

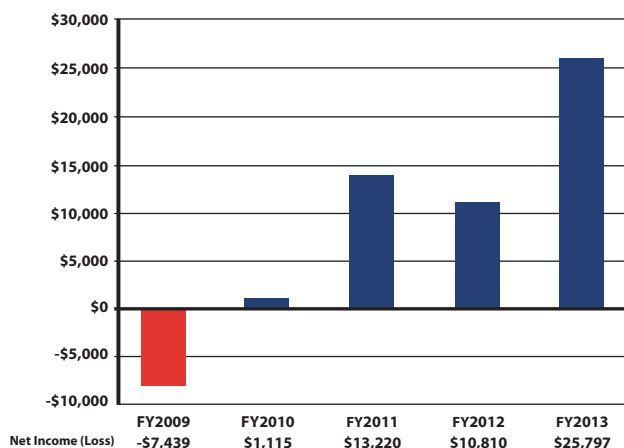


Provident Financial Holdings, Inc.

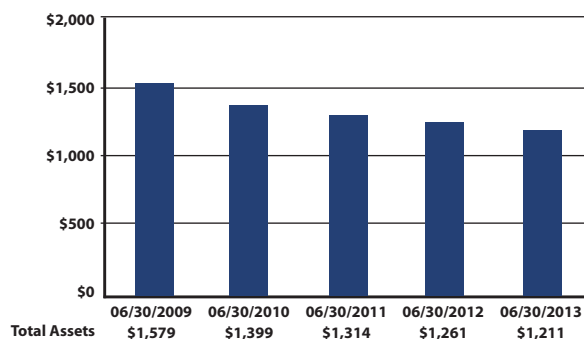
**2013 Annual Report**

# Message From the Chairman

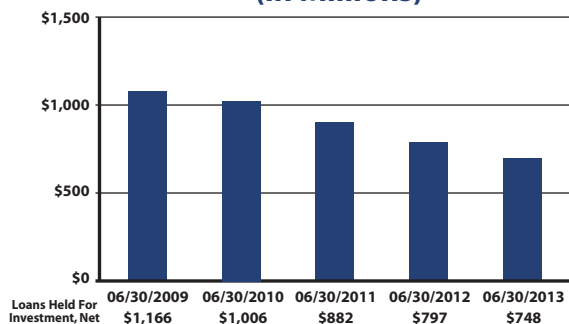
**Net Income (Loss)  
(In Thousands)**



**Total Assets (In Millions)**



**Loans Held For Investment, Net  
(In Millions)**



## Dear Shareholders:

It is my pleasure to forward our Annual Report for fiscal 2013, which describes a record year for our company in terms of net income and significantly improved financial metrics such as strong regulatory capital ratios, considerable levels of liquidity in the form of cash and cash equivalents, and greatly improved asset quality ratios, establishing a formidable foundation for future growth. We are prepared for the return of better economic conditions and can quickly capitalize on an improving banking environment. For fiscal 2013, we reported net income of \$25.8 million, diluted earnings per share of \$2.38, and a return on equity of 16.8%, which is a superior performance in comparison to many of our peers.

Last year, when we were developing our fiscal 2013 Business Plan, we were encouraged that sustainable, organic growth may be attainable from our community banking business and that the investment we had been making in the mortgage banking business would pay off handsomely. Of course our forecast was predicated on the return of improving general economic conditions and a better banking environment. Unfortunately, general economic conditions while somewhat improved, did not improve sufficiently for us to meet our more aggressive growth goals; however the tepid economic conditions contained a silver lining for us, the protracted and very favorable mortgage banking environment, which was largely responsible for our record earnings. The fiscal 2013 Business Plan for Provident Bank forecast growth in loans held for investment, growth in retail deposits (primarily core deposits), control of operating expenses, and sound capital management decisions. For Provident Bank Mortgage, we established goals to increase the percentage of origination volume from the retail channel, to closely manage our loan sale margin and to respond quickly to deteriorating mortgage banking fundamentals should they arise.

I am pleased to report that we have made progress in all of these initiatives although more progress in some areas than others. Specifically, loan originations and purchases for the held for investment portfolio were \$94.1 million in fiscal 2013, a 63% increase from \$57.8 million in fiscal 2012, unfortunately very high principal repayments prevented us from achieving the net growth goal; we increased the core deposits balance by 1% at June 30, 2013 from the same date last year, less than what we intended but progress nonetheless; operating expenses while higher than last year were still well controlled as demonstrated by a 62% efficiency ratio in comparison to 69% last year; and, we increased the quarterly cash dividend to \$0.10 per share while repurchasing 571,087 shares of our common stock and strengthening our regulatory capital ratios.

Additionally, in fiscal 2013, Provident Bank Mortgage originated \$3.5 billion of loans for sale, the best year in our 57 year history in terms of loan origination volume. Also, we increased our retail loan origination volume to 48% of loans originated for sale from 40% last year, our loan sale margin expanded to 194 basis points from 149 basis points and mortgage banking fundamentals were favorable during much of the year.

## Provident Bank

Our fiscal 2014 Business Plan outlines a similar growth strategy to last year combined with a capital management plan where we recognize that growth may be difficult given the uncertain economic climate and less than desirable banking environment. We intend to grow the bank but will remain disciplined in our execution returning capital to shareholders in the form of cash dividends and common stock

repurchases if we believe the growth opportunities carry excessive risk. We will continue to invest in our preferred loan origination capabilities and retail deposit platform primarily within our geographic footprint.

Similar to last year, during the course of fiscal 2014, we will emphasize prudent increases in loans held for investment, the growth of retail deposits (primarily transaction accounts), diligent control of operating expenses and sound capital management decisions. We believe that successful execution of these strategies will enhance our franchise value while limiting our risk profile.

### Provident Bank Mortgage

Mortgage interest rates remain at very low levels (from a historical perspective) but are higher today than last year at this time, rising very quickly over the last four months or so. As a result, current refinance activity has fallen from the elevated levels of last year suggesting that mortgage banking fundamentals are deteriorating to some degree. We expect fiscal 2014 to be a year of transition, from an exceptional mortgage banking environment to one that requires meaningful changes to our mortgage banking operating model. We will change our product offerings commensurate with the changing market; we will continue our focus on purchase money originations versus refinance originations; we will lower our operating expenses consistent with a declining loan origination volume and narrowing loan sale margin; and we will respond to significant changes in regulatory requirements currently scheduled to take effect in January 2014.

### A Final Word

I hope that when you review our Annual Report it generates the same sense of pride in each of you that it does for me. These days it seems, subsequent to the Great Recession, I am often struck with this sense of pride. It can strike when I'm attending the 40th anniversary celebration of our longest tenured banking professional; attending a meeting of a local non-profit organization to award a much needed donation; driving past a remodeled commercial building knowing that we provided the financing to the owner who needed to expand his facility after landing a new contract; or driving through a neighborhood of single-family homes representative of the homes we lend on so families can fulfill their dreams of home ownership. I am proud of our community banking heritage; of helping businesses and families prosper, of supporting the communities we serve; of providing well-paying careers to our dedicated employees; and proud to report above average financial returns to our shareholders.

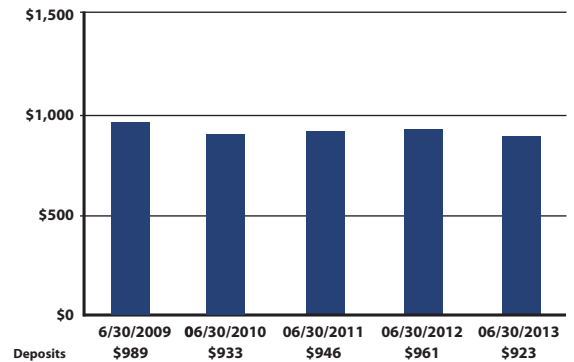
In closing, I wish to thank our staff of banking professionals for the exceptional year they delivered and express my appreciation for the support we receive from customers in the communities we serve and the trust bestowed upon us by our shareholders as we endeavor to continually enhance the franchise value of the company.

Sincerely,

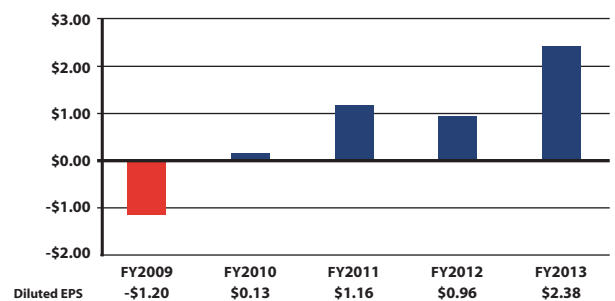


Craig G. Blunden  
Chairman and Chief Executive Officer

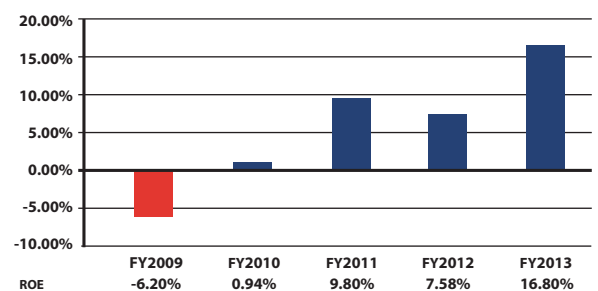
### Deposits (In Millions)



### Diluted Earnings (Loss) Per Share (EPS)



### Return on Average Stockholders' Equity (ROE)



# Financial Highlights

The following tables set forth information concerning the consolidated financial position and results of operations of the Corporation and its subsidiary at the dates and for the periods indicated.

	<b>At or For The Year Ended June 30,</b>				
(In Thousands, except Per Share Information)	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
<b>Financial Condition Data:</b>					
Total assets .....	\$ 1,211,041	\$ 1,260,917	\$ 1,313,724	\$ 1,398,576	\$ 1,578,788
Loans held for investment, net .....	748,397	796,836	881,610	1,006,260	1,165,529
Loans held for sale, at fair value .....	188,050	231,639	191,678	170,255	135,490
Loans held for sale, at lower of cost or market .....	-	-	-	-	10,555
Cash and cash equivalents .....	193,839	145,136	142,550	96,201	56,903
Investment securities .....	19,510	22,898	26,193	35,003	125,279
Deposits .....	923,010	961,411	945,767	932,933	989,245
Borrowings .....	106,491	126,546	206,598	309,647	456,692
Stockholders' equity .....	159,974	144,777	140,918	126,919	114,085
Book value per share .....	15.40	13.34	12.34	11.13	18.34
<b>Operating Data:</b>					
Interest income .....	\$ 44,161	\$ 51,435	\$ 58,689	\$ 70,163	\$ 85,924
Interest expense .....	10,804	14,705	20,940	30,585	42,156
Net interest income .....	33,357	36,730	37,749	39,578	43,768
(Recovery) provision for loan losses ...	(1,499)	5,777	5,465	21,843	48,672
Net interest income (expense) after (recovery) provision for loan losses ..	34,856	30,953	32,284	17,735	(4,904)
Loan servicing and other fees .....	1,093	733	892	797	869
Gain on sale of loans, net .....	68,493	38,017	31,194	14,338	16,971
Deposit account fees .....	2,449	2,438	2,504	2,823	2,899
Net gain on sale of investment securities	-	-	-	2,290	356
Gain (loss) on sale and operations of real estate owned acquired in the settlement of loans, net .....	916	(120)	(1,351)	16	(2,469)
Gain on sale of premises and equipment	-	-	1,089	-	-
Card and processing fees .....	1,292	1,282	1,274	1,110	825
Other non-interest income .....	957	800	755	885	758
Operating expenses .....	67,343	55,365	45,372	38,139	29,980
Income (loss) before income taxes ....	42,713	18,738	23,269	1,855	(14,675)
Provision (benefit) for income taxes ...	16,916	7,928	10,049	740	(7,236)
Net income (loss) .....	\$ 25,797	\$ 10,810	\$ 13,220	\$ 1,115	\$ (7,439)
Basic earnings (loss) per share .....	\$ 2.43	\$ 0.96	\$ 1.16	\$ 0.13	\$ (1.20)
Diluted earnings (loss) per share .....	\$ 2.38	\$ 0.96	\$ 1.16	\$ 0.13	\$ (1.20)
Cash dividend per share .....	\$ 0.24	\$ 0.14	\$ 0.04	\$ 0.04	\$ 0.16

# Financial Highlights

At or For The Year Ended June 30,

	2013	2012	2011	2010	2009
<b>Key Operating Ratios:</b>					
<b>Performance Ratios</b>					
Return (loss) on average assets .....	2.09 %	0.84 %	0.97 %	0.08 %	(0.47)%
Return (loss) on average stockholders' equity ..	16.80	7.58	9.80	0.94	(6.20)
Interest rate spread .....	2.69	2.83	2.76	2.71	2.68
Net interest margin .....	2.80	2.95	2.90	2.83	2.86
Average interest-earning assets to average interest-bearing liabilities .....	112.46	110.53	108.31	105.68	106.62
Operating and administrative expenses as a percentage of average total assets .....	5.44	4.29	3.33	2.61	1.90
Efficiency ratio <sup>(1)</sup> .....	62.03	69.31	61.23	61.68	46.86
Stockholders' equity to total assets ratio .....	13.21	11.48	10.73	9.07	7.23
Dividend payout ratio .....	10.08	14.58	3.45	30.77	NM
<b>Regulatory Capital Ratios</b>					
Tier 1 leverage capital ratio .....	13.12 %	11.26 %	10.47 %	8.77 %	6.83 %
Tier 1 risk-based capital ratio .....	21.36	17.53	16.22	11.83	11.70
Total risk-based capital ratio .....	22.64	18.79	17.48	13.10	12.97
<b>Asset Quality Ratios</b>					
Non-performing loans as a percentage of loans held for investment, net .....	2.90 %	4.33 %	4.21 %	5.84 %	6.16 %
Non-performing assets as a percentage of total assets .....	1.98	3.17	3.46	5.25	5.59
Allowance for loan losses as a percentage of gross loans held for investment .....	1.96	2.63	3.34	4.14	3.75
Allowance for loan losses as a percentage of gross non-performing loans .....	58.77	52.45	59.49	56.78	46.77
Net charge-offs to average loans receivable, net	0.51	1.38	1.67	1.96	1.72

<sup>(1)</sup> Non-interest expense as a percentage of net interest income and non-interest income.

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

(Mark one)

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

For the fiscal year ended June 30, 2013 OR

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

Commission File Number: 000-28304

PROVIDENT FINANCIAL HOLDINGS, INC.  
(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation  
or organization)

3756 Central Avenue, Riverside, California

(Address of principal executive offices)

33-0704889

(I.R.S. Employer  
Identification Number)

92506

(Zip Code)

Registrant's telephone number, including area code: (951) 686-6060

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

Common Stock, par value \$.01 per share  
(Title of Each Class)

The NASDAQ Stock Market LLC  
(Name of Each Exchange on Which Registered)

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES \_\_\_ NO X.

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES \_\_\_ NO X.

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

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

Indicate by check mark whether disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or other information statements incorporated by reference in Part III of this Form 10-K or any amendments to this Form 10-K. [X]

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

Large accelerated filer \_\_\_

Accelerated filer X

Non-accelerated filer \_\_\_ (Do not check if a smaller reporting company)

Smaller reporting company \_\_\_

Indicate by check mark whether the Registrant is a shell company (as defined in Exchange Act Rule 12b-2).

YES \_\_\_ NO X.

The Registrant's common stock is listed on the NASDAQ Global Select Market under the symbol "PROV." The aggregate market value of the common stock held by non affiliates of the Registrant, based on the closing sales price of the Registrant's common stock as quoted on the NASDAQ Global Select Market on December 31, 2012, was \$170.1 million. As of September 5, 2013, there were 10,212,852 shares of the Registrant's common stock issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of the Annual Report to Shareholders are incorporated by reference into Part II.
2. Portions of the definitive Proxy Statement for the fiscal 2013 Annual Meeting of Shareholders (“Proxy Statement”) are incorporated by reference into Part III.

# PROVIDENT FINANCIAL HOLDINGS, INC.

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Signatures

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As used in this report, the terms “we,” “our,” “us,” and “Provident” refer to Provident Financial Holdings, Inc. and its consolidated subsidiaries, unless the context indicates otherwise. When we refer to the “Bank” or “Provident Savings Bank” in this report, we are referring to Provident Savings Bank, F.S.B., a wholly owned subsidiary of Provident Financial Holdings, Inc.

## PART I

### **Item 1. Business**

#### **General**

Provident Financial Holdings, Inc. (the “Corporation”), a Delaware corporation, was organized in January 1996 for the purpose of becoming the holding company of Provident Savings Bank, F.S.B. (the “Bank”) upon the Bank’s conversion from a federal mutual to a federal stock savings bank (“Conversion”). The Conversion was completed on June 27, 1996. At June 30, 2013, the Corporation had consolidated total assets of \$1.21 billion, total deposits of \$923.0 million and stockholders’ equity of \$160.0 million. The Corporation has not engaged in any significant activity other than holding the stock of the Bank. Accordingly, the information set forth in this Annual Report on Form 10-K (“Form 10-K”), including the audited consolidated financial statements and related data, relates primarily to the Bank and its subsidiaries.

The Bank, founded in 1956, is a federally chartered stock savings bank headquartered in Riverside, California. Prior to July 21, 2011, the Bank was regulated by the Office of Thrift Supervision (“OTS”). As a result of the enactment on July 21, 2010 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”), the Bank is now regulated by the Office of Comptroller of the Currency (“OCC”), its primary federal regulator, and the Federal Deposit Insurance Corporation (“FDIC”), the insurer of its deposits. The Bank’s deposits are federally insured up to applicable limits by the FDIC. The Bank has been a member of the Federal Home Loan Bank (“FHLB”) – San Francisco since 1956.

The Dodd-Frank Act also changed the regulator of all savings and loan holding companies, including the Corporation, from the OTS to the Board of Governors of the Federal Reserve System (the “Federal Reserve Board”). For additional information regarding the Dodd-Frank Act, see “Regulation” included in this Form 10-K.

The Bank is a financial services company committed to serving consumers and small to mid-sized businesses in the Inland Empire region of Southern California. The Bank conducts its business operations as Provident Bank, Provident Bank Mortgage (“PBM”), a division of the Bank, and through its subsidiary, Provident Financial Corp. The business activities of the Bank consist of community banking, mortgage banking, investment services and trustee services for real estate transactions. Financial information regarding the Corporation’s two operating segments, Provident Bank and Provident Bank Mortgage, is contained in Note 17 to the Corporation’s audited consolidated financial statements included in Item 8 of this Form 10-K.

The Bank’s community banking operations primarily consist of accepting deposits from customers within the communities surrounding its full service offices and investing those funds in single-family, multi-family, commercial real estate, construction, commercial business, consumer and other mortgage loans. The Bank’s mortgage banking activities primarily consist of the origination, purchase and sale of single-family mortgage loans (including second mortgages and equity lines of credit). Through its subsidiary, Provident Financial Corp, the Bank conducts trustee services for the Bank’s real estate transactions and in the past has held real estate for investment. See “Subsidiary Activities” in this Form 10-K. The activities of Provident Financial Corp are included in the Bank’s operating segment results. The Bank’s revenues are derived principally from interest earned on its loan and investment portfolios, and fees generated through its community banking and mortgage banking activities.

On June 22, 2006, the Bank established the Provident Savings Bank Charitable Foundation (“Foundation”) in order to further its commitment to the local community. The specific purpose of the Foundation is to promote and provide for the betterment of youth, education, housing and the arts in the Bank’s primary market areas of Riverside and San Bernardino counties. The Foundation was funded with a \$500,000 charitable contribution made by the Bank in the fourth quarter of fiscal 2006. The Bank has contributed \$40,000 annually to the Foundation in fiscal 2013, 2012 and 2011.

