency other than the Brazilian Real. Assets and liabilities of foreign subsidiaries, denominated in a currency other than the Brazilian Real are not included in the sensitivity analysis set out below when transacted in a currency equivalent to their respective functional currencies.

The probable scenario, computed based on external data, as well as the stressed scenarios (a 25% and a 50% change in the foreign exchange rates) are set out below:

Financial Instruments	**Exposure at 12.31.2013**	**Risk**	**Probable Scenario***	**Stressed Scenario (Δ of 25%)**	**Stressed Scenario (Δ of 50%)**
Assets	2,616		42	654	1,308
Liabilities	(50,756)	Dollar	(810)	(12,689)	(25,378)
Cash flow hedge on exports	40,742		651	10,186	20,371
Forward Derivative (Net short Position)	(17)		–	(4)	(9)
	(7,415)		(117)	(1,853)	(3,708)
Liabilities	(842)	Yen	(8)	(210)	(421)
Cross-currency Swap	333		3	117	353
	(509)		(5)	(93)	(68)
Assets	3,286	Euro	(113)	821	1,643
Liabilities	(9,290)		319	(2,323)	(4,645)
	(6,004)		206	(1,502)	(3,002)
Assets	925	Pound	(24)	231	462
Liabilities	(2,662)	Sterling	70	(665)	(1,331)
	(1,737)		46	(434)	(869)
Assets	368	Peso	(14)	92	184
Liabilities	(731)		27	(183)	(365)
	(363)		13	(91)	(181)
	(16,028)		143	(3,973)	(7,828)

(*) The probable scenario was computed based on the following changes for December, 31, 2013: Real x Dollar – a 1.60% depreciation of the Real relative to the Dollar / Yen x Dollar – a 0.91% appreciation of the Yen / Dollar x Euro: a 3.43% depreciation of the Euro / Dollar x

Pound Sterling: a 2.61% depreciation of the Pound Sterling / Dollar x Peso: a 3.83% depreciation of the Peso. The data were obtained from the Focus Report of the Central Bank of Brazil and from Bloomberg.

The impact of foreign exchange depreciation / appreciation does not jeopardize the liquidity of the Company in the short term due to the balance between liabilities, assets, revenues and future commitments in foreign currency, since most of its debt mature in the long term.

34.2.3. Interest rate risk management

The Company considers that exposure to interest rate risk does not cause a significant impact and therefore, preferably does not use derivative financial instruments to manage interest rate risk, except for specific situations encountered by certain companies of the Petrobras group.

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a) Main transactions and future commitments hedged by interest rate derivatives

Swap contracts

Floating-to-fixed swap (LIBOR USD) vs. Fixed rate (USD)

The Company has an interest rate swap, in order to exchange a floating interest rate for a fixed rate, aiming at eliminating the mismatch between the cash flows of assets and liabilities from investment projects. The Company does not intend to settle the operation before the maturity date, and therefore, adopted hedge accounting for the relationship between the finance debt and the derivative.

Other positions held are set out in the table below.

b) Notional value, fair value, guarantees and sensitivity analysis for interest rate derivatives

	Notional value		**Fair value**	
Statement of Financial Position	**2013**	**2012**	**2013**	**2012**
Swaps (maturity in 2020)				
Short position	USD 440	USD 460	(20)	(42)
Swaps (maturity in 2015)			(0.6)	(1)
Long position – Euribor	EUR 10	EUR 15	–	0.5
Short position – 4.19% Fixed rate	EUR 10	EUR 15	(0.6)	(1.5)
Total recognized in other assets and liabilities			(20.6)	(43)

Finance income and shareholders' equity	**2013**	**2012**	**2011**
Gain / (Loss) recognized in profit or loss for the period	–	(0.5)	–
	22	(9)	(22)

Gain/(Loss) recognized in other comprehensive income - shareholders' equity

Interest Rate Derivatives	**Risk**	**Probable Scenario (*)**	**Stressed Scenario (Δ de 25%)**	**Stressed Scenario (Δ de 50%)**
HEDGE (Derivative - Swap)	LIBOR decline	4	(0.4)	(1)
Debt	LIBOR increase	(4)	0.4	1
Net effect		−	−	−

(*) The probable scenario was obtained based on LIBOR futures.

Margin is not required for the operations the Company has entered into, related to interest rate derivatives.

34.3. Capital management

The Company's objectives when making its financial decisions is to achieve an adequate capital management and indebtedness level in order to safeguard its ability to continue as a going concern and to fund its Business and Management Plan (BMP), adding value to its shareholders.

The planned investments will be mainly financed by funds generated internally, debt issuance in the international capital markets, loan agreements with commercial banks, cash provided by asset disposals (divesting), among other sources, assuming that no new shares will be issued.

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Petrobras has determined the upper limits of 2.5 times net debt to adjusted EBITDA ratio and 35% financial leverage ratio (net debt to net total capitalization) in order to maintain a strong financial situation and considering oil product prices in Brazil converging to international prices.

Net debt is calculated as total debt (short-term and long-term) less cash, cash equivalents and government bonds with maturities higher than 90 days. Adjusted EBITDA is calculated by adding back net finance income (expenses), income taxes, depreciation/amortization, share of profit of equity-accounted investments and impairment charges to net income. Net total capitalization is calculated by adding net debt to shareholders' equity. These measures are not defined by the International Financial Reporting Standards – IFRS (non-GAAP measures) and should neither be considered in isolation or as substitutes for profit, indebtedness and cash flow provided by operating activities as defined by the IFRS, nor be compared to those measures of other companies.

	2013	**2012**
Total debt (current and noncurrent)	114,325	96,067
Cash and cash equivalents	(15,868)	(13,520)
Government securities (maturity of more than 90 days)	(3,878)	(10,212)
Net debt	94,579	72,335
Net debt/(net debt+shareholders' equity)	39%	31%
Adjusted EBITDA	29,426	27,632
Net debt/Adjusted EBITDA ratio	3.21	2.62

Undertaking capital expenditures in the oil and gas industry is financial-capital intensive and involves long-term maturity. Thus the Company's ratios may temporarily exceed the established upper-limits during periods in which there is no cash flow from operations of ongoing capital expenditures.