#### **Subsequent Events:**

On July 30, 2013, the Corporation announced that the Corporation’s Board of Directors declared a cash dividend of \$0.10 per share, reflecting a 43 percent increase from the \$0.07 per share cash dividend paid on June 11, 2013. Shareholders of the Corporation’s common stock at the close of business on August 21, 2013 were entitled to receive the cash dividend, which was paid on September 10, 2013.

On July 30, 2013, the Bank’s Board of Directors declared a \$10.0 million cash dividend from the Bank to the Corporation, which was paid on August 1, 2013.

On July 30, 2013, the Corporation's Board of Directors amended the Corporation's By-Laws, effective July 30, 2013. The Board amended Article III, Section 3 of the By-Laws to provide that in general, no person shall qualify for service as a director of the Corporation if such person is a party to any compensatory, payment or other financial agreement, arrangement or understanding with any person or entity other than the Corporation in connection with candidacy or service as a director of the Corporation.

### **Market Area**

The Bank is headquartered in Riverside, California and operates 14 full-service banking offices in Riverside County and one full-service banking office in San Bernardino County. Management considers Riverside and Western San Bernardino counties to be the Bank's primary market for deposits. Through the operations of PBM, the Bank has expanded its mortgage lending market to include most of Southern California and some of Northern California. PBM operates two wholesale loan production offices in Pleasanton and Rancho Cucamonga, California and 18 retail loan production offices in City of Industry, Escondido, Fairfield, Glendora, Hermosa Beach, Pleasanton, Rancho Cucamonga (2), Riverside (4), Roseville, San Diego, San Rafael, Santa Barbara, Stockton and Westlake Village, California.

The large geographic area encompassing Riverside and San Bernardino counties is referred to as the "Inland Empire." According to 2010 Census Bureau population statistics, Riverside and San Bernardino Counties have the fourth and fifth largest populations in California, respectively. The Bank's market area consists primarily of suburban and urban communities. Western Riverside and San Bernardino counties are relatively densely populated and are within the greater Los Angeles metropolitan area. The unemployment rate in the Inland Empire in June 2013 was 10.2%, compared to 8.5% in California and 7.6% nationwide, according to the United States of America ("U.S.") Department of Labor, Bureau of Labor Statistics. Current unemployment data improved slightly, yet remains weak, as compared to the unemployment data reported in June 2012 of 12.6% in the Inland Empire, 10.7% in California and 8.2% nationwide.

Lenders filed 25,747 Notices of Default ("NoDs") during the quarter ended June 30, 2013 period. That was up 38.7 percent from 18,568 for the previous quarter, and down 52.9 percent from 54,615 for same quarter last year. NoD filings plummeted early this year as a package of new state foreclosure laws - the "Homeowner Bill of Rights" - took effect on January 1, 2013. In California and other states in recent years foreclosure activity has sometimes plunged temporarily after a new law goes into effect and the industry takes time to adjust. Setting aside this year's first quarter, last quarter's NoD tally was the lowest since second-quarter 2006, when 20,909 NoDs were recorded. California NoDs peaked in first-quarter 2009 at 135,431 (Source: DataQuick; DQNews.com – July 23, 2013 News Release).

June home sales in California have varied from a low of 35,202 in 2008 to a high of 76,669 in 2004. The estimated home sales in June 2013 were 41,027, 16.8 percent below the average of 49,301 sales for all the months of June since 1988. The median price paid for a home in California in June 2013 was \$352,000, up 3.5 percent from \$340,000 in May 2013 and up a record 28.5 percent from \$274,000 in June 2012. June 2013 was the 16th consecutive month in which the state's median sale price rose year-over-year. In March - May 2007 the median peaked at \$484,000. The post-peak trough was \$221,000 in April 2009. Of the existing homes sold in June 2013, 10.0 percent were properties that had been foreclosed on during the past year – the lowest level since foreclosure resales were 9.4 percent of the resale market in August 2007. June 2013's figure was down from a revised 11.3 percent in May 2013 and 24.9 percent a year earlier. Foreclosure resales peaked at 58.8 percent in February 2009 (Source: DataQuick; DQNews.com – July 18, 2013 News Release).

### **Competition**

The Bank faces significant competition in its market area in originating real estate loans and attracting deposits. The population growth in the Inland Empire has attracted numerous financial institutions to the Bank's market area. The Bank's primary competitors are large national and regional commercial banks as well as other community-oriented banks and savings institutions. The Bank also faces competition from credit unions and a large number of mortgage companies that operate within its market area. Many of these institutions are significantly larger than the Bank and therefore have greater financial and marketing resources than the Bank. The Bank's mortgage banking operations also face competition from mortgage bankers, brokers and other financial institutions. This competition may limit the Bank's growth and profitability in the future.

## **Personnel**

As of June 30, 2013, the Bank had 595 full-time equivalent employees, which consisted of 528 full-time, 49 prime-time, nine part-time and nine temporary employees. The employees are not represented by a collective bargaining unit and the Bank believes that its relationship with employees is good.

## **Segment Reporting**

Financial information regarding the Corporation's operating segments is contained in Note 17 to the Corporation's audited consolidated financial statements included in Item 8 of this Form 10-K.

## **Internet Website**

The Corporation maintains a website at [www.myprovident.com](http://www.myprovident.com). The information contained on that website is not included as a part of, or incorporated by reference into, this Annual Report on Form 10-K. Other than an investor's own internet access charges, the Corporation makes available free of charge through that website the Corporation's Annual Report on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, and amendments to these reports, as soon as reasonably practicable after these materials have been electronically filed with, or furnished to, the Securities and Exchange Commission ("SEC"). In addition, the SEC maintains a website that contains reports, proxy and information statements, and other information regarding companies that file electronically with the SEC. This information is available at [www.sec.gov](http://www.sec.gov).

## **Lending Activities**

**General.** The lending activity of the Bank is predominately comprised of the origination of first mortgage loans secured by single-family residential properties to be held for sale and, to a lesser extent, to be held for investment. The Bank also originates multi-family and commercial real estate loans and, to a lesser extent, commercial business, construction, consumer and other mortgage loans to be held for investment. The Bank's net loans held for investment were \$748.4 million at June 30, 2013, representing 61.8% of consolidated total assets. This compares to \$796.8 million, or 63.2% of consolidated total assets, at June 30, 2012.

At June 30, 2013, the maximum amount that the Bank could have loaned to any one borrower and the borrower's related entities under applicable regulations was \$26.1 million, or 15% of the Bank's unimpaired capital and surplus. At June 30, 2013, the Bank had no loans or group of loans to related borrowers with outstanding balances in excess of this amount. The Bank's five largest lending relationships at June 30, 2013 consisted of: seven multi-family loans and two commercial real estate loans totaling \$6.9 million to one group of borrowers; one commercial real estate loan totaling \$6.1 million to one group of borrowers; three multi-family loans and one commercial real estate loan totaling \$5.5 million to one group of borrowers; two commercial real estate loans totaling \$5.5 million to one group of borrowers; and two commercial real estate loans totaling \$5.2 million to one group of borrowers. The real estate collateral for these loans are located in Southern California. At June 30, 2013, all of these loans were performing in accordance with their repayment terms.

**Loans Held For Investment Analysis.** The following table sets forth the composition of the Bank's loans held for investment at the dates indicated.

(Dollars In Thousands)	At June 30,									
	2013		2012		2011		2010		2009	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Mortgage loans:										
Single-family	\$ 404,341	53.09%	\$ 439,024	53.79%	\$ 494,192	54.34%	\$ 583,126	55.73%	\$ 694,354	57.52%
Multi-family	262,316	34.45	278,057	34.07	304,808	33.52	343,551	32.83	372,623	30.87
Commercial real estate	92,488	12.14	95,302	11.67	103,637	11.39	110,310	10.54	122,697	10.17
Construction	292	0.04	—	—	—	—	400	0.04	4,513	0.37
Other	—	—	755	0.09	1,530	0.17	1,532	0.15	2,513	0.21
<b>Total mortgage loans</b>	<b>759,437</b>	<b>99.72</b>	<b>813,138</b>	<b>99.62</b>	<b>904,167</b>	<b>99.42</b>	<b>1,038,919</b>	<b>99.29</b>	<b>1,196,700</b>	<b>99.14</b>
Commercial business loans	1,687	0.22	2,580	0.32	4,526	0.50	6,620	0.63	9,183	0.76
Consumer loans	437	0.06	506	0.06	750	0.08	857	0.08	1,151	0.10
<b>Total loans held for investment, gross</b>	<b>761,561</b>	<b>100.00%</b>	<b>816,224</b>	<b>100.00%</b>	<b>909,443</b>	<b>100.00%</b>	<b>1,046,396</b>	<b>100.00%</b>	<b>1,207,034</b>	<b>100.00%</b>
Undisbursed loan funds	(292)		—		—		—		(305)	
Deferred loan costs, net	2,063		2,095		2,649		3,365		4,245	
Allowance for loan losses	(14,935)		(21,483)		(30,482)		(43,501)		(45,445)	
<b>Total loans held for investment, net</b>	<b>\$ 748,397</b>		<b>\$ 796,836</b>		<b>\$ 881,610</b>		<b>\$ 1,006,260</b>		<b>\$ 1,165,529</b>	

**Maturity of Loans Held for Investment.** The following table sets forth information at June 30, 2013 regarding the dollar amount of principal payments becoming contractually due during the periods indicated for loans held for investment. Demand loans, loans having no stated schedule of principal payments, loans having no stated maturity, and overdrafts are reported as becoming due within one year. The table does not include any estimate of prepayments, which can significantly shorten the average life of loans held for investment and may cause the Bank's actual principal payment experience to differ materially from that shown below.

(In Thousands)	Within One Year	After One Year Through 3 Years	After 3 Years Through 5 Years	After 5 Years Through 10 Years	Beyond 10 Years	Total
Mortgage loans:						
Single-family	\$ 1	\$ 353	\$ 1,145	\$ 8,183	\$ 394,659	\$ 404,341
Multi-family	1,563	29,967	24,816	24,278	181,692	262,316
Commercial real estate	6,367	20,169	23,981	30,720	11,251	92,488
Construction	292	—	—	—	—	292
Commercial business loans	800	558	13	316	—	1,687
Consumer loans	437	—	—	—	—	437
<b>Total loans held for investment, gross</b>	<b>\$ 9,460</b>	<b>\$ 51,047</b>	<b>\$ 49,955</b>	<b>\$ 63,497</b>	<b>\$ 587,602</b>	<b>\$ 761,561</b>

The following table sets forth the dollar amount of all loans held for investment due after June 30, 2014 which have fixed and floating or adjustable interest rates.

(In Thousands)	Fixed-Rate	% <sup>(1)</sup>	Floating or Adjustable Rate	% <sup>(1)</sup>
Mortgage loans:				
Single-family	\$ 14,350	4%	\$ 389,990	96%
Multi-family	10,760	4%	249,993	96%
Commercial real estate	13,946	16%	72,175	84%
Commercial business loans	711	80%	176	20%
Total loans held for investment, gross	\$ 39,767	5%	\$ 712,334	95%

<sup>(1)</sup> As a percentage of each category.

Scheduled contractual principal payments of loans do not reflect the actual life of such assets. The average life of loans is substantially less than their contractual terms because of prepayments. In addition, due-on-sale clauses generally give the Bank the right to declare loans immediately due and payable in the event, among other things, the borrower sells the real property that secures the loan. The average life of mortgage loans tends to increase, however, when current market interest rates are substantially higher than the interest rates on existing loans held for investment and, conversely, decrease when the interest rates on existing loans held for investment are substantially higher than current market interest rates, as borrowers are generally less inclined to refinance their loans when market rates increase and more inclined to refinance their loans when market rates decrease.

**Single-Family Mortgage Loans.** The Bank's predominant lending activity is the origination by PBM of loans secured by first mortgages on owner-occupied, single-family (one to four units) residences in the communities where the Bank has established full service branches and loan production offices. At June 30, 2013, total single-family loans held for investment decreased to \$404.3 million, or 53.1% of the total loans held for investment, from \$439.0 million, or 53.8% of the total loans held for investment, at June 30, 2012. The decrease in the single-family loans in fiscal 2013 was primarily attributable to loan principal payments and real estate owned acquired in the settlement of loans, partly offset by new loans originated for investment.

The Bank's residential mortgage loans are generally underwritten and documented in accordance with guidelines established by institutional loan buyers, Freddie Mac, Fannie Mae and the Federal Housing Administration ("FHA") (collectively, "the secondary market"). All conforming agency loans are generally underwritten and documented in accordance with the guidelines established by these secondary market purchasers, as well as the Department of Housing and Urban Development ("HUD"), FHA and the Veterans' Administration ("VA"). Loans are normally classified as either conforming (meeting agency criteria) or non-conforming (meeting an investor's criteria). Non-conforming loans are typically those that exceed agency loan limits but closely mirror agency underwriting criteria. The non-conforming loans are underwritten to expanded guidelines allowing a borrower with good credit a broader range of product choices. Given the recent market environment, PBM has expanded the production of FHA, VA, Freddie Mac and Fannie Mae loans.

In fiscal 2009, the Bank implemented tighter underwriting standards commensurate with the decline in real estate market conditions. These standards remain in place today. The Bank requires verified documentation of income and assets from borrowers and our underwriting conforms to agency mandated credit score requirements. Generally, mortgage insurance is required on all loans exceeding 80% loan-to-value based on the lower of purchase price or appraised value. Loan-to-value ("LTV") is the ratio calculated by dividing the original loan balance by the lower of the original appraised value or purchase price of the real estate collateral. The maximum allowable loan-to-value is 97% on a purchase transaction for conventional financing with mortgage insurance and 96.5% loan-to-value for FHA financing with mortgage insurance. Second home purchases and rate and term refinance transactions are capped at 90% loan-to-value with mortgage insurance. Non-owner occupied purchase and rate and term refinance transactions are capped at 80% loan-to-value while non-owner occupied refinance cash-out transactions are capped at 75% loan-to-value. We manage our underwriting standards, loan-to-value ratios and credit standards to the currently required agency and investor policies and guidelines. These standards may change at any time, given changes in real estate market conditions, secondary mortgage market requirements and changes to investor policies and guidelines.

The Bank previously offered closed-end, fixed-rate home equity loans that were secured by the borrower's primary residence. These loans did not exceed 100% of the appraised value of the residence and have terms of up to 15 years requiring monthly payments of principal and interest. At June 30, 2013, home equity loans amounted to \$1.1 million or 0.3% of single-family loans held for

investment, as compared to \$1.5 million or 0.4% of single-family loans held for investment at June 30, 2012. The Bank also offered secured lines of credit, which are generally secured by a second mortgage on the borrower's primary residence up to 100% of the appraised value of the residence. Secured lines of credit have an interest rate that is typically one to two percentage points above the prime lending rate. As of June 30, 2013 and 2012, the outstanding balance of secured lines of credit was \$1.2 million at both dates. The Bank ceased the origination of home equity loans and secured lines of credit in the second quarter of fiscal 2008 as a result of the deterioration in single-family real estate values.

The Bank offers adjustable rate mortgage ("ARM") loans at rates and terms competitive with market conditions. Substantially all of the ARM loans originated by the Bank meet the underwriting standards of the secondary market. The Bank offers several ARM products, which adjust monthly, semi-annually, or annually after an initial fixed period ranging from one month to five years subject to a limitation on the annual increase of one to two percentage points and an overall limitation of three to six percentage points. The following indexes, plus a margin of 2.00% to 3.25%, are used to calculate the periodic interest rate changes; the London Interbank Offered Rate ("LIBOR"), the FHLB Eleventh District cost of funds ("COFI"), the 12-month average U.S. Treasury ("12 MAT") or the weekly average yield on one year U.S. Treasury securities adjusted to a constant maturity of one year ("CMT"). Loans based on the LIBOR index constitute a majority of the Bank's loans held for investment. The majority of the ARM loans held for investment have three or five-year fixed periods prior to the first adjustment ("3/1 or 5/1 hybrids"), and do not require principal amortization for up to 120 months. Loans of this type have embedded interest rate risk if interest rates should rise during the initial fixed rate period.

As of June 30, 2013, the Bank had \$187.3 million of interest-only single-family loans. The reset of interest rates on ARM loans, primarily interest-only single-family loans, to fully-amortizing status has not created a payment shock for most borrowers primarily because the majority of loans are repricing at 2.75% over six-month LIBOR, which has resulted in a lower interest rate than the borrower's pre-adjustment interest rate. Management expects that the economic recovery will be slow to develop, which may translate to an extended period of lower interest rates and a reduced risk of mortgage payment shock for the foreseeable future, though the continuation of weak economic conditions may increase the risk of delinquencies and defaults. The higher delinquency levels experienced by the Bank in fiscal 2008 through 2011 was primarily due to high unemployment, the recent U.S. recession, weak economic conditions and the decline in real estate values, particularly in California. It should be noted, however, that the delinquency level experienced since fiscal 2012 has improved, primarily due to an improvement in real estate markets and general economic conditions, as compared to the levels experienced in fiscal 2008 through 2011.

In fiscal 2006, during the Bank's 50<sup>th</sup> Anniversary, the Bank offered 50-year single-family ARM loans. At June 30, 2013, the Bank had 32 loans with 50-year terms outstanding for \$11.8 million, compared to 32 loans for \$11.9 million at June 30, 2012.

As of June 30, 2013, the Bank had \$33.3 million in negative amortization mortgage loans (a loan in which accrued interest exceeding the required monthly loan payment may be added to the loan principal), which consisted of \$24.4 million of multi-family loans, \$5.1 million of single-family loans and \$3.8 million of commercial real estate loans. This compares to \$40.2 million at June 30, 2012, which consisted of \$26.7 million of multi-family loans, \$7.0 million of commercial real estate loans and \$6.5 million of single-family loans. Negative amortization involves a greater risk to the Bank because the credit risk exposure increases when the loan incurs negative amortization and the value of the property serving as collateral for the loan does not increase proportionally. Negative amortization is only permitted up to a specific level, typically up to 115% of the original loan amount, and the payment on such loans is subject to increased payments when the level is reached, adjusting periodically as provided in the loan documents and potentially resulting in a higher payment by the borrower. The adjustment of these loans to higher payment requirements can be a substantial factor in higher delinquency levels because the borrower may not be able to make the higher payments. Also, real estate values may decline and credit standards may tighten in concert with the higher payment requirement, making it difficult for borrowers to sell their homes or refinance their mortgages to pay off their mortgage obligation.

Borrower demand for ARM loans versus fixed-rate mortgage loans is a function of the level of interest rates, the expectations of changes in the level of interest rates and the difference between the initial interest rates and fees charged for each type of loan. The relative amount of fixed-rate mortgage loans and ARM loans that can be originated at any time is largely determined by the demand for each product in a given interest rate and competitive environment. Given the recent market environment, the production of ARM loans has been substantially reduced because borrowers favor fixed rate mortgages.

The retention of ARM loans, rather than fixed-rate loans, helps to reduce the Bank's exposure to changes in interest rates. There is, however, unquantifiable credit risk resulting from the potential of increased interest charges to be paid by the borrower as a result of increases in interest rates or the expiration of interest-only periods. It is possible that, during periods of rising interest rates, the risk of default on ARM loans may increase as a result of the increase in the required payment from the borrower. Furthermore, the risk of default may increase because ARM loans originated by the Bank occasionally provide, as a marketing incentive, for initial rates of interest below those rates that would apply if the adjustment index plus the applicable margin were initially used for pricing. Because of these characteristics, ARM loans are subject to increased risks of default or

delinquency. Additionally, while ARM loans allow the Bank to decrease the sensitivity of its assets as a result of changes in interest rates, the extent of this interest sensitivity is limited by the periodic and lifetime interest rate adjustment limits.

In addition to fully amortizing ARM loans, the Bank has interest-only ARM loans, which typically have a fixed interest rate for the first three to five years, followed by a periodic adjustable interest rate, coupled with an interest only payment of three to ten years, followed by a fully amortizing loan payment for the remaining term. As of June 30, 2013 and 2012, interest-only, first trust deed, ARM loans were \$187.3 million and \$209.1 million, or 24.6% and 25.6%, respectively, of the loans held for investment. Furthermore, because loan indexes may not respond perfectly to changes in market interest rates, upward adjustments on loans may occur more slowly than increases in the Bank's cost of interest-bearing liabilities, especially during periods of rapidly increasing interest rates. Because of these characteristics, the Bank has no assurance that yields on ARM loans will be sufficient to offset increases in the Bank's cost of funds.

The following table describes certain credit risk characteristics of the Bank's single-family, first trust deed, mortgage loans held for investment as of June 30, 2013:

(Dollars In Thousands)	Outstanding Balance <sup>(1)</sup>	Weighted-Average FICO <sup>(2)</sup>	Weighted-Average LTV	Weighted-Average Seasoning <sup>(3)</sup>
Interest only	\$187,303	734	72%	6.82 years
Stated income <sup>(4)</sup>	\$197,948	731	69%	7.51 years
FICO less than or equal to 660	\$13,494	642	65%	7.73 years
Over 30-year amortization	\$16,561	733	66%	7.85 years

(1) The outstanding balance presented on this table may overlap more than one category. Of the outstanding balance, \$6.7 million of "interest only," \$10.7 million of "stated income," \$1.6 million of "FICO less than or equal to 660," and \$240,000 of "over 30-year amortization" balances were non-performing.

(2) The FICO score represents the creditworthiness of a borrower based on the borrower's credit history, as reported by an independent third party. A higher FICO score indicates a greater degree of creditworthiness. Bank regulators have issued guidance stating that a FICO score of 660 and below is indicative of a "subprime" borrower.

(3) Seasoning describes the number of years since the funding date of the loan.

(4) Stated income is defined as a loan to a borrower whose stated income on his/her loan application was not subject to verification during the loan origination process.

The following table summarizes the amortization schedule of the Bank's interest only single-family, first trust deed, mortgage loans held for investment, including the percentage of those which are identified as non-performing or 30 – 89 days delinquent as of June 30, 2013:

(Dollars In Thousands)	Balance	Non-Performing <sup>(1)</sup>	30 - 89 Days Delinquent <sup>(1)</sup>
Fully amortize in the next 12 months	\$ 3,033	—%	—%
Fully amortize between 1 year and 5 years	182,767	4%	—%
Fully amortize after 5 years	1,503	—%	—%
Total	\$ 187,303	4%	—%

(1) As a percentage of each category.



The following table summarizes the interest rate reset (repricing) schedule of the Bank's stated income single-family, first trust deed, mortgage loans held for investment, including the percentage of those which are identified as non-performing or 30 – 89 days delinquent as of June 30, 2013:

(Dollars In Thousands)	Balance <sup>(1)</sup>	Non-Performing <sup>(1)</sup>	30 - 89 Days Delinquent <sup>(1)</sup>
Interest rate reset in the next 12 months	\$ 192,359	5%	—%
Interest rate reset between 1 year and 5 years	5,589	23%	—%
Interest rate reset after 5 years	—	—%	—%
Total	\$ 197,948	5%	—%

<sup>(1)</sup> As a percentage of each category. Also, the loan balances and percentages on this table may overlap with the table describing interest only single-family, first trust deed, mortgage loans held for investment.

A decline in real estate values subsequent to the time of origination of our real estate secured loans could result in higher loan delinquency levels, foreclosures, provisions for loan losses and net charge-offs. Real estate values and real estate markets are beyond the Bank's control and are generally affected by changes in national, regional or local economic conditions and other factors. These factors include fluctuations in interest rates and the availability of loans to potential purchasers, changes in tax laws and other governmental statutes, regulations and policies and acts of nature, such as earthquakes and other natural disasters particular to California where substantially all of our real estate collateral is located. If real estate values decline from the levels at the time of loan origination, the value of our real estate collateral securing the loans could be significantly reduced. The Bank's ability to recover on defaulted loans by foreclosing and selling the real estate collateral would then be diminished and it would be more likely to suffer losses on defaulted loans. Additionally, the Bank does not periodically update the LTV ratios on its loans held for investment by obtaining new appraisals or broker price opinions unless a specific loan has demonstrated deterioration or the Bank receives a loan modification request from a borrower. Therefore, it is reasonable to assume that the LTV ratios disclosed in the following table may be understated in comparison to the current LTV ratios as a result of the year of origination, the subsequent general decline in real estate values that may have occurred and the specific location of the individual properties. The Bank cannot quantify the current LTV ratios on its loans held for investment or quantify the impact of the decline in real estate values to the original LTV ratios on its loans held for investment by loan type, geography, or other subsets.

The following table provides a detailed breakdown of the Bank's single-family, first trust deed, mortgage loans held for investment by the calendar year of origination and geographic location as of June 30, 2013:

(Dollars In Thousands)	Calendar Year of Origination									Total
	2004 & Prior	2005	2006	2007	2008	2009	2010	2011-2012	YTD June 30, 2013	
Loan balance	\$79,526	\$118,025	\$103,421	\$58,567	\$27,466	\$1,379	\$ 449	\$ 8,527	\$ 4,825	\$402,185
Weighted average LTV <sup>(1)</sup>	65%	68%	70%	72%	76%	62%	86%	59%	51%	69%
Weighted average age (in years)	9.95	7.92	6.97	6.01	5.25	3.92	2.89	1.11	0.21	7.36
Weighted average FICO	721	729	741	732	743	732	744	747	763	733
Number of loans	360	323	240	120	51	5	3	34	23	1,159
Geographic breakdown (%)										
Inland Empire	33%	29%	29%	30%	27%	77%	51%	25%	12%	29%
Southern California (other than Inland Empire)	62%	66%	53%	38%	39%	23%	49%	37%	57%	55%
Other California	5%	5%	16%	31%	34%	—%	—%	38%	31%	15%
Other states	—%	—%	2%	1%	—%	—%	—%	—%	—%	1%
	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

<sup>(1)</sup> Current loan balance in comparison to the original appraised value. Due to the decline in single-family real estate values, the weighted average LTV presented above may be significantly understated to current market values.

**Multi-Family and Commercial Real Estate Mortgage Loans.** At June 30, 2013, multi-family mortgage loans were \$262.3 million and commercial real estate loans were \$92.5 million, or 34.4% and 12.1%, respectively, of loans held for investment. This

compares to multi-family mortgage loans of \$278.1 million and commercial real estate loans of \$95.3 million, or 34.1% and 11.7%, respectively, of loans held for investment at June 30, 2012. Consistent with its strategy to diversify the composition of loans held for investment, the Bank has made the origination and purchase of multi-family and commercial real estate loans a priority. During fiscal 2013 the Bank originated \$69.8 million and purchased \$12.8 million of multi-family and commercial real estate loans, all of which were re-underwritten in accordance with the Bank's origination guidelines. This compares to loan originations of \$46.6 million and purchases of \$8.2 million during fiscal 2012. At June 30, 2013, the Bank had 358 multi-family and 111 commercial real estate loans in loans held for investment.

Multi-family mortgage loans originated by the Bank are predominately adjustable rate loans, including 3/1, 5/1 and 7/1 hybrids, with a term to maturity of 10 to 30 years and a 25 to 30 year amortization schedule. Commercial real estate loans originated by the Bank are also predominately adjustable rate loans, including 3/1 and 5/1 hybrids, with a term to maturity of 10 years and a 25 year amortization schedule. Rates on multi-family and commercial real estate ARM loans generally adjust monthly, quarterly, semi-annually or annually at a specific margin over the respective interest rate index, subject to annual interest rate caps and life-of-loan interest rate caps. At June 30, 2013, \$222.5 million, or 84.8%, of the Bank's multi-family loans were secured by five to 36 unit projects. The Bank's commercial real estate loan portfolio generally consists of loans secured by small office buildings, light industrial centers, warehouses and small retail centers. Properties securing multi-family and commercial real estate loans are primarily located in Los Angeles, Orange, Riverside, San Bernardino and San Diego counties. The Bank originates multi-family and commercial real estate loans in amounts typically ranging from \$350,000 to \$4.0 million. At June 30, 2013, the Bank had 49 commercial real estate and multi-family loans with principal balances greater than \$1.5 million totaling \$122.4 million, all of which were performing in accordance with their terms. The Bank obtains appraisals on all properties that secure multi-family and commercial real estate loans. Underwriting of multi-family and commercial real estate loans includes, among other considerations, a thorough analysis of the cash flows generated by the property to support the debt service and the financial resources, experience and the income level of the borrowers and guarantors.

Multi-family and commercial real estate loans afford the Bank an opportunity to price the loans with higher interest rates than those generally available from single-family mortgage loans. However, loans secured by such properties are generally greater in amount, more difficult to evaluate and monitor and are more susceptible to default as a result of general economic conditions and, therefore, involve a greater degree of risk than single-family residential mortgage loans. Because payments on loans secured by multi-family and commercial properties are often dependent on the successful operation and management of the properties, repayment of such loans may be impacted by adverse conditions in the real estate market or the economy. At June 30, 2013, the Bank had \$3.8 million, net of individually and collectively evaluated allowances, of non-performing multi-family loans and \$4.6 million, net of individually and collectively evaluated allowances, of non-performing commercial real estate loans. At June 30, 2013, the Bank had no multi-family or commercial real estate loans which were past due 30 to 89 days. Non-performing loans and delinquent loans may increase as a result of the general decline in Southern California real estate markets and poor general economic conditions.

The following table summarizes the interest rate reset or maturity schedule of the Bank's multi-family loans held for investment, including the percentage of those which are identified as non-performing, 30 – 89 days delinquent or not fully amortizing as of June 30, 2013:

(Dollars In Thousands)	Balance	Non-Performing <sup>(1)</sup>	30 - 89 Days Delinquent <sup>(1)</sup>	Percentage Not Fully Amortizing <sup>(1)</sup>
Interest rate reset or mature in the next 12 months	\$ 141,664	1%	—%	40%
Interest rate reset or mature between 1 year and 5 years	106,179	3%	—%	9%
Interest rate reset or mature after 5 years	14,473	—%	—%	79%
<b>Total</b>	<b>\$ 262,316</b>	<b>2%</b>	<b>—%</b>	<b>29%</b>

<sup>(1)</sup> As a percentage of each category.

The following table summarizes the interest rate reset or maturity schedule of the Bank's commercial real estate loans held for investment, including the percentage of those which are identified as non-performing, 30–89 days delinquent or not fully amortizing as of June 30, 2013:

(Dollars In Thousands)	Balance	Non-Performing <sup>(1)</sup>	30 - 89 Days Delinquent <sup>(1)</sup>	Percentage Not Fully Amortizing <sup>(1)</sup>
Interest rate reset or mature in the next 12 months	\$ 45,453	3%	—%	94%
Interest rate reset or mature between 1 year and 5 years	46,347	7%	—%	73%
Interest rate reset or mature after 5 years	688	—%	—%	100%
Total	\$ 92,488	5%	—%	84%

<sup>(1)</sup> As a percentage of each category.

The following table provides a detailed breakdown of the Bank's multi-family mortgage loans held for investment by the calendar year of origination and geographic location as of June 30, 2013:

(Dollars In Thousands)	Calendar Year of Origination									Total
	2004 & Prior	2005	2006	2007	2008	2009	2010	2011-2012	YTD June 30, 2013	
Loan balance	\$40,657	\$33,878	\$43,329	\$34,904	\$ 7,796	\$ —	\$ 755	\$ 67,923	\$33,074	\$262,316
Weighted average LTV <sup>(1)</sup>	44%	50%	52%	55%	47%	—%	67%	58%	57%	53%
Weighted average debt coverage ratio <sup>(2)</sup>	1.55x	1.24x	1.29x	1.25x	1.41x	—x	1.25x	1.61x	1.71x	1.46x
Weighted average age (in years)	9.56	8.01	7.02	5.89	5.20	—	3.15	1.29	0.19	4.98
Weighted average FICO	715	711	681	695	753	—	675	737	766	728
Number of loans	69	55	55	52	10	—	3	73	41	358
Geographic breakdown (%):										
Inland Empire	22%	7%	14%	8%	18%	—%	—%	25%	23%	18%
Southern California (other than Inland Empire)	74%	65%	36%	84%	82%	—%	42%	54%	53%	60%
Other California	3%	27%	44%	8%	—%	—%	58%	21%	24%	21%
Other states	1%	1%	6%	—%	—%	—%	—%	—%	—%	1%
	100%	100%	100%	100%	100%	—%	100%	100%	100%	100%

<sup>(1)</sup> Current loan balance in comparison to the original appraised value. Due to the decline in multi-family real estate values, the weighted average LTV presented above may be significantly understated to current market values.

<sup>(2)</sup> At time of loan origination.

The following table provides a detailed breakdown of the Bank's commercial real estate mortgage loans held for investment by the calendar year of origination and geographic location as of June 30, 2013:

(Dollars In Thousands)	Calendar Year of Origination									Total <sup>(3)(4)</sup>
	2004 & Prior	2005	2006	2007	2008	2009	2010	2011-2012	YTD June 30, 2013	
Loan balance	\$10,070	\$12,234	\$13,262	\$13,776	\$ 3,903	\$8,818	\$ 379	\$ 21,502	\$ 8,544	\$ 92,488
Weighted average LTV <sup>(1)</sup>	43%	45%	57%	53%	35%	59%	59%	53%	45%	51%
Weighted average debt coverage ratio <sup>(2)</sup>	2.17x	1.97x	2.42x	2.17x	1.83x	1.23x	1.26x	1.84x	2.22x	2.00x
Weighted average age (in years)	10.72	7.92	6.87	6.04	5.21	3.95	3.10	0.83	0.31	4.93
Weighted average FICO	720	688	720	721	758	722	705	751	754	729
Number of loans	24	16	13	14	8	3	2	22	9	111
Geographic breakdown (%):										
Inland Empire	37%	73%	23%	44%	10%	100%	52%	67%	48%	54%
Southern California (other than Inland Empire)	63%	27%	77%	43%	90%	—%	48%	33%	41%	43%
Other California	—%	—%	—%	13%	—%	—%	—%	—%	11%	3%
Other states	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%
	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

(1) Current loan balance in comparison to the original appraised value. Due to the decline in commercial real estate values, the weighted average LTV presented above may be significantly understated to current market values.

(2) At time of loan origination.

(3) Comprised of the following: \$21.7 million in retail; \$20.6 million in office; \$13.3 million in mixed use; \$7.7 million in medical/dental office; \$5.3 million in mobile home park; \$5.1 million in light industrial/manufacturing; \$4.9 million in warehouse; \$3.7 million in mini-storage; \$2.8 million in research and development; \$1.8 million in automotive - non gasoline; \$1.8 million in hotel and motel; \$1.8 million in restaurant/fast food; \$1.5 million in school; and \$474 in other.

(4) Consists of \$65.3 million or 70.6% in investment properties and \$27.2 million or 29.4% in owner occupied properties.

**Construction Mortgage Loans.** The Bank originates from time to time two types of construction loans: short-term construction loans and construction/permanent loans. The Bank had \$292,000 of construction loans at June 30, 2013, all of which were undisbursed, as compared to no construction loans at June 30, 2012, as a result of management's decision in fiscal 2006 to reduce construction loan originations (given anticipated unfavorable real estate market conditions). A total of \$292,000 of construction loans were originated in fiscal 2013; while no construction loans were originated in fiscal 2012.

**Other mortgage loans.** There were no other mortgage loans at June 30, 2013, as compared to \$755,000 of other mortgage loans, or 0.1% of loans held for investment, at June 30, 2012, which consisted of land loans. The Bank makes land loans, primarily lot loans, to accommodate borrowers who intend to build on the land within a specified period of time. The majority of these land loans are for the construction of single-family residences; however, the Bank may make short-term loans on a limited basis for the construction of commercial properties. The terms generally require a fixed rate with maturity between 18 to 36 months.

**Participation Loan Purchases and Sales.** In an effort to expand production and diversify risk, the Bank purchases loan participations, with collateral primarily in California, which allows for greater geographic distribution of the Bank's loans and increases loan production volume. The Bank generally purchases between 50% and 100% of the total loan amount. When the Bank purchases a participation loan, the lead lender will usually retain a servicing fee, thereby decreasing the loan yield. This servicing fee approximates the expense the Bank would incur if the Bank were to service the loan. All properties serving as collateral for loan participations are inspected by an employee of the Bank or a third party inspection service prior to being approved by the Loan Committee and the Bank relies upon the same underwriting criteria required for those loans originated by the Bank. As of June 30, 2013, total loans serviced by other financial institutions were \$15.1 million, down 19% from \$18.7 million at June 30, 2012. As of June 30, 2013, all loans serviced by others were performing according to their contractual agreements.

The Bank also sells participating interests in loans when it has been determined that it is beneficial to diversify the Bank's risk. Participation sales enable the Bank to maintain acceptable loan concentrations and comply with the Bank's loans to one borrower policy. Generally, selling a participating interest in a loan increases the yield to the Bank on the portion of the loan that is retained. The Bank did not sell any loan participation interests in fiscal 2013 and 2012.

**Commercial Business Loans.** The Bank has a Business Banking Department that primarily serves businesses located within the Inland Empire. Commercial business loans allow the Bank to diversify its lending and increase the average loan yield. As of June 30, 2013, commercial business loans were \$1.7 million, or 0.2% of loans held for investment, a decrease of \$893,000, or 35%, during fiscal 2013 from \$2.6 million, or 0.3% of loans held for investment at June 30, 2012. These loans represent secured and unsecured lines of credit and term loans secured by business assets.

Commercial business loans are generally made to customers who are well known to the Bank and are generally secured by accounts receivable, inventory, business equipment and/or other assets. The Bank's commercial business loans may be structured as term loans or as lines of credit. Lines of credit are made at variable rates of interest equal to a negotiated margin above the prime rate and term loans are at a fixed or variable rate. The Bank may also require personal guarantees from financially capable parties associated with the business based on a review of personal financial statements. Commercial business term loans are generally made to finance the purchase of assets and have maturities of five years or less. Commercial lines of credit are typically made for the purpose of providing working capital and are usually approved with a term of one year or less.

Commercial business loans involve greater risk than residential mortgage loans and involve risks that are different from those associated with residential and commercial real estate loans. Real estate loans are generally considered to be collateral based lending with loan amounts based on predetermined loan to collateral value and liquidation of the underlying real estate collateral is viewed as the primary source of repayment in the event of borrower default. Although commercial business loans are often collateralized by equipment, inventory, accounts receivable or other business assets including real estate, the liquidation of collateral in the event of a borrower default is often an insufficient source of repayment because accounts receivable may not be collectible and inventories and equipment may be obsolete or of limited use. Accordingly, the repayment of a commercial business loan depends primarily on the creditworthiness of the borrower (and any guarantors), while liquidation of collateral is secondary and oftentimes an insufficient source of repayment. At June 30, 2013, the Bank had \$130,000 of non-performing commercial business loans, net of allowances and charge-offs, down 24% from \$172,000 at June 30, 2012. During fiscal 2013, the Bank had no recoveries or charge-offs on commercial business loans, as compared to a net charge-offs of \$261,000 during fiscal 2012.