34.4. Credit risk

Petrobras is exposed to the credit risk arising from commercial transactions and from cash management, related to financial institutions and to credit exposure to customers. Credit risk is the risk that a customer or financial institution will fail to pay amounts due, relating to outstanding receivables or to financial investments, guarantees or deposits with financial institutions.

Credit risk management in Petrobras is a portion of its financial risk management, which is performed by the Company’s officers, under a corporate policy of risk management.

The credit risk management policy is part of the Company’s global risk management policy and aims at reconciling the need for minimizing exposure to credit risk and maximizing the result of commercial and financial transactions, through an efficient credit analysis process and efficient credit granting and management processes.

The Company manages credit risk by applying quantitative and qualitative parameters that are appropriate for each of the market segments in which it operates.

The Company’s commercial credit portfolio is much diversified and the credits granted are divided between clients from the domestic market and from foreign markets.

Credit granted to financial institutions is spread among the major international banks rated by the international rating agencies as Investment Grade and highly-rated Brazilian banks.

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Notes to the financial statements

(Expressed in millions of US Dollars, unless otherwise indicated)

34.4.1. Credit quality of financial assets

a) Trade and other receivables

Most of the company’s customers have no credit agency ratings. Thus, credit commissions assess creditworthiness and define credit limits, which are regularly monitored, based on the client’s main activity, commercial relationship and credit history with Petrobras, solvency, financial situation and external market assessment of the customer.

Allowances for impairment of trade and other receivables have been recognized in an amount considered adequate by management to cover losses on these assets.

b) Other financial assets

Credit quality of cash and cash equivalents, as well as marketable securities is based on external credit ratings provided by Standard & Poors, Moody’s and Fitch. The credit quality of those financial assets, that are neither past due nor impaired, are set out below:

	2013	**2012**
Cash and cash equivalents		
AAA	23	61
AA	7	5
A	4,959	1,942
BBB	62	76
AAA.br	9,926	10,555
AA.br	462	−
Other ratings	429	881
	15,868	13,520
Marketable securities		
AAA.br	3,979	10,387
Other ratings	37	220
	4,016	10,607

34.5. Liquidity risk

The Company's liquidity risk is represented by the possibility of a shortage of funds, cash or another financial asset in order to settle its obligations on the established dates.

Liquidity risk management by the Company involves several policies, such as: Centralized cash management, in order to optimize the level of cash and cash equivalents held and reduce working capital needs; a robust minimum cash level to ensure that the need of cash for investments and short-term obligations is met, even in adverse market conditions; the use of several funding sources in the domestic and international markets, increasing the number of investors of the Company and development a strong presence in the international capital markets; along with the search for new funding sources, including new markets and financial products.

A maturity analysis of the long-term debt, including face value and interest payments is set out in the following table:

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(Expressed in millions of US Dollars, unless otherwise indicated)

Maturity	
2014	12,283
2015	12,998
2016	15,572
2017	12,548
2018	16,769
2019	18,555
2020 and thereafter	66,450
Balance at December 31, 2013	155,175
Balance at December 31, 2012	136,068

34.6. Financial investments (derivative financial instruments)

Operations with derivatives are, both in the domestic and foreign markets, earmarked exclusively for the exchange of indices of the assets that comprise the portfolios, and their purpose is to provide flexibility to the managers in their quest for efficiency in the management of short-term financial assets.

The market values of the derivatives held in the exclusive investment funds at December 31, 2013 are set out below:

Contract	**Number of**	**Notional**	**Fair**	**Maturity**

Contracts	value	value

(Thousands)

Future DI (Interbank Deposit)	–	2014 to 2016

Long position	4,821	187	–

Short position	(35,658)	(1,331)	–

DDI (Foreign Exchange Coupon) forward	–	2014

Long position	413	21	—

Explanation of Responses:

Short position	(73)	(4)	–

35. Fair value of financial assets and liabilities

Fair values are determined based on market prices, when available, or, in the absence thereof, on the present value of expected future cash flows. The fair values of cash and cash equivalents, trade accounts receivable, short term debt and trade accounts payable are the same as their carrying values. The fair values of other long-term assets and liabilities do not differ significantly from their carrying amounts.

The hierarchy of the fair values of the financial assets and liabilities, recorded on a recurring basis, is set out below:

- Level 1 inputs: are the most reliable evidence of fair value, quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

- Level 2 inputs: are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

- Level 3 inputs: are unobservable inputs for the asset or liability.

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	Fair value measured based on			Total fair value recorded
	Level I	**Level II**	**Level III**	
Assets				
Marketable securities	3,895	−	−	3,895
Foreign currency derivatives	−	10	−	10
Balance at December 31, 2013	3,895	10	−	3,905
Balance at December 31, 2012	10,463.5	76	36	10,575.5
Liabilities				
Commodity derivatives	(20)	−	−	(20)
Interest derivatives	−	(20.6)	−	(20.6)
Balance at December 31, 2013	(20)	(20.6)	−	(40.6)
Balance at December 31, 2012	(62.5)	−	−	(62.5)

The estimated fair value for the Company’s long term debt as of December 31, 2013, computed based on the prevailing market rates for operations that have similar nature, maturity and risk to the contracts recognized, is set out in note 17.

36. Insurance

The Company’s insurance policies involve acquiring insurance to cover assets that might lead to material negative impacts in the shareholders’ equity (in the case of an eventual damage), as well as risks subject to legal or contractual mandatory insurance. The remaining risks are subject to self-insurance and Petrobras intentionally assumes the entire risk by abstaining from contracting insurance. The Company assumes a significant portion of its risk, by including franchises that may reach an amount equivalent to US$ 80 in its insurance policies.

The risk assumptions adopted are not part of the audit scope of the financial statements audit and therefore were not examined by independent auditors.