**Consumer Loans.** At June 30, 2013, the Bank's consumer loans were \$437,000, or 0.1% of the Bank's loans held for investment, a decrease of \$69,000, or 14%, during fiscal 2013 from \$506,000 at June 30, 2012. The Bank offers open-ended lines of credit on either a secured or unsecured basis. The Bank offers secured savings lines of credit which have an interest rate that is four percentage points above the COFI, which adjusts monthly. Secured savings lines of credit at June 30, 2013 and 2012 were \$252,000 and \$314,000, respectively, and are included in consumer loans.

Consumer loans potentially have a greater risk than residential mortgage loans, particularly in the case of loans that are unsecured. Consumer loan collections are dependent on the borrower's ongoing financial stability, and thus are more likely to be adversely affected by job loss, illness or personal bankruptcy. Furthermore, the application of various federal and state laws, including federal and state bankruptcy and insolvency laws, may limit the amount that can be recovered on such loans. The Bank had no consumer loans accounted for on a non-performing basis at June 30, 2013 or 2012.

### **Mortgage Banking Activities**

**General.** Mortgage banking involves the origination and sale of single-family mortgages (first and second trust deeds), including equity lines of credit, by PBM for the purpose of generating gains on sale of loans and fee income on the origination of loans. PBM also originates single-family loans to be held for investment. Due to the recent economic and real estate conditions and consistent with the Bank's short-term strategy, PBM has been primarily originating loans and, to a lesser extent, purchasing loans for sale to investors. Given current pricing in the mortgage markets, the Bank sells the majority of its loans on a servicing-released basis. Generally, the level of loan sale activity and, therefore, its contribution to the Bank's profitability depends on maintaining a sufficient volume of loan originations. Changes in the level of interest rates and the California economy affect the number of loans originated by PBM and, thus, the amount of loan sales, gain on sale of loans, net interest income and loan fees earned. The origination and purchase of loans, primarily fixed rate loans, during fiscal 2013, 2012 and 2011 were \$3.51 billion, \$2.52 billion and \$2.15 billion, respectively. The total loan origination volume in fiscal 2013 was higher than fiscal 2012 and 2011, primarily as a result of relatively low mortgage interest rates and more stable, though still weakened, real estate market. The low mortgage rates were primarily a result of the actions taken by the U.S. Department of Treasury and Federal Reserve to stimulate growth in the economy from recessionary conditions. Of the total PBM loan originations, loans originated for investment were \$11.0 million, \$2.5 million and \$1.8 million in fiscal 2013, 2012 and 2011, respectively.

**Loan Solicitation and Processing.** The Bank's mortgage banking operations consist of both wholesale and retail loan originations. The Bank's wholesale loan production utilizes a network of approximately 695 loan brokers approved by the Bank who originate and submit loans at a markup over the Bank's daily published price. Accepted loans are funded and sold by the Bank. Wholesale loans originated and purchased for sale in fiscal 2013, 2012 and 2011 were \$1.80 billion, \$1.51 billion and \$1.39 billion, respectively. PBM has two regional wholesale lending offices: one in Pleasanton and one in Rancho Cucamonga, California, housing wholesale originators, underwriters and processors.

PBM's retail loan production operations utilize loan officers, underwriters and processors. PBM's loan officers generate retail loan originations primarily through referrals from realtors, builders, employees and customers. As of June 30, 2013, PBM operated stand-alone retail loan production offices in City of Industry, Escondido, Fairfield, Glendora, Hermosa Beach, Pleasanton, Rancho Cucamonga (2), Riverside (4), Roseville, San Rafael, San Diego, Santa Barbara, Stockton and Westlake Village, California. Generally, the cost of retail operations exceeds the cost of wholesale operations as a result of the additional employees needed for retail operations. The revenue per mortgage for retail originations is, however, generally higher since the origination fees are retained by the Bank instead of the wholesale loan broker. Retail loans originated and purchased for sale in fiscal 2013, 2012 and 2011 were \$1.70 billion, \$1.01 billion and \$750.7 million, respectively.

The Bank requires evidence of marketable title, lien position, loan-to-value, title insurance and appraisals on all properties. The Bank also requires evidence of fire and casualty insurance on the value of improvements. As stipulated by federal regulations, the Bank requires flood insurance to protect the property securing its interest if such property is located in a designated flood area.

**Loan Commitments and Rate Locks.** The Bank issues commitments for residential mortgage loans conditioned upon the occurrence of certain events. Such commitments are made with specified terms and conditions. Interest rate locks are generally offered to prospective borrowers for up to a 60-day period. The borrower may lock in the rate at any time from application until the time they wish to close the loan. Occasionally, borrowers obtaining financing in new home developments are offered rate locks for up to 120 days from application. The Bank's outstanding commitments to originate loans to be held for sale at June 30, 2013 and 2012 were \$255.6 million and \$220.4 million, respectively (see Note 15 of the Notes to Consolidated Financial Statements contained in Item 8 of this Form 10-K). When the Bank issues a loan commitment to a borrower, there is a risk to the Bank that a rise in interest rates will reduce the value of the mortgage before it can be closed and sold. To control the interest rate risk caused by mortgage banking activities, the Bank uses loan sale commitments and over-the-counter put and call option contracts related to mortgage-backed securities. If the Bank is unable to reasonably predict the amount of loan commitments which may not fund (fallout), the Bank may enter into "best-efforts" loan sale commitments (see "Derivative Activities" below).

**Loan Origination and Other Fees.** The Bank may receive origination points and loan fees. Origination points are a percentage of the principal amount of the mortgage loan, which is charged to a borrower for funding a loan. The amount of points charged by the Bank ranges from 0% to 2.5%. Current accounting standards require points and fees received for originating loans held for investment (net of certain loan origination costs) to be deferred and amortized into interest income over the contractual life of the loan. Origination fees and costs for loans originated for sale are deferred until the related loans are sold. Net deferred fees or costs associated with loans that are prepaid or sold are recognized as income or expense at the time of prepayment or sale. At both June 30, 2013 and 2012, the Bank had \$2.1 million of unamortized deferred loan origination costs (net) in loans held for investment.

**Loan Originations, Sales and Purchases.** The Bank's mortgage originations include loans insured by the FHA and VA as well as conventional loans. Except for loans originated as held for investment, loans originated through mortgage banking activities are intended for eventual sale into the secondary market. As such, these loans must meet the origination and underwriting criteria established by secondary market investors. The Bank sells a large percentage of the mortgage loans that it originates as whole loans to investors. The Bank also sells conforming whole loans to Fannie Mae and Freddie Mac (see "Derivative Activities" below).

The following table shows the Bank's loan originations, purchases, sales and principal repayments during the periods indicated.

(In Thousands)	Year Ended June 30,		
	2013	2012	2011
<b>Loans originated and purchased for sale:</b>			
Retail originations	\$ 1,695,239	\$ 1,005,499	\$ 750,737
Wholesale originations	1,801,292	1,511,138	1,392,806
Total loans originated and purchased for sale <sup>(1)</sup>	3,496,531	2,516,637	2,143,543
<b>Loans sold:</b>			
Servicing released	(3,506,027)	(2,460,281)	(2,115,845)
Servicing retained	(16,331)	(13,121)	(1,999)
Total loans sold <sup>(2)</sup>	(3,522,358)	(2,473,402)	(2,117,844)
<b>Loans originated for investment:</b>			
Mortgage loans:			
Single-family	11,040	2,545	2,059
Multi-family	45,643	37,328	3,220
Commercial real estate	24,186	9,281	539
Construction	292	—	—
Commercial business loans	100	375	416
Consumer loans	—	13	9
Total loans originated for investment <sup>(3)</sup>	81,261	49,542	6,243
<b>Loans purchased for investment:</b>			
Mortgage loans:			
Multi-family	12,849	8,218	6,610
Commercial real estate	—	—	481
Total loans purchased for investment	12,849	8,218	7,091
Mortgage loan principal repayments	(144,428)	(130,951)	(106,041)
Real estate acquired in the settlement of loans	(10,976)	(24,113)	(47,316)
(Decrease) increase in other items, net <sup>(4)</sup>	(4,907)	9,256	11,097
Net decrease in loans held for investment and loans held for sale at fair value	\$ (92,028)	\$ (44,813)	\$ (103,227)

<sup>(1)</sup> Includes PBM loans originated and purchased for sale during fiscal 2013, 2012 and 2011 totaling \$3.50 billion, \$2.52 billion and \$2.14 billion, respectively.

<sup>(2)</sup> Includes PBM loans sold during fiscal 2013, 2012 and 2011 totaling \$3.52 billion, \$2.47 billion and \$2.12 billion, respectively.

<sup>(3)</sup> Includes PBM loans originated for investment during fiscal 2013, 2012 and 2011 totaling \$11.0 million, \$2.5 million, and \$1.8 million, respectively.

<sup>(4)</sup> Includes net changes in undisbursed loan funds, deferred loan fees or costs, charge-offs, impounds, allowance for loan losses and fair value of loans held for sale.

Mortgage loans sold to investors generally are sold without recourse other than standard representations and warranties. Generally, mortgage loans sold to Fannie Mae and Freddie Mac are sold on a non-recourse basis and foreclosure losses are generally the responsibility of the purchaser and not the Bank, except in the case of FHA and VA loans used to form Government National Mortgage Association pools, which are subject to limitations on the FHA's and VA's loan guarantees.

Loans previously sold by the Bank to the FHLB – San Francisco under its Mortgage Partnership Finance (“MPF”) program have a recourse provision. The FHLB – San Francisco absorbs the first four basis points of loss, and a credit scoring process is used to calculate the credit enhancement or recourse amount to the Bank once the first four basis points is exhausted. All losses above this calculated recourse amount are the responsibility of the FHLB – San Francisco in addition to the first four basis points of loss. The FHLB – San Francisco pays the Bank a credit enhancement fee on a monthly basis to compensate the Bank for accepting the recourse obligation. The MPF program was discontinued by the FHLB - San Francisco on October 6, 2006. As of June 30, 2013 and 2012, the Bank serviced \$52.1 million and \$68.0 million, respectively, of loans under this program and has established a recourse liability of \$746,000 and \$734,000, respectively. In fiscal 2013, 2012 and 2011, a net recourse loss of \$194,000, \$439,000 and \$9,000, respectively, was recognized under this program.

Occasionally, the Bank is required to repurchase loans sold to Fannie Mae, Freddie Mac or investors if it is determined that such loans do not meet the credit requirements of the investor, or if one of the parties involved in the loan misrepresented pertinent facts, committed fraud, or if such loans were 30 days past due within 120 days of the loan funding date. During fiscal 2013, 2012 and 2011, the Bank repurchased \$1.4 million, \$1.6 million and \$0 of single-family mortgage loans, respectively. However, additional repurchase requests were settled for an aggregate of \$5.6 million, \$439,000 and \$2.0 million in fiscal 2013, 2012 and 2011, respectively, that did not result in the repurchase of the loan itself. The repurchase settlement increase in fiscal 2013 was due primarily to a global settlement with the Bank’s largest legacy loan investor, which eliminated all past, current and future repurchase claims from this particular investor.

**Derivative Activities.** Mortgage banking involves the risk that a rise in interest rates will reduce the value of a mortgage before it can be sold. This type of risk occurs when the Bank commits to an interest rate lock on a borrower’s application during the origination process and interest rates increase before the loan can be sold. Such interest rate risk also arises when mortgages are placed in the warehouse (i.e., held for sale) without locking in an interest rate for their eventual sale in the secondary market. The Bank seeks to control or limit the interest rate risk caused by mortgage banking activities. The two methods used by the Bank to help reduce interest rate risk from its mortgage banking activities are loan sale commitments and the purchase of over-the-counter put and call option contracts related to mortgage-backed securities. At various times, depending on loan origination volume and management’s assessment of projected loans which may not fund, the Bank may reduce or increase its derivative positions. If the Bank is unable to reasonably predict the amount of loan commitments which may not fund, the Bank may enter into “best-efforts” loan sale commitments rather than “mandatory” loan sale commitments. Mandatory loan sale commitments may include whole loan and/or To-Be-Announced MBS (“TBA MBS”) loan sale commitments.

Under mandatory loan sale commitments, usually with Fannie Mae, Freddie Mac or investors, the Bank is obligated to sell certain dollar amounts of mortgage loans that meet specific underwriting and legal criteria before the expiration of the commitment period. These terms include the maturity of the individual loans, the yield to the purchaser, the servicing spread to the Bank (if servicing is retained) and the maximum principal amount of the individual loans. The mandatory loan sale commitments protect loan sale prices from interest rate fluctuations that may occur from the time the interest rate of the loan is established to the time of its sale. The amount of and delivery date of the loan sale commitments are based upon management’s estimates as to the volume of loans that will close and the length of the origination commitments. The mandatory loan sale commitments do not provide complete interest-rate protection, however, because of the possibility of loans which may not fund during the origination process. Differences between the estimated volume and timing of loan originations and the actual volume and timing of loan originations can expose the Bank to significant losses. If the Bank is not able to deliver the mortgage loans during the appropriate delivery period, the Bank may be required to pay a non-delivery fee or repurchase the commitments at current market prices. Similarly, if the Bank has too many loans to deliver, the Bank must execute additional loan sale commitments at current market prices, which may be unfavorable to the Bank. Generally, the Bank seeks to maintain loan sale commitments equal to the funded loans held for sale at fair value, plus those applications that the Bank has rate locked and/or committed to close, adjusted by the projected fallout. The ultimate accuracy of such projections will directly bear upon the amount of interest rate risk incurred by the Bank.

The activities described above are managed continually as markets change; however, there can be no assurance that the Bank will be successful in its effort to eliminate the risk of interest rate fluctuations between the time origination commitments are issued and the ultimate sale of the loan. The Bank completes a daily analysis, which reports the Bank’s interest rate risk position with respect to its loan origination and sale activities. The Bank’s interest rate risk management activities are conducted in accordance with a written policy that has been approved by the Bank’s Board of Directors which covers objectives, functions, instruments to be used, monitoring and internal controls. The Bank does not enter into option positions for trading or speculative purposes and does not enter into option contracts that could generate a financial obligation beyond the initial premium paid. The Bank does not apply hedge accounting to its derivative financial instruments; therefore, all changes in fair value are recorded in earnings.



At June 30, 2013 and 2012, the Bank had put option contracts outstanding with a nominal value of \$10.0 million and \$15.0 million, respectively. At June 30, 2013 and 2012, the Bank had outstanding mandatory loan sale commitments of \$48.9 million and \$101.6 million, respectively; outstanding TBA MBS trades of \$362.0 million and \$307.0 million, respectively; outstanding best-efforts loan sale commitments of \$29.8 million and \$30.5 million, respectively; and commitments to originate loans to be held for sale of \$255.6 million and \$220.4 million, respectively (see Note 15 of the Notes to Consolidated Financial Statements contained in Item 8 of this Form 10-K). Additionally, as of June 30, 2013 and 2012, the Bank's loans held for sale at fair value were \$188.1 million and \$231.6 million, respectively, which were also covered by the loan sale commitments described above. For fiscal 2013 and 2012, respectively, the Bank had a net loss of \$(8.0) million and a net gain \$5.7 million, respectively, attributable to the underlying derivative financial instruments used to mitigate the interest rate risk of its mortgage banking activities and the fair-value adjustment on loans held for sale.

### **Loan Servicing**

The Bank receives fees from a variety of investors in return for performing the traditional services of collecting individual loan payments on loans sold by the Bank to such investors. At June 30, 2013, the Bank was servicing \$92.2 million of loans for others, a decline from \$98.9 million at June 30, 2012. The decrease was primarily attributable to loan prepayments. Loan servicing includes processing payments, accounting for loan funds and collecting and paying real estate taxes, hazard insurance and other loan-related items such as private mortgage insurance. After the Bank receives the gross mortgage payment from individual borrowers, it remits to the investor a predetermined net amount based on the loan sale agreement for that mortgage.

Servicing assets are amortized in proportion to and over the period of the estimated net servicing income and are carried at the lower of cost or fair value. The fair value of servicing assets is determined by calculating the present value of the estimated net future cash flows consistent with contractually specified servicing fees. The Bank periodically evaluates servicing assets for impairment, which is measured as the excess of cost over fair value. This review is performed on a disaggregated basis, based on loan type and interest rate. Generally, loan servicing becomes more valuable when interest rates rise (as prepayments typically decrease) and less valuable when interest rates decline (as prepayments typically increase). In estimating fair values at June 30, 2013 and 2012, the Bank used a weighted average Constant Prepayment Rate ("CPR") of 24.90% and 26.61%, respectively, and a weighted-average discount rate of 9.11% and 9.10%, respectively. The required impairment reserve against servicing assets at June 30, 2013 and 2012 was \$200,000 and \$164,000, respectively. In aggregate, servicing assets had a carrying value of \$334,000 and a fair value of \$395,000 at June 30, 2013, compared to a carrying value of \$327,000 and a fair value of \$398,000 at June 30, 2012.

Rights to future income from serviced loans that exceed contractually specified servicing fees are recorded as interest-only strips. Interest-only strips are carried at fair value, utilizing the same assumptions used to calculate the value of the underlying servicing assets, with any unrealized gain or loss, net of tax, recorded as a component of accumulated other comprehensive income (loss). Interest-only strips had a fair value of \$98,000, gross unrealized gains of \$96,000 and an amortized cost of \$2,000 at June 30, 2013, compared to a fair value of \$130,000, gross unrealized gains of \$127,000 and an amortized cost of \$3,000 at June 30, 2012.

### **Delinquencies and Classified Assets**

**Delinquent Loans.** When a mortgage loan borrower fails to make a required payment when due, the Bank initiates collection procedures. In most cases, delinquencies are cured promptly; however, if by the 90th day of delinquency, or sooner if the borrower is chronically delinquent, and after all reasonable means of obtaining the payment have been exhausted, foreclosure proceedings, according to the terms of the security instrument and applicable law, are initiated. Interest income is reduced by the full amount of accrued and uncollected interest on such loans.

A loan is placed on non-performing status when its contractual payments are more than 90 days delinquent or if the loan is deemed impaired. In addition, interest income is not recognized on any loan where management has determined that collection is not reasonably assured. A non-performing loan may be restored to accrual status when delinquent principal and interest payments are brought current and future monthly principal and interest payments are expected to be collected.

**Restructured Loans.** A troubled debt restructuring ("restructured loan") is a loan which the Bank, for reasons related to a borrower's financial difficulties, grants a concession to the borrower that the Bank would not otherwise consider.

The loan terms which have been modified or restructured due to a borrower's financial difficulty, include but are not limited to:

- a) A reduction in the stated interest rate.
- b) An extension of the maturity at an interest rate below market.
- c) A reduction in the accrued interest.
- d) Extensions, deferrals, renewals and rewrites.

To qualify for restructuring, a borrower must provide evidence of their creditworthiness such as, current financial statements, their most recent income tax returns, current paystubs, current W-2s, and most recent bank statements, among other documents, which are then verified by the Bank. The Bank re-underwrites the loan with the borrower's updated financial information, new credit report, current loan balance, new interest rate, remaining loan term, updated property value and modified payment schedule, among other considerations, to determine if the borrower qualifies.

The following table sets forth delinquencies in the Bank's loans held for investment as of the dates indicated, gross of collectively and individually evaluated allowances, if any.

		At June 30,											
		2013				2012				2011			
		30 - 89 Days		Non-performing		30 - 89 Days		Non-performing		30 - 89 Days		Non-performing	
(Dollars In Thousands)		Number of Loans	Principal Balance of Loans	Number of Loans	Principal Balance of Loans	Number of Loans	Principal Balance of Loans	Number of Loans	Principal Balance of Loans	Number of Loans	Principal Balance of Loans	Number of Loans	Principal Balance of Loans
Mortgage loans:													
	Single-family	2	\$ 362	50	\$ 15,573	2	\$ 613	87	\$ 34,566	6	\$ 1,655	116	\$ 44,492
	Multi-family	—	—	7	5,077	—	—	4	1,806	—	—	2	2,534
	Commercial real estate	—	—	8	4,572	—	—	6	3,820	1	387	3	2,451
	Other	—	—	—	—	—	—	1	522	—	—	1	1,293
	Commercial business loans	—	—	5	189	—	—	6	246	1	13	4	472
	Consumer loans	2	1	—	—	5	3	—	—	3	2	—	—
	Total	4	\$ 363	70	\$ 25,411	7	\$ 616	104	\$ 40,960	11	\$ 2,057	126	\$ 51,242

The following table sets forth information with respect to the Bank's non-performing assets and restructured loans, net of allowance for loan losses, at the dates indicated.

(Dollars In Thousands)	At June 30,				
	2013	2012	2011	2010	2009
Loans on non-performing status (excluding restructured loans):					
Mortgage loans:					
Single-family	\$ 8,129	\$ 17,095	\$ 16,705	\$ 30,129	\$ 35,434
Multi-family	1,236	967	1,463	3,945	4,930
Commercial real estate	3,218	764	560	725	1,255
Construction	—	—	—	350	250
Commercial business loans	7	7	—	—	198
Consumer loans	—	—	—	1	—
Total	12,590	18,833	18,728	35,150	42,067
Accruing loans past due 90 days or more	—	—	—	—	—
Restructured loans on non-performing status:					
Mortgage loans:					
Single-family	5,094	11,995	15,133	19,522	23,695
Multi-family	2,521	490	490	2,541	—
Commercial real estate	1,354	2,483	1,660	1,003	1,406
Construction	—	—	—	—	2,037
Other	—	522	972	—	1,565
Commercial business loans	123	165	143	567	1,048
Total	9,092	15,655	18,398	23,633	29,751
Total non-performing loans	21,682	34,488	37,126	58,783	71,818
Real estate owned, net	2,296	5,489	8,329	14,667	16,439
Total non-performing assets	\$ 23,978	\$ 39,977	\$ 45,455	\$ 73,450	\$ 88,257
Restructured loans on accrual status:					
Mortgage loans:					
Single-family	\$ 434	\$ 6,148	\$ 15,589	\$ 33,212	\$ 10,880
Multi-family	—	3,266	3,665	—	—
Commercial real estate	—	—	1,142	1,832	—
Other	—	—	237	1,292	240
Commercial business loans	—	33	125	—	—
Total	\$ 434	\$ 9,447	\$ 20,758	\$ 36,336	\$ 11,120
Non-performing loans as a percentage of loans held for investment, net	2.90%	4.33%	4.21%	5.84%	6.16%
Non-performing loans as a percentage of total assets	1.79%	2.74%	2.83%	4.20%	4.55%
Non-performing assets as a percentage of total assets	1.98%	3.17%	3.46%	5.25%	5.59%

The following table describes the non-performing loans, net of allowance for loan losses, by the calendar year of origination as of June 30, 2013:

(Dollars In Thousands)	Calendar Year of Origination									YTD June 30, 2013	Total
	2004 & Prior	2005	2006	2007	2008	2009	2010	2011-2012			
Mortgage loans:											
Single-family	\$ 2,724	\$ 3,980	\$ 3,259	\$ 2,434	\$ 826	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 13,223
Multi-family	188	233	3,039	297	—	—	—	—	—	—	3,757
Commercial real estate	540	791	489	—	—	1,495	—	1,257	—	—	4,572
Commercial business loans	—	—	—	—	—	108	—	22	—	—	130
Total	\$ 3,452	\$ 5,004	\$ 6,787	\$ 2,731	\$ 826	\$ 1,603	\$ —	\$ 1,279	\$ —	\$ 21,682	

The following table describes the non-performing loans, net of allowance for loan losses, by the geographic location as of June 30, 2013:

(Dollars In Thousands)	Inland Empire	Southern California <sup>(1)</sup>	Other California <sup>(2)</sup>	Other States	Total
Mortgage loans:					
Single-family	\$ 4,071	\$ 7,949	\$ 1,203	\$ —	\$ 13,223
Multi-family	746	383	2,628	—	3,757
Commercial real estate	3,789	783	—	—	4,572
Commercial business loans	37	87	6	—	130
Total	\$ 8,643	\$ 9,202	\$ 3,837	\$ —	\$ 21,682

<sup>(1)</sup> Other than the Inland Empire.

<sup>(2)</sup> Other than the Inland Empire and Southern California.

The following table summarizes classified assets, which is comprised of classified loans, net of allowance for loan losses, and real estate owned at the dates indicated:

(Dollars In Thousands)	At June 30, 2013		At June 30, 2012	
	Balance	Count	Balance	Count
<b>Special mention loans:</b>				
Mortgage loans:				
Single-family	\$ 3,111	11	\$ 2,118	5
Multi-family	2,485	3	2,755	1
Commercial real estate	1,296	3	—	—
Commercial business loans	25	1	33	1
Total special mention loans	6,917	18	4,906	7
<b>Substandard loans:</b>				
Mortgage loans:				
Single-family	13,299	51	29,594	92
Multi-family	15,222	15	7,668	7
Commercial real estate	9,116	12	10,114	12
Other	—	—	522	1
Commercial business loans	130	5	173	6
Total substandard loans	37,767	83	48,071	118
Total classified loans	44,684	101	52,977	125
<b>Real estate owned:</b>				
Single-family	2,287	7	4,737	18
Multi-family	—	—	366	1
Commercial real estate	—	1	—	1
Other	9	2	386	4
Total real estate owned	2,296	10	5,489	24
Total classified assets	\$ 46,980	111	\$ 58,466	149

The Bank assesses loans individually and classifies as substandard non-performing loans when the accrual of interest has been discontinued, loans have been restructured or management has serious doubts about the future collectibility of principal and interest, even though the loans are currently performing. Factors considered in determining classification include, but are not limited to, expected future cash flows, collateral value, the financial condition of the borrower and current economic conditions. The Bank measures each non-performing loan based on Accounting Standards Codification (“ASC”) 310, “Receivables,” establishes a collectively evaluated or individually evaluated allowance and charges off those loans or portions of loans deemed uncollectible.

During the fiscal year ended June 30, 2013, there were no new loans that were modified from their original terms. This compares to 24 loans for \$10.1 million that were modified, were re-underwritten at current market interest rates and were identified in the Bank’s asset quality reports as restructured loans in the fiscal year ended June 30, 2012. As of June 30, 2013, the outstanding balance of modified (restructured) loans was \$9.5 million, comprised of 26 loans. These restructured loans are classified as follows: one loan is classified as special mention and remains on accrual status (\$434,000) and 25 loans are classified as substandard on non-performing status (\$9.1 million). As of June 30, 2013, 68%, or \$6.5 million of the restructured loans have a current payment status. Restructured loans which are initially classified as “Substandard” and placed on non-performing status may be upgraded

and placed on accrual status once there is a sustained period of payment performance (usually six months or longer) and there is a reasonable assurance that the payments will continue.

The following table shows the restructured loans by type, net of allowance for loan losses, at June 30, 2013 and 2012:

(In Thousands)	June 30, 2013		
	Recorded Investment	Allowance For Loan Losses <sup>(1)</sup>	Net Investment
<b>Mortgage loans:</b>			
Single-family:			
With a related allowance	\$ 3,774	\$ (795)	\$ 2,979
Without a related allowance <sup>(2)</sup>	2,549	—	2,549
<b>Total single-family loans</b>	<b>6,323</b>	<b>(795)</b>	<b>5,528</b>
<b>Multi-family:</b>			
With a related allowance	3,266	(1,006)	2,260
Without a related allowance <sup>(2)</sup>	261	—	261
<b>Total multi-family loans</b>	<b>3,527</b>	<b>(1,006)</b>	<b>2,521</b>
<b>Commercial real estate:</b>			
Without a related allowance <sup>(2)</sup>	1,354	—	1,354
<b>Total commercial real estate loans</b>	<b>1,354</b>	<b>—</b>	<b>1,354</b>
<b>Commercial business loans:</b>			
With a related allowance	180	(57)	123
<b>Total commercial business loans</b>	<b>180</b>	<b>(57)</b>	<b>123</b>
<b>Total restructured loans</b>	<b>\$ 11,384</b>	<b>\$ (1,858)</b>	<b>\$ 9,526</b>

<sup>(1)</sup> Consists of collectively and individually evaluated allowances.

<sup>(2)</sup> There was no related allowances for loan losses because the loans have been charged-off to their fair value or the fair value of the collateral is higher than the loan balance.

(In Thousands)	June 30, 2012		
	Recorded Investment	Allowance For Loan Losses <sup>(1)</sup>	Net Investment
<b>Mortgage loans:</b>			
Single-family:			
With a related allowance	\$ 9,465	\$ (486)	\$ 8,979
Without a related allowance <sup>(2)</sup>	9,164	—	9,164
<b>Total single-family loans</b>	<b>18,629</b>	<b>(486)</b>	<b>18,143</b>
<b>Multi-family:</b>			
With a related allowance	517	(27)	490
Without a related allowance <sup>(2)</sup>	3,266	—	3,266
<b>Total multi-family loans</b>	<b>3,783</b>	<b>(27)</b>	<b>3,756</b>
<b>Commercial real estate:</b>			
With a related allowance	2,921	(438)	2,483
<b>Total commercial real estate loans</b>	<b>2,921</b>	<b>(438)</b>	<b>2,483</b>
<b>Other:</b>			
Without a related allowance <sup>(2)</sup>	522	—	522
<b>Total other loans</b>	<b>522</b>	<b>—</b>	<b>522</b>
<b>Commercial business loans:</b>			
With a related allowance	236	(71)	165
Without a related allowance <sup>(2)</sup>	33	—	33
<b>Total commercial business loans</b>	<b>269</b>	<b>(71)</b>	<b>198</b>
<b>Total restructured loans</b>	<b>\$ 26,124</b>	<b>\$ (1,022)</b>	<b>\$ 25,102</b>

<sup>(1)</sup> Consists of collectively and individually evaluated allowances.

<sup>(2)</sup> There was no related allowances for loan losses because the loans have been charged-off to their fair value or the fair value of the collateral is higher than the loan balance.

As of June 30, 2013, total non-performing assets were \$24.0 million, or 1.98% of total assets, which was primarily comprised of: 50 single-family loans (\$13.2 million); eight commercial real estate loans (\$4.6 million); seven multi-family loans (\$3.8 million); five commercial business loans (\$130,000); and real estate owned comprised of seven single-family properties (\$2.3 million), two undeveloped lots acquired in the settlement of loans (\$9,000) and one commercial real estate property (fully reserved). As of June 30, 2013, 55%, or \$12.0 million of non-performing loans have a current payment status, primarily restructured loans. Compared to June 30, 2012, total non-performing assets decreased \$16.0 million, or 40%.

Foregone interest income, which would have been recorded for the fiscal years ended June 30, 2013 and 2012 had the non-performing loans been current in accordance with their original terms, amounted to \$878,000 and \$876,000, respectively, and was not included in the results of operations for the fiscal years ended June 30, 2013 and 2012.

As of June 30, 2013, \$6.9 million of loans which were not disclosed as non-performing loans were classified as special mention because known information about possible credit problems of the borrowers causes management to have some doubt as to the ability of such borrowers to comply with present loan repayment terms. Of these loans, \$3.1 million were single-family mortgage loans, \$2.5 million were multi-family mortgage loans, \$1.3 million were commercial real estate loans and \$25,000 were commercial business loans. As of June 30, 2012, \$4.9 million of loans which were not disclosed as non-performing loans were classified by the Bank as special mention for the same reason.

**Foreclosed Real Estate.** Real estate acquired by the Bank as a result of foreclosure or by deed-in-lieu of foreclosure is classified as real estate owned until it is sold. When a property is acquired, it is recorded at the lower of its cost, which is the unpaid principal balance, net of deferred fees/costs, escrow balances and foreclosure costs, or its market value less the estimated cost of sale. Subsequent declines in value are charged to operations. As of June 30, 2013, the real estate owned balance was \$2.3 million (10 properties), primarily consisted of single-family residences located in Southern California, compared to \$5.5 million (24 properties) at June 30, 2012. In managing the real estate owned properties for quick disposition, the Bank completes the necessary repairs and maintenance to the individual properties before listing for sale, obtains new appraisals and broker price opinions (“BPO”) to determine current market listing prices, and engages local realtors who are most familiar with real estate sub-markets, among other techniques, which generally results in the quick disposition of real estate owned.

**Asset Classification.** The OCC has adopted various regulations regarding the problem assets of savings institutions. The regulations require that each institution review and classify its assets on a regular basis. In addition, in connection with examinations of institutions, OCC examiners have the authority to identify problem assets and, if appropriate, require them to be classified. There are three classifications for problem assets: substandard, doubtful and loss. Substandard assets have one or more defined weaknesses and are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected. Doubtful assets have the weaknesses of substandard assets with the additional characteristic that the weaknesses make collection or liquidation in full on the basis of currently existing facts, conditions and values questionable, and there is a high possibility of loss. An asset classified as a loss is considered uncollectible and of such little value that continuance as an asset of the institution is not warranted. If an asset or portion thereof is classified as loss, the institution establishes an individually evaluated allowance and may subsequently charge-off the amount of the asset classified as loss. A portion of the allowance for loan losses established to cover probable losses related to assets classified substandard or doubtful may be included in determining an institution’s regulatory capital. Assets that do not currently expose the institution to sufficient risk to warrant classification in one of the aforementioned categories but possess weaknesses are designated as special mention and are closely monitored by the Bank.

The aggregate amounts of the Bank’s classified assets, including loans classified by the Bank as special mention, were as follows at the dates indicated:

(Dollars In Thousands)	At June 30,	
	2013	2012
Special mention loans	\$ 6,917	\$ 4,906
Substandard loans	37,767	48,071
Total classified loans	44,684	52,977
Real estate owned, net	2,296	5,489
Total classified assets	\$ 46,980	\$ 58,466
Total classified assets as a percentage of total assets	3.88%	4.64%

Classified assets decreased at June 30, 2013 from the June 30, 2012 level primarily due to loan classification upgrades, particularly those restructured loans with satisfactory contractual payments for at least six consecutive months; disposition of real estate owned properties and a general improvement in the real estate market, resulting in fewer delinquent loans. The classified assets are primarily located in Southern California.



As set forth below, loans classified as substandard and special mention as of June 30, 2013 were comprised of 101 loans totaling \$44.7 million.

(Dollars In Thousands)	Number of Loans	Special Mention	Substandard	Total
Mortgage loans:				
Single-family	62	\$ 3,111	\$ 13,299	\$ 16,410
Multi-family	18	2,485	15,222	17,707
Commercial real estate	15	1,296	9,116	10,412
Commercial business loans	6	25	130	155
Total	101	\$ 6,917	\$ 37,767	\$ 44,684

Not all of the Bank's classified assets are delinquent or non-performing. In determining whether the Bank's assets expose the Bank to sufficient risk to warrant classification, the Bank may consider various factors, including the payment history of the borrower, the loan-to-value ratio, and the debt coverage ratio of the property securing the loan. After consideration of these factors, the Bank may determine that the asset in question, though not currently delinquent, presents a risk of loss that requires it to be classified or designated as special mention. In addition, the Bank's loans held for investment may include single-family, commercial and multi-family real estate loans with a balance exceeding the current market value of the collateral which are not classified because they are performing and have borrowers who have sufficient resources to support the repayment of the loan.

**Allowance for Loan Losses.** The allowance for loan losses is maintained to cover losses inherent in the loans held for investment. In originating loans, the Bank recognizes that losses will be experienced and that the risk of loss will vary with, among other factors, the type of loan being made, the creditworthiness of the borrower over the term of the loan, general economic conditions and, in the case of a secured loan, the quality of the collateral securing the loan. The responsibility for the review of the Bank's assets and the determination of the adequacy of the allowance lies with the Internal Asset Review Committee ("IAR Committee"). The Bank adjusts its allowance for loan losses by charging or crediting its provision for loan losses against the Bank's operations.

The Bank has established a methodology for the determination of the provision for loan losses. The methodology is set forth in a formal policy and takes into consideration the need for a collectively evaluated allowance for groups of homogeneous loans and an individually evaluated allowance that are tied to individual problem loans. The Bank's methodology for assessing the appropriateness of the allowance consists of several key elements.

The allowance is calculated by applying loss factors to the loans held for investment. The loss factors are applied according to loan program type and loan classification. The loss factors for each program type and loan classification are established based on an evaluation of the historical loss experience, prevailing market conditions, concentration in loan types and other relevant factors consistent with ASC 450, "Contingency". Homogeneous loans, such as residential mortgage, home equity and consumer installment loans are considered on a pooled loan basis. A factor is assigned to each pool based upon expected charge-offs for one year. The factors for larger, less homogeneous loans, such as construction, multi-family and commercial real estate loans, are based upon loss experience tracked over business cycles considered appropriate for the loan type.

Collectively evaluated or individually evaluated allowances are established to absorb losses on loans for which full collectibility may not be reasonably assured as prescribed in ASC 310. Estimates of identifiable losses are reviewed continually and, generally, a provision for losses is charged against operations on a quarterly basis as necessary to maintain the allowance at an appropriate level. Management presents the minutes summarizing the actions of the IAR Committee to the Bank's Board of Directors on a quarterly basis.

In compliance with the OCC's regulatory reporting requirements which do not recognize specific valuation allowances, the Bank modified its charge-off policy on non-performing loans during the quarter ended March 31, 2012 and, subsequent to the OCC's review, the Bank further modified its charge-off policy in the quarter ended June 30, 2012. Historically, the Bank established a specific valuation allowance for non-performing loans under ASC 310 based upon the estimated fair value of the underlying collateral, less disposition costs, in comparison to the loan balance or used a discounted cash flow method for non-performing restructured loans. The specific valuation allowance was not charged-off until the foreclosure process was complete. Under the modified policy, non-performing loans are charged-off to their fair market values in the period the loans, or portion thereof, are

deemed uncollectible, generally after the loan becomes 150 days delinquent for real estate secured first trust deed loans and 120 days delinquent for commercial business or real estate secured second trust deed loans. For restructured loans, the charge-off occurs when the loans becomes 90 days delinquent; and where borrowers file bankruptcy, the charge-off occurs when the loan becomes 60 days delinquent. The amount of the charge-off is determined by comparing the loan balance to the estimated fair value of the underlying collateral, less disposition costs, with the loan balance in excess of the estimated fair value charged-off against the allowance for loan losses. Both methods are acceptable under accounting principles generally accepted in the United States of America ("GAAP"). The modification to the charge-off policy resulted in \$3.01 million of additional charge-offs in the fourth quarter of fiscal 2012 and a total of \$4.00 million of additional charge-offs for fiscal 2012, but had no impact to the allowance for loan losses or the provision for loan losses because these charge-offs were timely identified in previous periods as specific valuation allowances and were included in the Bank's loss experience as part of the evaluation of the allowance for loan losses in those prior periods. The allowance for loan losses for non-performing loans is determined by applying ASC 310. The change in method did not have a material impact to the allowance for loan losses. For restructured loans that are less than 90 days delinquent, the allowance for loan losses are segregated into (a) individually evaluated allowances for those loans with applicable discounted cash flow calculations or (b) collectively evaluated allowances based on the aggregated pooling method. For non-performing loans less than 60 days delinquent where the borrower has filed bankruptcy, the collectively evaluated allowances are assigned based on the aggregated pooling method. For non-performing commercial real estate loans, individually evaluated allowances are calculated based on their fair value and if their fair values are higher than their loan balance, no allowances are required.