The main information concerning the insurance coverage outstanding at December 31, 2013 is set out below:

Assets	**Types of coverage**	**Amount insured**
Facilities, equipment inventory and products inventory	Fire, operational risks and engineering risks	180,341
Tankers and auxiliary vessels	Hulls	3,039
Fixed platforms, floating production systems and offshore drilling units	Oil risks	33,037
Total		216,417

Petrobras does not have loss of earnings insurance or insurance related to well control, automobiles and pipeline networks in Brazil.

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Notes to the financial statements

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37. Subsequent events

Funding

a) Pricing of Global Notes

On January 14, 2014, Petrobras, through Petrobras Global Finance B.V. (PGF), its wholly-owned indirect subsidiary, issued 4, 7 and 11-year Global Notes denominated in Euros (€) and 20-year Global Notes denominated in Pounds Sterling (£), as set out below:

Currency	Amount	Maturity	Coupon*
Euro	€ 1,500 million	Jan/2018	2.75% p.a.
Euro	€ 750 million	Jan/2021	3.75% p.a.
Euro	€ 800 million	Jan/2025	4.75% p.a.
Pounds Sterling	£ 600 million	Jan/2034	6.625% p.a.

(*) Coupon payments begin in 2015.

The Global Notes are unsecured and unsubordinated obligations of PGF B.V., unconditionally and irrevocably guaranteed by Petrobras.

b) Banking market

On January 29, 2014, Petrobras, through its indirect subsidiary Petrobras Global Trading BV (PGT BV), signed a credit line agreement of US$ 3 billion in the banking market.

On February 14, 2014 Petrobras, through PGT BV, signed two credit line agreements of US$ 1 billion in the banking market.

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Notes to the financial statements

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38. Information Related to Guaranteed Securities Issued by Subsidiaries

38.1. Petrobras Global Finance B.V. (PGF)

Petróleo Brasileiro S.A. - Petrobras has fully and unconditionally guaranteed the debt securities issued by Petrobras Global Finance B.V. (PGF), a 100-percent-owned finance subsidiary of Petrobras. There are no significant restrictions on the ability of Petrobras to obtain funds from PGF.

38.2. Petrobras International Finance Company – PifCo

A partial spin-off of certain assets and liabilities of Petrobras International Finance Company S.A. (PifCo), a wholly -owned subsidiary of Petrobras, with the subsequent merger of the spun-off portion into Petrobras was approved for immediate implementation by the Shareholders' Extraordinary General Meeting held by Petróleo Brasileiro S.A. - Petrobras on December 16, 2013. The transaction resulted in the transfer of the assets and liabilities related to PifCo's commercial activities to Petrobras. After the spin-off, PifCo became a 100-percent-owned finance subsidiary of Petrobras. There are no significant restrictions on the ability of Petrobras to obtain funds from PifCo.

PifCo's remaining assets and liabilities related to capital-raising activities and loan transactions with companies in the Petrobras Group, including various series of notes issued by PifCo and guaranteed by Petrobras, will subsequently be merged into Petrobras Global Finance B.V. – PGF, resulting in the dissolution of PifCo. That merger will not affect the guarantees and commitments undertaken by Petrobras regarding the bonds previously issued by PifCo, and those bonds will continue to be fully and unconditionally guaranteed by Petrobras. As an initial step for the merger, PGF acquired all of PifCo's outstanding shares on February 12, 2014.

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Supplementary information on Oil and Gas Exploration and Production (unaudited)

(Expressed in millions of US Dollars, unless otherwise indicated)

In accordance with Codification Topic 932 - Extractive Activities – Oil and Gas, this section provides supplemental information on oil and gas exploration and production activities of the Company. The information included in items (i) through (iii) provides historical cost information pertaining to costs incurred in exploration, property acquisition and development, capitalized costs and results of operations. The information included in items (iv) and (v) presents information on Petrobras' estimated net proved reserve quantities, standardized measure of estimated discounted future net cash flows related to proved reserves, and changes in estimated discounted future net cash flows.

Beginning in 1995, the Federal Government of Brazil undertook a comprehensive reform of the country's oil and gas regulatory system. On November 9, 1995, the Brazilian Constitution was amended to authorize the Federal Government to contract with any state or privately owned company to carry out the activities related to the upstream and downstream segments of the Brazilian oil and gas sector. This amendment eliminated Petrobras' effective monopoly. The amendment was implemented by the Oil Law, which liberated the fuel market in Brazil beginning January 1, 2002.

The Oil Law established a regulatory framework ending Petrobras' exclusive agency and enabling competition in all aspects of the oil and gas industry in Brazil. As provided in the Oil Law, Petrobras was granted the exclusive right for a period of 27 years to exploit the petroleum reserves in all fields where the Company had previously commenced production. However, the Oil Law established a procedural framework for Petrobras to claim exclusive exploratory (and, in case of success, development) rights for a period of up to three years with respect to areas where the Company could demonstrate that it had "established prospects". To perfect its claim to explore and develop these areas, the Company had to demonstrate that it had the requisite financial capacity to carry out these activities, alone or through financing or partnering arrangements.

The adoption of the SEC rules seeking to modernize the supplemental oil and gas disclosures and the FASB's issuance of the Accounting Standards Update nº 2011-03, "Oil and Gas Reserve Estimation and Disclosure", generated no material impact on the Company's consolidated financial statements other than additional disclosures.

The international geographic area includes activities in South America, which includes Argentina, Colombia, Ecuador, Peru, Uruguay and Venezuela; North America, which includes Mexico and the United States of America; Africa, which includes Angola, Libya, Tanzania, and Others, which includes Portugal and Turkey. The equity investments are composed of the operations of Petrobras Oil and Gas B.V. (PO&G) in Namibia and Nigeria, as well as Venezuelan companies involved in exploration and production activities.