The IAR Committee meets quarterly to review and monitor conditions in the portfolio and to determine the appropriate allowance for loan losses. To the extent that any of these conditions are apparent by identifiable problem loans or portfolio segments as of the evaluation date, the IAR Committee's estimate of the effect of such conditions may be reflected as an individually evaluated allowance applicable to such loans or portfolio segments. Where any of these conditions is not apparent by specifically identifiable problem loans or portfolio segments as of the evaluation date, the IAR Committee's evaluation of the probable loss related to such condition is reflected in the general allowance. The intent of the IAR Committee is to reduce the differences between estimated and actual losses. Pooled loan factors are adjusted to reflect current estimates of charge-offs for the subsequent 12 months. Loss activity is reviewed for non-pooled loans and the loss factors adjusted, if necessary. By assessing the probable estimated losses inherent in the loans held for investment on a quarterly basis, the Bank is able to adjust specific and inherent loss estimates based upon the most recent information that has become available.

At June 30, 2013, the Bank had an allowance for loan losses of \$14.9 million, or 1.96% of gross loans held for investment, compared to an allowance for loan losses at June 30, 2012 of \$21.5 million, or 2.63% of gross loans held for investment. A \$(1.5) million recovery for loan losses was recorded in fiscal 2013, compared to a \$5.8 million provision for loan losses in fiscal 2012. Although management believes the best information available is used to make such (recovery) provision, future adjustments to the allowance for loan losses may be necessary and results of operations could be significantly and adversely affected if circumstances differ substantially from the assumptions used in making the determinations.

The Bank's first trust deed, single-family mortgage loans held for investment contain certain non-traditional underwriting characteristics (e.g. interest only, stated income, negative amortization, FICO less than or equal to 660, and/or over 30-year amortization schedule) as described in the section above entitled "Single-Family Mortgage Loans" in this Form 10-K. These loans may have a greater risk of default in comparison to single-family mortgage loans that have been underwritten with more stringent requirements. As a result, the Bank may experience higher future levels of non-performing single-family loans that may require additional allowances for loan losses and may adversely affect the Bank's financial condition and results of operations.

While the Bank believes that it has established its existing allowance for loan losses in accordance with GAAP, there can be no assurance that regulators, in reviewing the Bank's loan portfolio, will not recommend that the Bank significantly increase its allowance for loan losses. In addition, because future events affecting borrowers and collateral cannot be predicted with certainty, there can be no assurance that the existing allowance for loan losses is adequate or that substantial increases will not be necessary should the quality of any loans deteriorate as a result of the factors discussed above. Any material increase in the allowance for loan losses may adversely affect the Bank's financial condition and results of operations.

The following table sets forth an analysis of the Bank's allowance for loan losses for the periods indicated. Where individually evaluated allowances have been established, any differences between the individually evaluated allowances and the amount of loss realized has been charged or credited to current operations.

(Dollars In Thousands)	Year Ended June 30,				
	2013	2012	2011	2010	2009
Allowance at beginning of period	\$ 21,483	\$ 30,482	\$ 43,501	\$ 45,445	\$ 19,898
(Recovery) provision for loan losses	(1,499)	5,777	5,465	21,843	48,672
Recoveries:					
Mortgage Loans:					
Single-family	754	347	1	442	160
Multi-family	6	—	—	—	—
Commercial real estate	—	—	—	192	—
Construction	—	28	—	69	115
Commercial business loans	—	—	25	14	—
Consumer loans	2	—	1	—	1
Total recoveries	762	375	27	717	276
Charge-offs:					
Mortgage loans:					
Single-family	(5,136)	(13,869)	(17,996)	(20,937)	(22,999)
Multi-family	(244)	(541)	(205)	(597)	—
Commercial real estate	(265)	(49)	—	(455)	(104)
Construction	—	—	(298)	(1,597)	(73)
Other	(159)	(400)	—	—	(216)
Commercial business loans	—	(261)	—	(907)	—
Consumer loans	(7)	(31)	(12)	(11)	(9)
Total charge-offs	(5,811)	(15,151)	(18,511)	(24,504)	(23,401)
Net charge-offs	(5,049)	(14,776)	(18,484)	(23,787)	(23,125)
Allowance at end of period	\$ 14,935	\$ 21,483	\$ 30,482	\$ 43,501	\$ 45,445
Allowance for loan losses as a percentage of gross loans held for investment	1.96%	2.63%	3.34%	4.14%	3.75%
Net charge-offs as a percentage of average loans receivable, net, during the period	0.51%	1.38%	1.67%	1.96%	1.72%
Allowance for loan losses as a percentage of gross non-performing loans at the end of the period	58.77%	52.45%	59.49%	56.78%	46.77%

The following table sets forth the breakdown of the allowance for loan losses by loan category at the periods indicated. Management believes that the allowance can be allocated by category only on an approximate basis. The allocation of the allowance is based upon an asset classification matrix. The allocation of the allowance to each category is not necessarily indicative of future losses and does not restrict the use of the allowance in one category to absorb losses in any other categories.

(Dollars In Thousands)	At June 30,									
	2013		2012		2011		2010		2009	
	Amount	% of Loans in Each Category to Total Loans	Amount	% of Loans in Each Category to Total Loans	Amount	% of Loans in Each Category to Total Loans	Amount	% of Loans in Each Category to Total Loans	Amount	% of Loans in Each Category to Total Loans
Mortgage loans:										
Single-family	\$ 9,062	53.09%	\$ 15,933	53.79%	\$ 24,215	54.34%	\$ 35,708	55.73%	\$ 37,057	57.52%
Multi-family	4,689	34.45	3,551	34.07	3,391	33.52	4,957	32.83	3,789	30.87
Commercial real estate	1,053	12.14	1,810	11.67	2,027	11.39	2,064	10.54	2,106	10.17
Construction	—	0.04	—	—	—	—	50	0.04	1,570	0.37
Other	—	—	7	0.09	325	0.17	89	0.15	94	0.21
Commercial business loans	119	0.22	169	0.32	508	0.50	613	0.63	810	0.76
Consumer loans	12	0.06	13	0.06	16	0.08	20	0.08	19	0.10
Total allowance for loan losses	\$ 14,935	100.00%	\$ 21,483	100.00%	\$ 30,482	100.00%	\$ 43,501	100.00%	\$ 45,445	100.00%

### Investment Securities Activities

Federally chartered savings institutions are permitted under federal and state laws to invest in various types of liquid assets, including U.S. Treasury obligations, securities of various federal agencies and government sponsored enterprises and of state and municipal governments, deposits at the FHLB, certificates of deposit of federally insured institutions, certain bankers' acceptances, mortgage-backed securities and federal funds. Subject to various restrictions, federally chartered savings institutions may also invest a portion of their assets in commercial paper and corporate debt securities. Savings institutions such as the Bank are also required to maintain an investment in FHLB – San Francisco stock.

The investment policy of the Bank, established by the Board of Directors and implemented by the Bank's Asset-Liability Committee, seeks to provide and maintain adequate liquidity, complement the Bank's lending activities, and generate a favorable return on investment without incurring undue interest rate risk or credit risk. Investments are made based on certain considerations, such as yield, credit quality, maturity, liquidity and marketability. The Bank also considers the effect that the proposed investment would have on the Bank's risk-based capital requirements and interest rate risk sensitivity.

At June 30, 2013, the Bank's investment securities portfolio was \$19.5 million, which primarily consisted of federal agency and government sponsored enterprise obligations. The Bank's investment securities portfolio was classified as available for sale.

The following table sets forth the composition of the Bank's investment portfolio at the dates indicated.

(Dollars In Thousands)	At June 30,								
	2013			2012			2011		
	Amortized Cost	Estimated Fair Value	Percent	Amortized Cost	Estimated Fair Value	Percent	Amortized Cost	Estimated Fair Value	Percent
Available for sale securities:									
U.S. government agency MBS <sup>(1)</sup>	\$ 10,361	\$ 10,816	55.44%	\$ 11,854	\$ 12,314	53.78%	\$ 13,935	\$ 14,409	55.01%
U.S. government sponsored enterprise MBS <sup>(1)</sup>	7,255	7,675	39.34	8,850	9,342	40.80	9,960	10,417	39.77
Private issue CMO <sup>(2)</sup>	1,036	1,019	5.22	1,243	1,242	5.42	1,396	1,367	5.22
Total investment securities - available for sale	\$ 18,652	\$ 19,510	100.00%	\$ 21,947	\$ 22,898	100.00%	\$ 25,291	\$ 26,193	100.00%

(1) Mortgage-backed securities ("MBS")

(2) Collateralized mortgage obligations ("CMO")

As of June 30, 2013, the Bank held investments in a continuous unrealized loss position totaling \$18,000, consisting of the following:

(In Thousands)	Unrealized Holding Losses		Unrealized Holding Losses		Unrealized Holding Losses	
	Less Than 12 Months		12 Months or More		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
Private issue CMO	\$ 848	\$ 18	\$ —	\$ —	\$ 848	\$ 18
Total	\$ 848	\$ 18	\$ —	\$ —	\$ 848	\$ 18

As of June 30, 2013, the unrealized holding losses of the private issue CMO was primarily the result of perceived credit and liquidity concerns. Based on the nature of the investments (e.g. AA rating, 2003 issuance, weighted average LTV of 53% at the time of origination, weighted average FICO score of 741 at the time of origination, over collateralization, and senior tranche position) and the Bank's ability and intent to hold the investments until maturity, management concluded that such unrealized losses were not other than temporary as of June 30, 2013.

The following table sets forth the outstanding balance, maturity and weighted average yield of the investment securities at June 30, 2013:

(Dollars in Thousands)	Due in One Year or Less		Due After One to Five Years		Due After Five to Ten Years		Due After Ten Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
Available for sale securities:										
U.S. government agency MBS	\$ —	—%	\$ —	—%	\$ —	—%	\$ 10,816	1.80%	\$ 10,816	1.80%
U.S. government sponsored enterprise MBS	—	—%	—	—%	—	—%	7,675	2.41%	7,675	2.41%
Private issue CMO	—	—%	—	—%	—	—%	1,019	2.41%	1,019	2.41%
Total investment securities available for sale	\$ —	—%	\$ —	—%	\$ —	—%	\$ 19,510	2.07%	\$ 19,510	2.07%

## Deposit Activities and Other Sources of Funds

**General.** Deposits, the proceeds from loan sales and loan repayments are the major sources of the Bank's funds for lending and other investment purposes. Scheduled loan repayments are a relatively stable source of funds, while deposit inflows and outflows are influenced significantly by general interest rates and money market conditions. Loan sales are also influenced significantly by general interest rates. Borrowings through the FHLB – San Francisco and repurchase agreements may be used to compensate for declines in the availability of funds from other sources.

**Deposit Accounts.** Substantially all of the Bank's depositors are residents of the State of California. Deposits are attracted from within the Bank's market area by offering a broad selection of deposit instruments, including checking, savings, money market and time deposits. Deposit account terms vary, differentiated by the minimum balance required, the time periods that the funds must remain on deposit and the interest rate, among other factors. In determining the terms of its deposit accounts, the Bank considers current interest rates, profitability to the Bank, interest rate risk characteristics, competition and its customers' preferences and concerns. Generally, the Bank's deposit rates are commensurate with the median rates of its competitors within a given market. The Bank may occasionally pay above-market interest rates to attract or retain deposits when less expensive sources of funds are not available. The Bank may also pay above-market interest rates in specific markets in order to increase the deposit base of a particular office or group of offices. The Bank reviews its deposit composition and pricing on a weekly basis.

The Bank generally offers time deposits for terms not exceeding five years. As illustrated in the following table, time deposits represented 44% of the Bank's deposit portfolio at June 30, 2013, compared to 46% at June 30, 2012. As of June 30, 2013, total brokered deposits were \$4.7 million with a weighted average interest rate of 3.57% and remaining maturities between one and six years. At June 30, 2012, total brokered deposits were \$7.1 million with a weighted average interest rate of 3.41% and remaining maturities between one and seven years. The Bank attempts to reduce the overall cost of its deposit portfolio and to increase its franchise value by emphasizing transaction accounts, which are subject to a heightened degree of competition (see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Form 10-K).

The following table sets forth information concerning the Bank's weighted-average interest rate of deposits at June 30, 2013.

Weighted Average Interest Rate	Term	Deposit Account Type	Minimum Amount	Balance (In Thousands)	Percentage of Total Deposits
<u>Transaction accounts:</u>					
—%	N/A	Checking accounts – non interest-bearing	\$ —	\$ 57,835	6.27%
0.14%	N/A	Checking accounts – interest-bearing	\$ —	206,784	22.40
0.25%	N/A	Savings accounts	\$ 10	229,779	24.89
0.33%	N/A	Money market accounts	\$ —	26,399	2.86
<u>Time deposits:</u>					
0.05%	30 days or less	Fixed-term, fixed rate	\$ 1,000	23	—
0.13%	31 to 90 days	Fixed-term, fixed rate	\$ 1,000	7,233	0.78
0.14%	91 to 180 days	Fixed-term, fixed rate	\$ 1,000	12,696	1.38
0.22%	181 to 365 days	Fixed-term, fixed rate	\$ 1,000	57,211	6.21
0.92%	Over 1 to 2 years	Fixed-term, fixed rate	\$ 1,000	200,926	21.77
1.03%	Over 2 to 3 years	Fixed-term, fixed rate	\$ 1,000	28,265	3.06
2.93%	Over 3 to 5 years	Fixed-term, fixed rate	\$ 1,000	92,771	10.05
3.70%	Over 5 to 10 years	Fixed-term, fixed rate	\$ 1,000	3,088	0.33
0.66%				\$ 923,010	100.00%

The following table indicates the aggregate dollar amount of the Bank's time deposits with balances of \$100,000 or more differentiated by time remaining until maturity as of June 30, 2013.

Maturity Period	Amount
(Dollars In Thousands)	
Three months or less	\$ 27,233
Over three to six months	42,002
Over six to twelve months	53,502
Over twelve months	73,437
Total	\$ 196,174

**Deposit Flows.** The following table sets forth the balances (inclusive of interest credited) and changes in the dollar amount of deposits in the various types of accounts offered by the Bank at and between the dates indicated.

(Dollars In Thousands)	At June 30,					
	2013			2012		
	Amount	Percent of Total	Increase (Decrease)	Amount	Percent of Total	Increase (Decrease)
Checking accounts – non interest-bearing	\$ 57,835	6.27%	\$ 2,147	\$ 55,688	5.79%	\$ 10,251
Checking accounts – interest-bearing	206,784	22.40	2,260	204,524	21.27	19,295
Savings accounts	229,779	24.89	3,728	226,051	23.51	17,252
Money market accounts	26,399	2.86	(2,983)	29,382	3.06	(3,456)
Time deposits:						
Fixed-term, fixed rate which mature:						
Within one year	255,594	27.69	31,898	223,696	23.27	(60,818)
Over one to two years	93,919	10.18	(68,249)	162,168	16.87	57,134
Over two to five years	51,133	5.54	(7,151)	58,284	6.06	(24,012)
Over five years	1,567	0.17	(51)	1,618	0.17	(2)
Total	\$ 923,010	100.00%	\$ (38,401)	\$ 961,411	100.00%	\$ 15,644

**Time Deposits by Rates.** The following table sets forth the aggregate balance of time deposits categorized by interest rates at the dates indicated.

(Dollars In Thousands)	At June 30,		
	2013	2012	2011
Below 1.00%	\$ 192,236	\$ 165,903	\$ 118,869
1.00 to 1.99%	131,140	189,175	245,404
2.00 to 2.99%	28,866	33,112	47,070
3.00 to 3.99%	38,695	44,014	47,001
4.00 to 4.99%	11,276	13,562	15,120
Total	\$ 402,213	\$ 445,766	\$ 473,464

**Time Deposits by Maturities.** The following table sets forth the aggregate dollar amount of time deposits at June 30, 2013 differentiated by interest rates and maturity.

(Dollars In Thousands)	One Year or Less	Over One to Two Years	Over Two to Three Years	Over Three to Four Years	After Four Years	Total
Below 1.00%	\$ 134,930	\$ 52,770	\$ 4,189	\$ 297	\$ 50	\$ 192,236
1.00 to 1.99%	87,380	10,166	18,363	6,586	8,645	131,140
2.00 to 2.99%	1,363	16,141	9,141	2,127	94	28,866
3.00 to 3.99%	20,724	14,842	1,500	—	1,629	38,695
4.00 to 4.99%	11,197	—	—	—	79	11,276
Total	\$ 255,594	\$ 93,919	\$ 33,193	\$ 9,010	\$ 10,497	\$ 402,213

**Deposit Activity.** The following table sets forth the deposit activity of the Bank at and for the periods indicated.

(In Thousands)	At or For the Year Ended June 30,		
	2013	2012	2011
Beginning balance	\$ 961,411	\$ 945,767	\$ 932,933
Net (withdrawals) deposits before interest credited	(44,986)	7,229	2,574
Interest credited	6,585	8,415	10,260
Net (decrease) increase in deposits	(38,401)	15,644	12,834
Ending balance	\$ 923,010	\$ 961,411	\$ 945,767

**Borrowings.** The FHLB – San Francisco functions as a central reserve bank providing credit for member financial institutions. As a member, the Bank is required to own capital stock in the FHLB – San Francisco and is authorized to apply for advances using such stock and certain of its mortgage loans and other assets (principally investment securities) as collateral, provided certain creditworthiness standards have been met. Advances are made pursuant to several different credit programs. Each credit program has its own interest rate, maturity, terms and conditions. Depending on the program, limitations on the amount of advances are based on the financial condition of the member institution and the adequacy of collateral pledged to secure the credit. The Bank utilizes advances from the FHLB – San Francisco as an alternative to deposits to supplement its supply of lendable funds, to meet deposit withdrawal requirements and to help manage interest rate risk. The FHLB – San Francisco has, from time to time, served as the Bank’s primary borrowing source. As of June 30, 2013 and 2012, the FHLB – San Francisco borrowing capacity was limited to 35% of the Bank’s total assets at both dates. Advances from the FHLB – San Francisco are typically secured by the Bank’s single-family residential, multi-family and commercial real estate mortgage loans. Total mortgage loans pledged to the FHLB – San Francisco were \$685.4 million at June 30, 2013 as compared to \$819.4 million at June 30, 2012. In addition, the Bank pledged investment securities totaling \$1.0 million at June 30, 2013 as compared to \$1.1 million at June 30, 2012 to collateralize its FHLB – San Francisco advances under the Securities-Backed Credit (“SBC”) facility. At June 30, 2013 and 2012, the Bank had \$106.5 million and \$126.5 million of borrowings, respectively, from the FHLB – San Francisco with a weighted-average interest rate of 3.55% and 3.53%, respectively. At June 30, 2013, the outstanding borrowings mature between 2013 and 2021 with a weighted average maturity of 32 months. In addition to the total borrowings mentioned above, the Bank utilized its borrowing facility for letters of credit and MPF credit enhancement. The outstanding letters of credit at June 30, 2013 and 2012 was \$7.5 million and \$10.0 million, respectively; and the outstanding MPF credit enhancement was \$2.5 million and \$3.0 million, respectively (see Note 8 to the Corporation’s audited financial statements included in Item 8 of this Form 10-K). As of June 30, 2013 and 2012, the remaining financing availability was \$310.9 million at both dates, with remaining available collateral of \$369.4 million and \$409.0 million, respectively. In addition, as of June 30, 2013 and 2012, the Bank had secured a discount window facility of \$17.2 million



and \$20.2 million, respectively, at the Federal Reserve Bank of San Francisco, collateralized by investment securities with a fair market value of \$18.1 million and \$21.2 million, respectively.