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Explanation of Responses:

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Supplementary information on Oil and Gas Exploration and Production (unaudited)

(Expressed in millions of US Dollars, unless otherwise indicated)

i) Capitalized costs relating to oil and gas producing activities

The following table summarizes capitalized costs for oil and gas exploration and production activities with the related accumulated depreciation, depletion and amortization, and asset retirement obligation assets:

	Consolidated entities							**Equity Method Investees**
	Brazil	**South America**	**North America**	**Africa**	**Others**	**International**	**Total**	**Total**
December 31, 2013								
Unproved oil and gas properties	21,261	826	685	22	–	1,533	22,794	–
Proved oil and gas properties	71,638	2,410	5,907	–	–	8,318	79,956	3,972
Support Equipaments	63,833	490	(277)	(15)	4	202	64,036	1
Gross Capitalized costs	156,732	3,727	6,316	7	4	10,053	166,785	3,973
Depreciation and depletion	(44,694)	(2,045)	(948)	–	(4)	(2,997)	(47,690)	(1,455)
	112,039	1,682	5,367	7	–	7,056	119,095	2,518
Construction and installations in progress	28,421	(131)	3	–	–	(127)	28,293	
Net capitalzed costs	140,460	1,551	5,370	7	1	6,929	147,389	2,518
December 31, 2012								
Unproved oil and gas properties	48,255	705	1,641	1,500	25	3,871	52,126	–
	52,012	3,950	3,572	2,467	–	9,989	62,001	491

Proved oil and gas properties								
Support Equipaments	55,729	1,488	–	26	7	1,522	57,251	–
Gross Capitalized costs	155,996	6,143	5,213	3,994	32	15,382	171,378	491
Depreciation and depletion	(43,277)	(3,013)	(625)	(1,415)	(3)	(5,057)	(48,333)	(170)
	112,719	3,130	4,588	2,579	29	10,326	123,045	321
Construction and installations in progress	27,314	11	2	–	–	13	27,327	–
Net capitalzed costs	140,033	3,141	4,590	2,579	29	10,339	150,372	321
December 31, 2011								
Unproved oil and gas properties	51,773	523	1,898	593	36	3,050	54,823	–
Proved oil and gas properties	43,940	3,915	2,141	3,235	–	9,291	53,231	575
Support Equipaments	51,509	1,119	24	(24)	2	1,121	52,630	1
Gross Capitalized costs	147,222	5,557	4,063	3,804	38	13,462	160,684	576
Depreciation and depletion	(39,518)	(2,937)	(454)	(1,316)	(1)	(4,708)	(44,226)	(198)
	107,704	2,620	3,609	2,488	37	8,754	116,458	378
Construction and installations in progress	23,640	286	–	90	–	376	24,016	–
Net capitalzed costs	131,344	2,906	3,609	2,578	37	9,130	140,474	378

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Supplementary information on Oil and Gas Exploration and Production (unaudited)

(Expressed in millions of US Dollars, unless otherwise indicated)

ii) Costs incurred in oil and gas property acquisition, exploration and development activities

Costs incurred are summarized below and include both amounts expensed and capitalized:

	Consolidated entities							**Equity Method Investees**
	Brazil	**South America**	**North America**	**Africa**	**Others**	**International**	**Total**	**Total**
December 31, 2013								
Acquisition of properties								
Proved	−	17	973	−	−	990	990	−
Unproved	−	−	−	−	−	−	−	−
Exploration costs	9,605	183	397	1	1	582	10,187	−
Development costs	16,732	656	165	282	2	1,105	17,837	237
Total	26,337	856	1,535	283	3	2,677	29,014	237
December 31, 2012								
Acquisition of properties								
Proved	−	118	498	−	−	617	617	−
Unproved	−	−	−	−	−	−	−	−
Exploration costs	5,670	282	601	86	1	970	6,640	−
Development costs	16,217	759	538	285	60	1,642	17,859	19
Total	21,887	1,160	1,638	371	60	3,229	25,116	19
December 31, 2011								
Acquisition of properties								
Proved	−	16	−	−	36	52	52	3

Unproved	4	194	344	15	−	553	557	−
Exploration costs	5,643	316	160	322	20	818	6,461	1
Development costs	14,370	437	98	−	−	535	14,905	58
Total	20,017	963	602	337	56	1,958	21,975	62

(iii) Results of operations for oil and gas producing activities

The Company's results of operations from oil and gas producing activities for the years ended December 31, 2013, 2012 and 2011 are shown in the following table. The Company transfers substantially all of its Brazilian crude oil and gas production to the Refining, Transportation & Marketing segment in Brazil. The prices calculated by the Company's model may not be indicative of the price the Company would have realized had this production been sold in an unregulated spot market. Additionally, the prices calculated by the Company's model may not be indicative of the future prices to be realized by the Company. Gas prices used are those set out in contracts with third parties.

Production costs are lifting costs incurred to operate and maintain productive wells and related equipment and facilities, including operating employees' compensation, materials, supplies, fuel consumed in operations and operating costs related to natural gas processing plants.

Exploration expenses include the costs of geological and geophysical activities and non-productive exploratory wells. Depreciation and amortization expenses relate to assets employed in exploration and development activities. In accordance with Codification Topic 932 – Extractive Activities – Oil and Gas, income taxes are based on statutory tax rates, reflecting allowable deductions. Interest income and expense are excluded from the results reported in this table.

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Supplementary information on Oil and Gas Exploration and Production (unaudited)

(Expressed in millions of US Dollars, unless otherwise indicated)

(iii) Results of operations for oil and gas producing activities

	Consolidated entities							**Equity Method Investees**
	Brazil	**South America**	**North America**	**Africa**	**Others**	**International**	**Total**	**Total**
December 31, 2013								
Net operation revenues:								
Sales to third parties	1,114	1,033	513	206	–	1,752	2,866	546
Intersegment	67,096	1,708	–	674	–	2,382	69,478	762
	68,210	2,742	513	879	–	4,134	72,344	1,308
Production costs	(26,465)	(1,420)	(177)	(65)	–	(1,663)	(28,128)	(197)
Exploration expenses	(2,784)	(61)	(88)	(28)	(3)	(180)	(2,964)	(2)
Depreciation, depletion and amortization	(7,814)	(519)	(322)	(89)	–	(931)	(8,745)	(263)
Impairment of oil and gas properties	(4)	1	(14)	(560)	–	(573)	(577)	–
Other operating expenses	(1,345)	(256)	(75)	(50)	1,748	1,367	22	–
Results before income tax expenses	29,798	486	(162)	86	1,744	2,154	31,952	847
Income tax expenses	(10,131)	(141)	(2)	(367)	(1)	(510)	(10,642)	(348)
Results of operations (excluding corporate	19,667	345	(164)	(281)	1,744	1,644	21,311	498

overhead and interest costs)								
December 31, 2012								
Net operation revenues:								
Sales to third parties	843	1,148	19	368	–	1,535	2,378	186
Intersegment	73,871	1,659	290	1,886	–	3,834	77,705	–
	74,714	2,807	309	2,254	–	5,369	80,083	186
Production costs	(27,094)	(1,360)	(40)	(178)	–	(1,578)	(28,672)	(154)
Exploration expenses	(3,613)	(176)	(48)	(81)	(56)	(361)	(3,974)	–
Depreciation, depletion and amortization	(6,528)	(476)	(177)	(191)	(1)	(845)	(7,373)	(79)
Impairment of oil and gas properties	(34)	–	–	(16)	–	(16)	(50)	–
Other operating expenses	(1,801)	(152)	(113)	176	(42)	(131)	(1,932)	–
Income before income tax expenses	35,644	643	(69)	1,964	(99)	2,438	38,082	(47)
Income tax expenses	(12,119)	(150)	–	(929)	1	(1,078)	(13,197)	14
Results of operations (excluding corporate overhead and interest costs)	23,525	493	(69)	1,035	(98)	1,360	24,885	(33)
December 31, 2011								
Net operation revenues:								
Sales to third parties	516	1,018	8	290	–	1,316	1,832	289
Intersegment	73,601	1,553	108	2,123	–	3,784	77,385	7
	74,117	2,571	116	2,413	–	5,100	79,217	296
Production costs	(26,755)	(1,198)	(31)	(134)	–	(1,363)	(28,118)	(142)
Exploration expenses	(2,182)	(224)	(28)	(92)	(97)	(441)	(2,623)	(1)
Depreciation, depletion and	(6,358)	(408)	(53)	(263)	(1)	(725)	(7,083)	(121)

amortization								
Impairment of oil and gas properties	(229)	1	–	–	–	1	(228)	(56)
Other operating expenses	(1,557)	(214)	(216)	258	(22)	(194)	(1,751)	–
Income before income tax expenses	37,036	528	(212)	2,182	(120)	2,378	39,414	(24)
Income tax expenses	(12,592)	(151)	–	(791)	–	(942)	(13,534)	4
Results of operations (excluding corporate overhead and interest costs)	24,444	377	(212)	1,391	(120)	1,436	25,880	(20)

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Supplementary information on Oil and Gas Exploration and Production (unaudited)

(Expressed in millions of US Dollars, unless otherwise indicated)

(iv) Reserve quantities information

The Company’s estimated net proved oil and gas reserves and changes thereto for the years 2013, 2012 and 2011 are shown in the following table. Proved reserves are estimated by the Company’s reservoir engineers in accordance with the reserve definitions prescribed by the Securities and Exchange Commission.

Proved oil and gas reserves are those quantities of oil and gas, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible from a given date forward, from known reservoirs, and under existing economic conditions, operating methods, and government regulations – prior to the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain, regardless of whether deterministic or probabilistic methods are used for the estimation. The project to extract the hydrocarbons must have commenced or the operator must be reasonably certain that it will commence the project within a reasonable time.

Developed oil and gas reserves are reserves of any category that can be expected to be recovered: (i) through existing wells with existing equipment and operating methods or in which the cost of the required equipment is relatively minor compared to the cost of a new well; and (ii) through installed extraction equipment and infrastructure operational at the time of the reserves estimate if the extraction is done by means not involving a well.

In some cases, substantial new investments in additional wells and related facilities will be required to recover these proved reserves. Due to the inherent uncertainties and the limited nature of reservoir data, estimates of reserves are subject to change as additional information becomes available.

Bolivian proved reserves were not classified as such in 2010 due to the new Bolivian Constitution, which restricts the disclosure of estimated reserves for properties under its authority. The initial balance of Bolivian proved reserves for 2010 is adjusted under the line item “Revisions of previous estimates”.

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(Expressed in millions of US Dollars, unless otherwise indicated)

(iv) Reserve quantities information

A summary of the annual changes in the proved reserves of oil is as follows (in millions of barrels):

	Consolidated Entities							**Equity Method Investees**
Proved developed and undeveloped reserves	**Brazil**	**South America**	**North America**	**Africa**	**International****	**Synthetic Oil**	**Total**	**Total**
Reserves at December 31, 2010	10,379.0	209.8	10.1	124.9	344.8	7.4	10,731.2	33.5
Revisions of previous estimates	571.6	(2.5)	36.4	8.1	42.0	2.4	616.0	(1.1)
Extensions and discoveries	151.2	9.4	8.0	–	17.4	–	168.6	–
Improved Recovery	1.9	–	–	6.1	6.1	–	8.0	–
Sales of reserves	–	–	–	–	–	–	–	–
Purchases of reserves	–	–	–	–	–	–	–	–
Production for the year	(692.5)	(25.5)	(0.8)	(21.0)	(47.3)	(1.2)	(741.0)	(2.8)
Reserves at December 31, 2011	10,411.2	191.2	53.7	118.1	363.0	8.6	10,782.8	29.6
Revisions of previous estimates	69.7	(2.6)	23.5	22.4	43.3	0.7	113.7	(3.0)
Extensions and discoveries	424.4	11.4	–	–	11.4	–	435.8	–
Improved Recovery	324.6	0.6	–	18.7	19.3	–	343.9	–
Sales of reserves	–	–	–	–	–	–	–	–

Purchases of reserves	–	–	–	–	–	–	–	–
Production for the year	(690.7)	(25.2)	(3.3)	(19.0)	(47.5)	(1.0)	(739.1)	(2.3)
Reserves at December 31, 2012	10,539.2	175.4	74.0	140.2	389.6	8.3	10,937.1	24.3
Transfers by loss of control*	–	–	–	(140.2)	(140.2)	–	(140.2)	140.2
Revisions of previous estimates	(110.0)	13.4	21.9	–	35.4	1.3	(73.4)	1.8
Extensions and discoveries	818.3	–	33.0	–	33.0	–	851.4	–
Improved Recovery	124.2	–	–	–	–	–	124.2	–
Sales of reserves	(42.3)	–	(1.5)	–	(1.5)	–	(43.8)	(65.4)
Purchases of reserves	0.0	–	–	–	–	–	0.0	–
Production for the year	(671.0)	(22.8)	(4.3)	–	(27.1)	(0.8)	(698.9)	(16.5)
Reserves at December 31, 2013	10,658.4	166.0	123.1	(0.0)	289.2	8.8	10,956.4	84.5

*Amounts transferred from consolidated entities to equity-method entities, as the Company ceased to consolidate PO&G. See note 10.2 for further details.
** Includes 105 million barrels related to assets classified as held for sale.