The following table sets forth certain information regarding borrowings by the Bank at the dates and for the year indicated:

(Dollars In Thousands)	At or For the Year Ended June 30,		
	2013	2012	2011
Balance outstanding at the end of period:			
FHLB – San Francisco advances	\$ 106,491	\$ 126,546	\$ 206,598
Weighted average rate at the end of period:			
FHLB – San Francisco advances	3.55%	3.53%	3.77%
Maximum amount of borrowings outstanding at any month end:			
FHLB – San Francisco advances	\$ 126,542	\$ 216,577	\$ 309,643
Average short-term borrowings during the period with respect to <sup>(1)</sup> :			
FHLB – San Francisco advances	\$ 61,667	\$ 57,500	\$ 110,833
Weighted average short-term borrowing rate during the period with respect to <sup>(1)</sup> :			
FHLB – San Francisco advances	3.87%	3.54%	4.32%

<sup>(1)</sup> Borrowings with a remaining term of 12 months or less.

As a member of the FHLB – San Francisco, the Bank is required to maintain a minimum investment in FHLB – San Francisco stock. The Bank held the required investment of \$8.7 million and an excess investment of \$6.6 million at June 30, 2013, as compared to the required investment of \$9.4 million and an excess investment of \$12.9 million at June 30, 2012. During fiscal 2013 and 2012, the Bank received a partial redemption of the excess FHLB – San Francisco stock of \$7.0 million and \$4.7 million, respectively. Also in fiscal 2013, 2012 and 2011, the Bank received cash dividends on the FHLB – San Francisco stock of \$438,000, \$99,000 and \$110,000, respectively.

### Subsidiary Activities

Federal savings institutions generally may invest up to 3% of their assets in service corporations, provided that at least one-half of any amount in excess of 1% is used primarily for community, inner-city and community development projects. The Bank's investment in its service corporations did not exceed these limits at June 30, 2013.

The Bank has three wholly owned subsidiaries: Provident Financial Corp (“PFC”), Profed Mortgage, Inc., and First Service Corporation. PFC's current activities include: (i) acting as trustee for the Bank's real estate transactions and (ii) holding real estate for investment, if any. Profed Mortgage, Inc., which formerly conducted the Bank's mortgage banking activities, and First Service Corporation are currently inactive. At June 30, 2013 and 2012, the Bank's investment in its subsidiaries was \$98,000 and \$105,000, respectively.

## REGULATION

The following is a brief description of certain laws and regulations which are applicable to the Corporation and the Bank. The description of these laws and regulations, as well as descriptions of laws and regulations contained elsewhere herein, does not purport to be complete and is qualified in its entirety by reference to the applicable laws and regulations.

Legislation is introduced from time to time in the United States Congress that may affect the Corporation's and the Bank's operations. In addition, the regulations governing the Corporation and the Bank may be amended from time to time by the OCC, FDIC, Federal Reserve Board and the Consumer Financial Protection Bureau ("CFPB"). Any such legislation or regulatory changes could adversely affect the Corporation and the Bank and no prediction can be made as to whether any such changes may occur.

**Regulatory Reform.** The Dodd-Frank Act, which was enacted in 2010, implements new restrictions and an expanded framework of regulatory oversight related to the Corporation's and the Bank's operations. Effective July 2011, the Dodd-Frank Act changed the jurisdictions of the federal bank regulatory agencies, transferring the regulation of federal savings associations from the OTS to the OCC and transferring the regulation of savings and loan holding companies from the OTS to the Federal Reserve Board. The following summarizes significant aspects of the Dodd-Frank Act that may materially affect the operations and condition of the Corporation and the Bank:

- Centralize responsibility for consumer financial protection in the CFPB, which has broad rulemaking, supervision and enforcement authority for a wide range of consumer protection laws that would apply to all banks and thrifts. Smaller financial institutions, including the Bank, are subject to the supervision and enforcement of their primary federal banking regulator with respect to their compliance with the federal consumer financial protection laws.
- Require new capital rules and apply the same leverage and risk-based capital requirements that apply to insured depository institutions to savings and loan holding companies.
- Require the federal banking regulators to seek to make their capital requirements counter cyclical, so that capital requirements increase in times of economic expansion and decrease in times of economic contraction.
- Provide for new disclosure and other requirements relating to executive compensation and corporate governance.
- Make permanent the \$250,000 limit for federal deposit insurance.
- Repeal the federal prohibitions on the payment of interest on demand deposits and eliminate the unlimited federal deposit insurance for non interest-bearing demand transaction accounts effective January 1, 2013.
- Require all depository institution holding companies to serve as a source of financial strength to their depository institution subsidiaries in the event such subsidiaries suffer from financial distress.
- Impose limits on the preemption of state consumer financial protection laws, which are preempted only if they would have a discriminatory effect on a federally chartered financial institution or are specifically preempted by any federal law. The OCC is more limited in its ability to preempt the application of state law to federally chartered financial institutions, because it must make a preemption determination with respect to a state consumer financial protection law on a case-by-case basis with respect to a particular state law or other state law with substantively equivalent terms.
- Change the deposit insurance assessment base for FDIC insurance to the depository institution's total average assets minus the sum of its average tangible equity during the assessment period, rather than the level of deposits.
- Increase the minimum reserve ratio of the FDIC deposit insurance fund to 1.35% of estimated annual insured deposits or assessment base. However, the FDIC is directed to "offset the effect" of the increased reserve ratio for insured depository institutions with total consolidated assets of less than \$10.0 billion.

Many aspects of the Dodd-Frank Act are subject to rulemaking by the federal banking agencies, which has not been completed and will not take effect for some time, making it difficult to anticipate the overall financial impact of the Dodd-Frank Act on the Corporation, the Bank and the financial services industry more generally.

## **General**

As discussed above, the supervision and examination authority of the Bank has been transferred from the OTS to the OCC and the supervision and examination authority of the Corporation has been transferred from the OTS to the Federal Reserve Board. As part of this process, the regulations of the OTS have been incorporated into the respective regulations of the OCC and the Federal Reserve Board.

The Bank, as a federally chartered savings institution, is subject to extensive regulation, examination and supervision by the OCC, as its primary federal regulator, and the FDIC, as its insurer of deposits. The Bank's relationship with its depositors and borrowers is regulated by federal consumer protection laws, and the CFPB issues regulations under those laws, which must be complied with by the Bank. The Bank is a member of the FHLB System and its deposits are insured up to applicable limits by the FDIC. The Bank must file reports with the OCC and the FDIC concerning its activities and financial condition in addition to obtaining regulatory approvals prior to entering into certain transactions such as mergers with, or acquisitions of, other financial institutions. There are periodic examinations by the OCC to evaluate the Bank's safety and soundness and compliance with various regulatory requirements. Under certain circumstances, the FDIC may also examine the Bank. This regulatory structure is intended

primarily for the protection of the insurance fund and depositors. The regulatory structure also gives the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to the classification of assets and the establishment of adequate loan loss allowances for regulatory purposes. Any change in such policies, whether by the OCC, the FDIC or Congress, could have a material adverse impact on the Corporation and the Bank and their operations. The Corporation, as a savings and loan holding company, is required to file certain reports with, is subject to examination by, and otherwise must comply with the rules and regulations of the Federal Reserve Board. The Corporation is also subject to the rules and regulations of the Securities and Exchange Commission (“SEC”) under the federal securities laws. See “Savings and Loan Holding Company Regulations” below in this Form 10-K.

### **Federal Regulation of Savings Institutions**

**Office of Comptroller of the Currency.** The OCC has extensive authority over the operations of federally chartered savings institutions. As part of this authority, the Bank is required to file periodic reports with the OCC and is subject to periodic examinations by the OCC and the FDIC. The OCC also has extensive enforcement authority over all federally chartered savings institutions, including the Bank. This enforcement authority includes, among other things, the ability to assess civil money penalties, issue a cease-and-desist order and initiate injunctive actions. In general, these enforcement actions may be initiated for violations of laws and regulations and unsafe or unsound practices. Other actions or inaction may provide the basis for enforcement action, including misleading or untimely reports filed with the OCC. Except under certain circumstances, public disclosure of final enforcement actions by the OCC is required.

If the OCC deems an institution to be in “troubled condition” (because it receives a composite CAMELS rating of 4 or 5, is subject to a cease-and-desist order, a capital or prompt corrective action directive, or a formal written agreement, or because of other reasons), the institution will become subject to various restrictions, such as growth limits, requirement for prior application of any new director or senior executive officer, restrictions on dividends, compensation and golden parachute and indemnification payments, and restrictions on transactions with affiliates and third parties. Higher assessment and application fees will also apply.

The investment, lending and branching authority of the Bank is prescribed by federal laws and the Bank is prohibited from engaging in any activities not permitted by these laws. For example, no savings institution may invest in non-investment grade corporate debt securities. In addition, the permissible level of investment by federal institutions in loans secured by non-residential real estate property may not exceed 400% of total capital, except with the approval of the OCC. Federal savings institutions are also generally authorized to branch nationwide. The Bank is in compliance with the noted restrictions.

All savings institutions must pay assessments to the OCC (or the OTS prior to July 21, 2011), to fund the agency’s operations. The general assessments, which were paid on a semi-annual basis, were determined based on the savings institution’s total assets, including consolidated subsidiaries. The Bank’s annual assessment for the fiscal years ended June 30, 2013, 2012 and 2011 were \$279,000, \$283,000 and \$490,000 respectively.

Federal law provides that federally chartered savings institutions are generally subject to the national bank limit on loans to one borrower. A federally chartered savings institution may not make a loan or extend credit to a single or related group of borrowers in excess of 15% of its unimpaired capital and surplus. An additional amount may be lent, equal to 10% of unimpaired capital and surplus, if secured by specified readily marketable collateral. The Bank’s limit on loans to one borrower or group of related borrowers was \$26.1 million and \$24.5 million, at June 30, 2013 and 2012, respectively. At June 30, 2013, the Bank’s largest lending relationship to a single borrower or group of borrowers totaled \$6.8 million, consisting of multi-family and commercial real estate loans, all of which are performing according to their original terms.

The OCC, as well as the other federal banking agencies, has adopted guidelines establishing safety and soundness standards on such matters as loan underwriting and documentation, asset quality, earnings, internal controls and audit systems, interest rate risk exposure and compensation and other employee benefits. Any institution that fails to comply with these standards must submit a compliance plan.

**Federal Home Loan Bank System.** The Bank is a member of the FHLB – San Francisco, which is one of 12 regional FHLBs that administer the home financing credit function of member financial institutions. Each FHLB serves as a reserve or central bank for its members within its assigned region. It is funded primarily from proceeds derived from the sale of consolidated obligations of the FHLB System. It makes loans or advances to members in accordance with policies and procedures, established by the Board of Directors of the FHLB, which are subject to the oversight of the Federal Housing Finance Agency. All advances from the FHLB are required to be fully secured by sufficient collateral as determined by the FHLB. In addition, all long-term advances are required to provide funds for residential home financing. At June 30, 2013 and 2012, the Bank had \$106.5 million

and \$126.5 million of outstanding advances, respectively, from the FHLB – San Francisco under an available credit facility of \$427.5 million and \$450.4 million, respectively, based on 35% of total assets for both dates, which is limited to available collateral. See “Business – Deposit Activities and Other Sources of Funds – Borrowings” above in this Form 10-K.

As a member of the FHLB - San Francisco, the Bank is required to purchase and maintain stock in the FHLB – San Francisco. At June 30, 2013 and 2012, the Bank held the required stock investment of \$8.7 million and \$9.4 million, respectively, and an excess stock investment of \$6.6 million and \$12.9 million, respectively. In fiscal 2013 and 2012, the FHLB – San Francisco redeemed \$7.0 million and \$4.7 million of the Bank's excess capital stock, respectively, consistent with its stated desire to strengthen its capital ratios. In fiscal 2013, 2012 and 2011, the FHLB – San Francisco distributed \$438,000, \$99,000 and \$110,000 of cash dividends, respectively. There is no guarantee that the FHLB – San Francisco will maintain its cash dividend and partial redemption of excess stock held by its members.

Under federal law, the FHLB is required to contribute to low and moderately priced housing programs through direct loans or interest subsidies on advances targeted for community investment and low and moderate income housing projects. These contributions have adversely affected the level of FHLB dividends paid and could continue to do so in the future. These contributions also could have an adverse effect on the value of FHLB stock in the future. A reduction in value of the Bank's FHLB stock may result in a corresponding reduction in the Bank's capital.

**Insurance of Accounts and Regulation by the FDIC.** The Bank's deposits are insured up to applicable limits by the Deposit Insurance Fund (“DIF”) of the FDIC. Deposits are insured up to \$250,000 per account owner by the FDIC, backed by the full faith and credit of the United States Government. As insurer, the FDIC imposes deposit insurance premiums and is authorized to conduct examinations of and to require reporting by FDIC insured institutions. It also may prohibit any FDIC insured institution from engaging in any activity the FDIC determines by regulation or order to pose a serious risk to the insurance fund. The FDIC also has the authority to initiate enforcement actions against savings institutions, after giving the OCC an opportunity to take such action, and may terminate the deposit insurance if it determines that the institution has engaged in unsafe or unsound practices or is in an unsafe or unsound condition. Management of the Bank is not aware of any practice, condition or violation that might lead to termination of the Bank's deposit insurance.

As a result of a decline in the reserve ratio (the ratio of the DIF to estimated insured deposits) and concerns about expected failure costs and available liquid assets in the DIF, the FDIC adopted a rule requiring each insured institution to prepay on December 30, 2009 the estimated amount of its quarterly assessments for the fourth quarter of 2009 and all quarters through the end of 2012 (in addition to the regular quarterly assessment for the third quarter which was due on December 30, 2009). The prepaid amount was recorded as an asset with a zero risk weight and the institution continued to record quarterly expenses for deposit insurance. For purposes of calculating the prepaid amount, assessments were measured at the institution's assessment rate as of September 30, 2009, with a uniform increase of three basis points effective January 1, 2011, and were based on the institution's assessment base for the third quarter of 2009, with growth assumed quarterly at an annual rate of 5%. If events cause actual assessments during the prepayment period to vary from the prepaid amount, institutions will pay excess assessments in cash or receive a rebate of prepaid amounts not exhausted after collection of assessments due on June 30, 2013, as applicable. In December 2009, the Bank paid the prepaid assessment of \$10.4 million; and in June 2013, the unused prepaid assessment of \$4.7 million was refunded by the FDIC. The Bank's annual FDIC assessment for the fiscal years ended June 30, 2013, 2012 and 2011 was \$787,000, \$1.0 million and \$2.1 million, respectively.

As required by the Dodd-Frank Act, the FDIC adopted rules effective April 1, 2011, under which insurance premium assessments are based on an institution's total assets minus its tangible equity (defined as Tier 1 capital) instead of its deposits. Under these rules, an institution with total assets of less than \$10 billion is assigned one of four risk categories based on its capital, supervisory ratings and other factors. Well capitalized institutions that are financially sound with only a few minor weaknesses are assigned to Risk Category I. Risk Categories II, III and IV present progressively greater risks to the DIF. A range of initial base assessment rates apply to each category, subject to adjustment downward based on unsecured debt issued by the institution and, except for an institution in Risk Category I, adjustment upward if the institution's brokered deposits exceed 10% of its domestic deposits, to produce total base assessment rates. Total base assessment rates range from 2.5 to nine basis points for Risk Category I, nine to 24 basis points for Risk Category II, 18 to 33 basis points for Risk Category III and 30 to 45 basis points for Risk Category IV, all subject to further adjustment upward if the institution holds more than a de minimis amount of unsecured debt issued by another FDIC-insured institution. The FDIC may increase or decrease its rates by 2.0 basis points without further rulemaking. In an emergency, the FDIC may also impose a special assessment.

The Dodd-Frank Act establishes 1.35% as the minimum reserve ratio. The FDIC has adopted a plan under which it will meet this ratio by September 30, 2020, the deadline imposed by the Dodd-Frank Act. The Dodd-Frank Act requires the FDIC to offset the

effect on institutions with assets less than \$10 billion for the increase in the statutory minimum reserve ratio to 1.35% from the former statutory minimum of 1.15%. The FDIC has not yet announced how it will implement this offset. In addition to the statutory minimum ratio the FDIC must designate a reserve ratio, known as the designated reserve ratio (“DRR”), which may exceed the statutory minimum. The FDIC has established 2.0% as the DRR.

In addition to the assessment for deposit insurance, institutions are required to make payments on bonds issued in the late 1980s by the Financing Corporation to recapitalize a predecessor deposit insurance fund. These assessments, which may be revised based upon the level of DIF deposits, will continue until the bonds mature in the years 2017 through 2019. This payment is established quarterly and during the year ending March 31, 2013 averaged 8.20 basis points (annualized) of assessable assets. The Financing Corporation was chartered in 1987, by the OTS’ predecessor, the Federal Home Loan Bank Board, solely for the purpose of functioning as a vehicle for the recapitalization of the deposit insurance system.

As insurer, the FDIC is authorized to conduct examinations of and to require reporting by FDIC-insured institutions. It also may prohibit any FDIC-insured institution from engaging in any activity the FDIC determines by regulation or order to pose a serious threat to the DIF. The FDIC also has the authority to take enforcement actions against banks and savings associations.

A significant increase in insurance premiums would likely have an adverse effect on the operating expenses and results of operations of the Bank. There can be no prediction as to what changes in insurance assessment rates may be made in the future.

**Qualified Thrift Lender Test.** All savings institutions, including the Bank, are required to meet a qualified thrift lender (“QTL”) test to avoid certain restrictions on their operations. This test requires a savings institution to have at least 65% of its total assets as defined by regulation, in qualified thrift investments on a monthly average for nine out of every 12 months on a rolling basis. As an alternative, the savings institution may maintain 60% of its assets in those assets specified in Section 7701(a)(19) of the Internal Revenue Code (“Code”). Under either test, such assets primarily consist of residential housing related loans and investments.

A savings institution that fails to meet the QTL is subject to certain operating restrictions and may be required to convert to a national bank charter. As of June 30, 2013 and 2012, the Bank maintained 102.21% and 100.84%, respectively, of its portfolio assets in qualified thrift investments and, therefore, met the qualified thrift lender test.

**Capital Requirements.** The Bank is required to maintain specified levels of regulatory capital under regulations of the OCC. The OCC may impose capital requirements on individual institutions in excess of these requirements on a case-by-case basis. In addition, the OCC has established capital standards for purposes of establishing the thresholds for taking prompt corrective action against capital deficient institutions. These capital standards include three capital ratios. The leverage ratio is a measurement of Tier 1 capital to adjusted total assets. The Tier 1 capital ratio is a measurement of Tier 1 capital to risk-weighted assets. The total capital ratio is a measurement of total capital to risk-weighted assets. At June 30, 2013, the Bank met each of these capital requirements and had a leverage ratio of 13.1%, a Tier 1 capital ratio of 21.4% and a total capital ratio of 22.6%, all of which exceeded mandated levels and qualified the Bank as well-capitalized under the prompt corrective action standards. For additional information regarding the capital levels of the Bank, see Note 10 of the Notes to Consolidated Financial Statements included in Item 8 of this Form 10-K.