Petróleo Brasileiro S.A. – Petrobras

Supplementary information on Oil and Gas Exploration and Production (unaudited)

(Expressed in millions of US Dollars, unless otherwise indicated)

(iv) Reserve quantities information

A summary of the annual changes in the proved reserves of natural gas is as follows (in billions of cubic feet):

	Consolidated Entities							**Equity Method Investees**
Proved developed and undeveloped reserves	**Brazil**	**South America**	**North America**	**Africa**	**International****	**Synthetic Gas**	**Total**	**Total**
Reserves at December 31, 2010	10,554.0	1,235.7	51.7	40.4	1,327.8	12.0	11,893.8	59.8
Revisions of previous estimates	993.9	(9.7)	15.2	(1.1)	4.4	3.3	1,001.6	(15.0)
Extensions and discoveries	192.3	76.3	9.1	–	85.4	–	277.7	–
Improved Recovery	0.3	–	–	–	–	–	0.3	–
Sales of reserves	–	–	–	–	–	–	–	–
Purchases of reserves	–	–	–	–	–	–	–	–
Production for the year	(673.5)	(112.7)	(4.1)	–	(116.8)	(1.9)	(792.2)	(1.3)
Reserves at December 31, 2011	11,067.0	1,189.6	71.9	39.3	1,300.8	13.4	12,381.2	43.5
Revisions of previous estimates	373.4	(18.3)	2.7	6.2	(9.4)	1.8	365.8	5.2
Extensions and discoveries	275.8	19.6	–	–	19.6	–	295.4	–
Improved Recovery	(624.3)	0.8	–	–	0.8	–	(623.5)	–
Sales of reserves	–	–	–	–	–	–	–	–

Purchases of reserves	–	–	–	–	–	–	–	–
Production for the year	(747.3)	(108.0)	(6.9)	–	(114.9)	(1.9)	(864.1)	(0.9)
Reserves at December 31, 2012	10,344.6	1,083.7	67.7	45.5	1,196.9	13.3	11,554.8	47.8
Transfers by loss of control*	–	–	–	(45.5)	(45.5)	–	(45.5)	45.5
Revisions of previous estimates	(291.2)	75.2	2.6	–	77.8	(0.1)	(213.5)	(8.0)
Extensions and discoveries	1,113.0	–	80.4	–	80.4	–	1,193.4	–
Improved Recovery	916.0	–	–	–	–	–	916.0	–
Sales of reserves	(17.3)	–	(13.4)	–	(13.4)	–	(30.7)	(22.8)
Purchases of reserves	0.4	–	–	–	–	–	0.4	–
Production for the year	(773.8)	(100.4)	(4.4)	–	(104.8)	(1.4)	(880.0)	(0.6)
Reserves at December 31, 2013	11,291.7	1,058.5	132.9	0.0	1,191.4	11.8	12,494.8	61.9

*Amounts transferred from consolidated entities to equity-method entities, as the Company ceased to consolidate PO&G. See note 10.2 for further details.
** Includes 363 billion cubic feet related to assets classified as held for sale.

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(iv) Reserve quantities information

2013	2012	2011

Crude Oil	Synthetic Oil	Natural Gas	Synthetic Gas	Crude Oil	Synthetic Oil	Natural Gas	Synthetic Gas	Crude Oil	S C

Explanation of Responses:

(millions of barrels)	(billions of cubic feet)	(millions of barrels)	(billions of cubic feet)	(millions of barrels)

Net proved developed reserves:

Consolidated
Entities

Brazil	6,509.38.8	6,578.9 11.8	6,397.58.3	6,811.5 13.3	6,973.58

South America	86.0	–	368.4	–	96.5	–	414.1	–	106.6	-

North America	46.2	–	9.9	–	21.2	–	25.2	–	4.5	–

Africa	–	–	–	–	77.8	–	35.8	–	70.3	–

Others	–	–	–	–	–	–	–	–	–	–

Explanation of Responses:

International	132.2	–	378.3	–	195.5	–	475.1	–	181.4	-

Total Consolidated Entities	6,641.6 8.8	6,957.3 11.8	6,593.0 8.3	7,286.6 13.3	7,154.9 8

Nonconsolidated
Entitites

Brazil	–	–	–	–	–	–	–	–	–	–

Explanation of Responses:

South America	12.4	–	14.9	–	12.7	–	14.6	–	17.5	–

North America	–	–	–	–	–	–	–	–	–	–

Africa	37.3	–	15.7	–	–	–	–	–	–	–

Explanation of Responses:

Others	–	–	–	–	–	–	–	–	–	–

International	49.8	–	30.5	–	12.7	–	14.6	–	17.5	–

Explanation of Responses:

Total Nonconsolidated Entities	49.8	–	30.5	–	12.7	–	14.6	–	17.5	–

Total Consolidated and Nonconsolidated Entities	6,691.4	8.8	6,987.8	11.8	6,605.7	8.3	7,301.2	13.3	7,172.4	8

Net proved undeveloped reserves:

Consolidated
Entities

Brazil	4,149.1 –	4,712.7 –	4,141.7 –	3,533.0 –	3,437.5 –

Explanation of Responses:

South America	80.1	–	690.1	–	78.9	–	669.5	–	84.7	–

North America	77.0	–	123.1	–	52.8	–	42.5	–	49.3	–

Africa	–	–	–	–	62.4	–	9.8	–	47.8	–

Explanation of Responses:

Others	–	–	–	–	–	–	–	–	–	–

Explanation of Responses:

International	157.1	–	813.2	–	194.1	–	721.8	–	181.8	–

Total Consolidated Entities	4,306.2 –	5,525.9 –	4,335.8 –	4,254.8 –	3,619.3 –

Explanation of Responses:

Nonconsolidated
Entitites

Brazil	–	–	–	–	–	–	–	–	–	–

Explanation of Responses:

South America	8.8	–	26.4	–	11.6	–	33.2	–	12.1	–

Explanation of Responses:

North America	–	–	–	–	–	–	–	–	–	–

Africa	25.9	–	4.9	–	–	–	–	–	–	–

Others	–	–	–	–	–	–	–	–	–	–

International	34.7	–	31.3	–	11.6	–	33.2	–	12.1	–

Total Nonconsolidated Entities	34.7	–	31.3	–	11.6	–	33.2	–	12.1	–

Total Consolidated and Nonconsolidated Entities	4,340.8	—	5,557.2	—	4,347.4	—	4,288.0	—	3,631.4	–

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Supplementary information on Oil and Gas Exploration and Production (unaudited)

(Expressed in millions of US Dollars, unless otherwise indicated)

(v) Standardized measure of discounted future net cash flows relating to proved oil and gas quantities and changes therein

The standardized measure of discounted future net cash flows, related to the above proved oil and gas reserves, is calculated in accordance with the requirements of Codification Topic 932 – Extractive Activities – Oil and Gas. Estimated future cash inflows from production in Brazil and international segments are computed by applying the average price during the 12-month period prior to the ending date of the period covered by the report, determined as an unweighted arithmetic average of the first-day-of-the-month price for each month within such period, unless prices are defined by contractual arrangements, excluding escalations based upon future conditions. Future price changes are limited to those provided by contractual arrangements in existence at the end of each reporting year. Future development and production costs are those estimated future expenditures necessary to develop and produce year-end estimated proved reserves based on year-end cost indicators, assuming continuation of year-end economic conditions. Estimated future income taxes are calculated by applying appropriate year-end statutory tax rates. These rates reflect allowable deductions and are applied to estimated future pre-tax net cash flows, less the tax basis of related assets. Discounted future net cash flows are calculated using 10% mid-period discount factors. This discounting requires a year-by-year estimate of when the future expenditures will be incurred and when the reserves will be produced.

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Supplementary information on Oil and Gas Exploration and Production (unaudited)

(Expressed in millions of US Dollars, unless otherwise indicated)

The valuation prescribed under Codification Topic 932 – Extractive Activities – Oil and Gas requires assumptions as to the timing and amount of future development and production costs. The calculations are made as of December 31 each year and should not be relied upon as an indication of Petrobras' future cash flows or the value of its oil and gas reserves.

	Consolidated entities						**Equity Method Investees**
	Brazil	**South America**	**North America**	**Africa**	**International****	**Total**	**Total**
At december 31, 2013							
Future cash inflows	1,134,383	16,770	12,071	–	28,841	1,163,225	8,724
Future production costs	(469,442)	(8,742)	(3,484)	–	(12,226)	(481,668)	(3,051)
Future development costs	(72,675)	(2,146)	(2,795)	–	(4,942)	(77,617)	(1,927)
Future income tax expenses	(205,938)	(1,693)	(169)	–	(1,862)	(207,800)	(1,221)
Undiscounted future net cash flows	386,328	4,189	5,622	–	9,811	396,139	2,524
10 percent midyear annual discount for timing of estimated cash flows*	(197,760)	(1,435)	(2,288)	–	(3,723)	(201,483)	(820)
Standardized measure of discounted future net cash flows	188,569	2,754	3,335	–	6,088	194,657	1,704

At december 31, 2012							
Future cash inflows	1,107,784	18,010	7,318	15,682	41,010	1,148,794	4,155
Future production costs	(458,630)	(8,822)	(1,676)	(3,105)	(13,603)	(472,233)	(2,880)
Future development costs	(58,197)	(2,245)	(2,002)	(3,785)	(8,032)	(66,229)	(177)
Future income tax expenses	(204,258)	(2,010)	–	(3,166)	(5,176)	(209,434)	(405)
Undiscounted future net cash flows	386,699	4,933	3,640	5,626	14,199	400,898	693
10 percent midyear annual discount for timing of estimated cash flows*	(198,081)	(1,733)	(1,174)	(1,872)	(4,779)	(202,860)	(282)
Standardized measure of discounted future net cash flows	188,618	3,200	2,466	3,754	9,420	198,038	411
At december 31, 2011							
Future cash inflows	1,099,570	17,606	4,839	13,064	35,509	1,135,079	2,273
Future production costs	(432,615)	(7,911)	(1,485)	(2,714)	(12,110)	(444,725)	(1,205)
Future development costs	(62,488)	(1,923)	(1,349)	(2,618)	(5,890)	(68,378)	(59)
Future income tax expenses	(209,065)	(2,321)	–	(2,753)	(5,074)	(214,139)	(341)
Undiscounted future net cash flows	395,402	5,451	2,005	4,979	12,435	407,837	668
10 percent midyear annual discount for timing of estimated cash flows*	(203,006)	(2,006)	(871)	(1,514)	(4,391)	(207,397)	(223)
Standardized measure of discounted future net cash flows	192,396	3,445	1,134	3,465	8,044	200,440	445

*Semiannual capitalization
** Includes the amount of US$ 1,758 related to assets classified as held for sale in 2013.

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Supplementary information on Oil and Gas Exploration and Production (unaudited)

(Expressed in millions of US Dollars, unless otherwise indicated)

(v) Standardized measure of discounted future net cash flows relating to proved oil and gas quantities and changes therein

	Consolidated entities							**Equity Method Investees**
	Brazil	**South America**	**North America**	**Africa**	**Others**	**International****	**Total**	**Total**
Balance at January 1, 2013	188,618	3,200	2,466	3,755	–	9,421	198,039	411
Transfers by loss of control*				(3,755)		(3,755)	(3,755)	3,755
Sales and transfers of oil and gas, net of production cost	(33,988)	(1,159)	(398)	–	–	(1,557)	(35,545)	(735)
Development cost incurred	16,732	656	165	282	2	1,105	17,837	237
Net change due to purchases and sales of minerals in place	(1,008)	272	(116)	–	–	157	(851)	(1,878)
Net change due to extensions, discoveries and improved recovery less related costs	33,171	–	673	–	–	673	33,844	–
Revisions of previous	(4,075)	28	936	–	–	963	(3,112)	84

quantity estimates								
Net change in prices, transfer prices and in production costs	(9,710)	(370)	303	(282)	(2)	(351)	(10,061)	(416)
Changes in estimated future development costs	(19,155)	(404)	(346)	–	–	(750)	(19,905)	(86)
Accretion of discount	18,862	447	271	–	–	718	19,579	251
Net change in income taxes	(877)	189	(12)	–	–	176	(701)	272
Timing		(3)	(654)	–	–	(657)	(657)	–
Other – unspecified		(102)	46	–	–	(56)	(56)	(192)
Balance at December 31,2013	188,569	2,754	3,335	–	–	6,088	194,657	1,704

*Amounts transferred from consolidated entities to equity-method entities, as the Company ceased to consolidate PO&G. See note 10.2 for further details.
** Includes the amount of US$ 1,758 related to assets classified as held for sale.

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Supplementary information on Oil and Gas Exploration and Production (unaudited)

(Expressed in millions of US Dollars, unless otherwise indicated)

(v) Standardized measure of discounted future net cash flows relating to proved oil and gas quantities and changes therein

	Consolidated entities							**Equity Method Investees**
	Brazil	**South America**	**North America**	**Africa**	**Others**	**International**	**Total**	**Total**
Balance at January 1, 2012	192,396	3,446	1,133	3,465	–	8,044	200,440	445
Sales and transfers of oil and gas, net of production cost	(47,822)	(1,241)	(67)	(1,721)	–	(3,029)	(50,851)	(116)
Development cost incurred	16,217	759	538	285	60	1,642	17,859	19
Net change due to purchases and sales of minerals in place	–	–	–	–	–	–	–	–
Net change due to extensions, discoveries and improved recovery less related costs	17,855	180	1,017	1,372	–	2,569	20,424	40
Revisions of previous quantity estimates	3,410	246	(59)	1,774	–	1,961	5,371	(58)
Net change in prices, transfer prices and in	(6,848)	84	114	(341)	(60)	(203)	(7,051)	(138)

production costs								
Changes in estimated future development costs	(8,958)	(823)	(380)	(1,058)	–	(2,261)	(11,219)	(114)
Accretion of discount	19,240	485	130	344	–	959	20,199	67
Net change in income taxes	3,129	154	–	(100)	–	54	3,183	1
Timing	–	(37)	54	–	–	17	17	–
Other – unspecified	–	(54)	(15)	(265)	–	(334)	(334)	265
Balance at December 31,2012	188,619	3,199	2,465	3,755	–	9,419	198,038	411

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Supplementary information on Oil and Gas Exploration and Production (unaudited)

(Expressed in millions of US Dollars, unless otherwise indicated)

(v) Standardized measure of discounted future net cash flows relating to proved oil and gas quantities and changes therein

	Consolidated entities						**Equity Method Investees**
	Brazil	**South America**	**North America**	**Africa**	**International**	**Total**	**Total**
Balance at January 1, 2011	124,274	3,714	230	3,062	7,006	131,280	324
Sales and transfers of oil and gas, net of production cost	(45,745)	(1,076)	(82)	(2,037)	(3,195)	(48,940)	(70)
Development cost incurred	13,943	437	98	−	535	14,478	44
Net change due to purchases and sales of minerals in place	−	−	−	−	−	−	−
Net change due to extensions, discoveries and improved recovery less related costs	4,892	212	307	377	896	5,788	−
Revisions of previous quantity estimates	19,483	44	1,071	570	1,685	21,168	(32)
Net change in prices, transfer prices and in production costs	114,630	661	49	2,735	3,445	118,075	133
Changes in estimated future development costs	(15,984)	(441)	(517)	(120)	(1,078)	(17,062)	(30)
Accretion of discount	12,427	476	23	294	793	13,220	54
	(35,524)	(48)	−	(982)	(1,030)	(36,554)	(6)

Net change in income taxes							
Timing	–	(70)	26	–	(44)	(44)	–
Other - unspecified	–	(463)	(72)	(434)	(969)	(969)	28
Balance at December 31,2011	192,396	3,446	1,133	3,465	8,044	200,440	445

SIGNATURE

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

Date: February 26, 2014

PETRÓLEO BRASILEIRO S.A--PETROBRAS

By: /s/ Almir Guilherme Barbassa

Almir Guilherme Barbassa
Chief Financial Officer and Investor Relations Officer

FORWARD-LOOKING STATEMENTS

This press release may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (Exchange Act) that are not based on historical facts and are not assurances of future results. These forward-looking statements are based on management's current view and estimates of future economic circumstances, industry conditions, company performance and financial results. The words "anticipates", "believes", "estimates", "expects", "plans" and similar expressions, as they relate to the company, are intended to identify forward-looking statements. Statements regarding the declaration or payment of dividends, the implementation of principal operating and financing strategies and capital expenditure plans, the direction of future operations and the factors or trends affecting financial condition, liquidity or results o f operations are examples of forward-looking statements. Such statements reflect the current views of management and are subject to a number of risks and uncertainties. There is no guarantee that the expected events, trends or results will actually occur. The statements are based on many assumptions and factors, including general economic and market conditions, industry conditions, and operating factors. Any changes in such assumptions or factors could cause actual results to differ materially from current expectations.

All forward-looking statements are expressly qualified in their entirety by this cautionary statement, and you should not place reliance on any forward-looking statement contained in this press release. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information or future events or for any other reason.