Tier 1 capital generally consists of common shareholders' equity and retained earnings and certain noncumulative perpetual preferred stock and related earnings, excluding most intangible assets. The OCC regulations require that federal savings associations deduct from Tier 1 capital investments in and loans to subsidiaries engaged in activities as principal that are not permissible for a national bank. Total capital consists of the sum of an institution's Tier 1 capital and the amount of its Tier 2 capital up to the amount of its Tier 1 capital. Tier 2 capital consists generally of certain cumulative and other perpetual preferred stock, certain subordinated debt and other maturing capital instruments, the amount of the institution's allowance for loan and lease losses up to 1.25% of risk-weighted assets and certain unrealized gains on equity securities. Risk-weighted assets are determined under the OCC capital regulations that assign to every asset, including certain off-balance sheet items, a risk-weight ranging from 0% to 200% based on the inherent risk of the asset. The OCC is authorized to require the Bank to maintain an additional amount of total capital to account for concentrations of credit risk, levels of interest rate risk, equity investments in non-financial companies and the risks of non-traditional activities or other supervisory concerns.

OCC prompt corrective action regulations state that to be adequately capitalized, the Bank must have a leverage ratio of at least 4.0%, a Tier 1 capital ratio of at least 4.0% and a total capital ratio of at least 8.0%. To be well-capitalized, the Bank must have a leverage ratio of at least 5.0%, a Tier 1 risk-based capital ratio of at least 6.0% and a total risk-based capital ratio of at least 10.0%. At June 30, 2013, the Bank was considered a well-capitalized institution under OCC regulations.

Institutions that are not well-capitalized are subject to certain restrictions on brokered deposits and interest rates on deposits. The OCC is authorized and, under certain circumstances, required to take certain actions against institutions that fail to meet the minimum ratios for an adequately capitalized institution. Any such institution must submit a capital restoration plan and, until such plan is approved by the OCC, may not increase its assets, acquire another depository institution, establish a branch or engage in any new activities, or make capital distributions. The OCC is authorized to impose the additional restrictions on institutions that are less than adequately capitalized.

OCC regulations state that any institution that fails to comply with its capital plan or has Tier 1 or leverage ratio of less than 3.0% or a total capital ratio of less than 6.0% is considered significantly undercapitalized and must be made subject to one or more additional specified actions and operating restrictions that may cover all aspects of its operations and may include a forced merger or acquisition of the institution. An institution with tangible equity to total assets of less than 2.0% is critically undercapitalized and becomes subject to further mandatory restrictions on its operations. The OCC generally is authorized to reclassify an institution into a lower capital category and impose the restrictions applicable to such category if the institution is engaged in unsafe or unsound practices or is in an unsafe or unsound condition. The imposition by the OCC of any of these measures on the Bank may have a substantial adverse effect on our operations and profitability. In general, the FDIC must be appointed receiver for a critically undercapitalized institution whose capital is not restored within the time provided. When the FDIC as receiver liquidates an institution, the claims of depositors and the FDIC as their successor (for deposits covered by FDIC insurance) have priority over other unsecured claims against the institution.

**New Capital Rules.** Effective in 2015 (with some changes generally transitioned into full effectiveness over two to four years), the Bank will be subject to new capital requirements adopted by the OCC. These new requirements create a new required ratio for common equity Tier 1 (“CET1”) capital, increases the leverage and Tier 1 capital ratios, changes the risk-weights of certain assets for purposes of the risk-based capital ratios, creates an additional capital conservation buffer over the required capital ratios and changes what qualifies as capital for purposes of meeting these various capital requirements. Beginning in 2016, failure to maintain the required capital conservation buffer will limit the ability of the Bank to pay dividends, repurchase shares or pay discretionary bonuses.

When these new requirements become effective in 2015, the Bank's leverage ratio of 4% of adjusted total assets and total capital ratio of 8% of risk-weighted assets will remain the same; however, the Tier 1 capital ratio requirement will increase from 4.0% to 6.5% of risk-weighted assets. In addition, the Bank will have to meet the new CET1 capital ratio of 4.5% of risk-weighted assets, with CET1 consisting of qualifying Tier 1 capital less all capital components that are not considered common equity.

For all of these capital requirements, there are a number of changes in what constitutes regulatory capital, some of which are subject to a two-year transition period. These changes include the phasing-out of certain instruments as qualifying capital. The Bank does not have any of these instruments. Under the new requirements for total capital, Tier 2 capital is no longer limited to the amount of Tier 1 capital included in total capital.

Mortgage servicing rights, certain deferred tax assets and investments in unconsolidated subsidiaries over designated percentages of common stock will be deducted from capital, subject to a two-year transition period. In addition, Tier 1 capital will include accumulated other comprehensive income, which includes all unrealized gains and losses on available for sale debt and equity securities, subject to a two-year transition period. Because of its asset size, the Bank has the one-time option of deciding in the first quarter of 2015 whether to permanently opt-out of the inclusion of accumulated other comprehensive income in its capital calculations. The Bank is considering whether to take advantage of this opt-out to reduce the impact of market volatility on its regulatory capital levels.

The new requirements also include changes in the risk-weights of assets to better reflect credit risk and other risk exposures. These include a 150% risk weight (up from 100%) for certain high volatility commercial real estate acquisition, development and construction loans and for non-residential mortgage loans that are 90 days past due or otherwise in nonaccrual status; a 20% (up from 0%) credit conversion factor for the unused portion of a commitment with an original maturity of one year or less that is not unconditionally cancellable (currently set at 0%); a 250% risk weight (up from 100%) for mortgage servicing and deferred tax assets that are not deducted from capital; and increased risk-weights (0% to 600%) for equity exposures.

In addition to the minimum CET1, Tier 1 and total capital ratios, the Bank will have to maintain a capital conservation buffer consisting of additional CET1 capital equal to 2.5% of risk-weighted assets above the required minimum levels in order to avoid limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses based on percentages of eligible retained income that could be utilized for such actions. This new capital conservation buffer requirement is being phased in beginning in January 2016 at 0.625% of risk-weighted assets and increasing each year until fully implemented at 2.5% in January 2019.

The OCC's prompt corrective action standards will change when these new capital ratios become effective. Under the new standards, in order to be considered well-capitalized, the Bank would have to have a CET1 ratio of 6.5% (new), a Tier 1 ratio of 8% (increased from 6%), a total capital ratio of 10% (unchanged) and a leverage ratio of 5% (unchanged).

The Bank has conducted a pro forma analysis of the application of these new capital requirements as of June 30, 2013. We have determined that the Bank meets all these new requirements, including the full 2.5% capital conservation buffer, and remains well-capitalized, if these new requirements had been effect on that date.

**Limitations on Capital Distributions.** OCC regulations impose various restrictions on savings institutions on their ability to make distributions of capital, which include dividends, stock redemptions or repurchases, cash-out mergers and other transactions charged to the capital account. Generally, savings institutions, such as the Bank, that before and after the proposed distribution are well-capitalized, may make capital distributions during any calendar year up to 100% of net income for the year-to-date plus retained net income for the two preceding years. However, an institution deemed to be in need of more than normal supervision or in troubled condition by the OCC may have its dividend authority restricted by the OCC. If the Bank, however, proposes to make a capital distribution when it does not meet its capital requirements (or will not following the proposed capital distribution) or that will exceed these net income-based limitations, it must obtain the OCC's approval prior to making such distribution. In addition, the Bank must file a prior written notice of a dividend with the Federal Reserve Board. The Federal Reserve Board or the OCC may object to a capital distribution based on safety and soundness concerns. Additional restrictions on Bank dividends may apply if the Bank fails the QTL test and the Bank may not make a capital distribution if, after making the distribution, it would be undercapitalized. In addition, as noted above, beginning in 2016, if the Bank does not have the required capital conservation buffer, its ability to pay dividends to the Corporation would be limited, which may limit the ability of the Corporation to pay dividends to its stockholders.

**Activities of Savings Associations and Their Subsidiaries.** When a savings institution establishes or acquires a subsidiary or elects to conduct any new activity through a subsidiary that the association controls, the savings institution must notify the FDIC and the OCC 30 days in advance and provide the required information in connection with such notification. Savings institutions also must conduct the activities of subsidiaries in accordance with existing regulations and orders.

The OCC may determine that the continuation by a savings institution of its ownership, control of, or its relationship to, the subsidiary constitutes a serious risk to the safety, soundness or stability of the savings institution or is inconsistent with sound banking practices or with the purposes of the Federal Deposit Insurance Act. Based upon that determination, the FDIC or the OCC has the authority to order the savings institution to divest itself of control of the subsidiary. The FDIC also may determine by regulation or order that any specific activity poses a serious threat to the DIF. If so, it may require that no DIF member engage in that activity directly.

**Transactions with Affiliates and Insiders.** The Bank's authority to engage in transactions with "affiliates" is limited by Sections 23A and 23B of the Federal Reserve Act as implemented by the Federal Reserve Board's Regulation W. The term "affiliates" for these purposes generally means any company that controls or is under common control with an institution. The Corporation and its non-savings institution subsidiaries are affiliates of the Bank. In general, transactions with affiliates must be on terms that are as favorable to the institution as comparable transactions with non-affiliates. In addition, certain types of transactions are restricted to an aggregate percentage of the institution's capital. Collateral in specified amounts must be provided by affiliates in order to receive loans from an institution. In addition, savings institutions are prohibited from lending to any affiliate that is engaged in activities that are not permissible for bank holding companies and no savings institution may purchase the securities of any affiliate other than a subsidiary. Federally insured savings institutions are subject, with certain exceptions, to certain restrictions on extensions of credit to their parent holding companies or other affiliates, on investments in the stock or other securities of affiliates and on the taking of such stock or securities as collateral from any borrower. In addition, these institutions are prohibited from engaging in certain tying arrangements in connection with any extension of credit or the providing of any property or service.

The Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley Act") generally prohibits a company that makes filings with the SEC from making loans to its executive officers and directors. However, that act contains a specific exception for loans by a depository institution to its executive officers and directors, if the lending is in compliance with federal banking laws. Under such laws, the Bank's authority to extend credit to executive officers, directors and 10% stockholders ("insiders"), as well as entities which such persons control, is limited. The law restricts both the individual and aggregate amount of loans the Bank may make to insiders based, in part, on the Bank's capital position and requires certain Board approval procedures to be followed. Such loans must be made on terms substantially the same as those offered to unaffiliated individuals and not involve more than the normal risk of repayment. There is an exception for loans made pursuant to a benefit or compensation program that is widely available to all

employees of the institution and does not give preference to insiders over other employees. There are additional restrictions applicable to loans to executive officers.

**Community Reinvestment Act and Consumer Protection Laws.** Under the Community Reinvestment Act, every FDIC-insured institution has a continuing and affirmative obligation consistent with safe and sound banking practices to help meet the credit needs of its entire community, including low and moderate income neighborhoods. The Community Reinvestment Act does not establish specific lending requirements or programs for financial institutions nor does it limit an institution's discretion to develop the types of products and services that it believes are best suited to its particular community, consistent with the Community Reinvestment Act. The Community Reinvestment Act requires the OCC, in connection with the examination of the Bank, to assess the institution's record of meeting the credit needs of its community and to take such record into account in its evaluation of certain applications, such as a merger or the establishment of a branch, by the Bank. The OCC may use an unsatisfactory rating as the basis for the denial of an application. Due to the heightened attention being given to the Community Reinvestment Act in the past few years, the Bank may be required to devote additional funds for investment and lending in its local community. The Bank received a rating of satisfactory when it was last examined for Community Reinvestment Act compliance.

In connection with its deposit-taking, lending and other activities, the Bank is subject to a number of federal laws designed to protect consumers and promote lending to various sectors of the economy and population. The CFPB issues regulations and standards under these federal consumer protection laws, which include the Equal Credit Opportunity Act, the Truth-in-Lending Act, the Home Mortgage Disclosure Act and the Real Estate Settlement Procedures Act. Through its rulemaking authority, the CFPB has promulgated several proposed and final regulations under these laws that will affect our consumer businesses. Among these regulatory initiatives, are final regulations setting "ability to repay" and "qualified mortgage" standards for residential mortgage loans and establishing new mortgage loan servicing and loan originator compensation standards. The Bank is evaluating these recent CFPB regulations and proposals and devotes substantial compliance, legal and operational business resources to ensure compliance with these consumer protection standards. In addition, the OCC has enacted customer privacy regulations that limit the ability of the Bank to disclose nonpublic consumer information to non-affiliated third parties. The regulations require disclosure of privacy policies and allow consumers to prevent certain personal information from being shared with non-affiliated parties.

**Bank Secrecy Act/Anti-Money Laundering Laws.** The Bank is subject to the Bank Secrecy Act and other anti-money laundering laws and regulations, including the USA PATRIOT Act of 2001. These laws and regulations require the Bank to implement policies, procedures, and controls to detect, prevent, and report money laundering and terrorist financing and to verify the identity of their customers. Violations of these requirements can result in substantial civil and criminal sanctions. In addition, provisions of the USA PATRIOT Act require the federal financial institution regulatory agencies to consider the effectiveness of a financial institution's anti-money laundering activities when reviewing mergers and acquisitions.

**Regulatory and Criminal Enforcement Provisions.** The OCC has primary enforcement responsibility over federally chartered savings institutions and has the authority to bring action against all "institution-affiliated parties," including stockholders, attorneys, appraisers and accountants who knowingly or recklessly participate in wrongful action likely to have an adverse effect on an insured institution. Formal enforcement action may range from the issuance of a capital directive or cease-and-desist order to removal of officers or directors, receivership, conservatorship or termination of deposit insurance. Civil penalties cover a wide range of violations and can amount to \$25,000 per day, or \$1.1 million per day in especially egregious cases. The FDIC has the authority to recommend to the OCC that an enforcement action be taken with respect to a particular savings institution. If the OCC does not take action, the FDIC has authority to take such action under certain circumstances. Federal law also establishes criminal penalties for certain violations.

**Environmental Issues Associated with Real Estate Lending.** The Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA"), a federal statute, generally imposes strict liability on all prior and present "owners and operators" of sites containing hazardous waste. However, Congress acted to protect secured creditors by providing that the term "owner and operator" excludes a person whose ownership is limited to protecting its security interest in the site. Since the enactment of the CERCLA, this "secured creditor exemption" has been the subject of judicial interpretations which have left open the possibility that lenders could be liable for cleanup costs on contaminated property that they hold as collateral for a loan.

To the extent that legal uncertainty exists in this area, all creditors, including the Bank, that have made loans secured by properties with potential hazardous waste contamination (such as petroleum contamination) could be subject to liability for cleanup costs, which costs often substantially exceed the value of the collateral property.



## **Savings and Loan Holding Company Regulations**

**General.** The Corporation is a unitary savings and loan holding company subject to the regulatory oversight of the Federal Reserve Board. Accordingly, the Corporation is required to register and file reports with the Federal Reserve Board and is subject to regulation and examination by the Federal Reserve Board. In addition, the Federal Reserve Board has enforcement authority over the Corporation and its non-savings institution subsidiaries, which also permits the Federal Reserve Board to restrict or prohibit activities that are determined to present a serious risk to the subsidiary savings institution. In accordance with the Dodd-Frank Act, the federal banking regulators must require any company that controls an FDIC-insured depository institution to serve as a source of strength for the institution, with the ability to provide financial assistance if the institution suffers financial distress. These and other Federal Reserve Board policies may restrict the Corporation's ability to pay dividends.

The Corporation is not subject to any minimum regulatory capital requirements. However, beginning in 2015, it will be subject to regulatory capital requirements adopted by the Federal Reserve Board, which generally are the same as the new capital requirements for the Bank. These new capital requirements include provisions that might limit the ability of the Corporation to pay dividends to its stockholders or repurchase its shares. For a description of these new capital regulations, see "Federal Regulation of Savings Institutions - New Proposed Capital Rules" above in this Form 10-K.

**Activities Restrictions.** The Graham-Leach-Bliley Financial Services Modernization Act of 1999 ("GLBA") provides that no company may acquire control of a savings association after May 4, 1999 unless it engages only in the financial activities permitted for financial holding companies under the law or for multiple savings and loan holding companies as described below. The GLBA also specifies, subject to a grandfather provision, that existing savings and loan holding companies may only engage in such activities. The Corporation qualifies for the grandfathering and is therefore not restricted in terms of its activities. Upon any non-supervisory acquisition of another savings association as a separate subsidiary, the Corporation would become a multiple savings and loan holding company and would be limited to those activities permitted multiple savings and loan holding companies by Federal Reserve Board regulation. Multiple savings and loan holding companies may engage in activities permitted for financial holding companies, and certain other activities including acting as a trustee under a deed of trust and real estate investments.

If the Bank fails the QTL test, the Corporation must, within one year of that failure, register as, and will become subject to the restrictions applicable to bank holding companies. See "Federal Regulation of Savings Institutions – Qualified Thrift Lender Test" in this Form 10-K.

**Mergers and Acquisitions.** The Corporation must obtain approval from the Federal Reserve Board before acquiring more than 5% of the voting stock of another savings institution or savings and loan holding company or acquiring such an institution or holding company by merger, consolidation or purchase of its assets. In evaluating an application for the Corporation to acquire control of a savings institution, the Federal Reserve Board would consider the financial and managerial resources and future prospects of the Corporation and the target institution, the effect of the acquisition on the risk to the DIF, the convenience and the needs of the community and competitive factors.

The Federal Reserve Board may not approve any acquisition that would result in a multiple savings and loan holding company controlling savings institutions in more than one state, subject to two exceptions; (i) the approval of interstate supervisory acquisitions by savings and loan holding companies and (ii) the acquisition of a savings institution in another state if the laws of the states of the target savings institution specifically permit such acquisitions. The states vary in the extent to which they permit interstate savings and loan holding company acquisitions.

**Sarbanes-Oxley Act.** The Sarbanes-Oxley Act was enacted in 2002 in response to public concerns regarding corporate accountability in connection with certain accounting scandals. The stated goals of the Sarbanes-Oxley Act were to increase corporate responsibility, to provide for enhanced penalties for accounting and auditing improprieties at publicly traded companies and to protect investors by improving the accuracy and reliability of corporate disclosures pursuant to the securities laws. The Sarbanes-Oxley Act generally applies to all companies that file or are required to file periodic reports with the SEC, under the Securities Exchange Act of 1934, including the Corporation.

The Sarbanes-Oxley Act includes very specific additional disclosure requirements and corporate governance rules, requires the SEC and securities exchanges to adopt extensive additional disclosures, corporate governance and related rules and mandates. The Sarbanes-Oxley Act represents significant federal involvement in matters traditionally left to state regulatory systems, such as the regulation of the accounting profession, and to state corporate law, such as the relationship between a board of directors and management and between a board of directors and its committees. As noted above, the Dodd-Frank Act imposes additional

disclosure and corporate government requirements and represents further federal involvement in matters historically addressed by state corporate law.

## TAXATION

### Federal Taxation

**General.** The Corporation and the Bank report their income on a fiscal year basis using the accrual method of accounting and are subject to federal income taxation in the same manner as other corporations with some exceptions, including particularly the Bank's reserve for bad debts discussed below. The following discussion of tax matters is intended only as a summary and does not purport to be a comprehensive description of the tax rules applicable to the Bank or the Corporation.

**Tax Bad Debt Reserves.** As a result of legislation enacted in 1996, the reserve method of accounting for bad debt reserves was repealed for tax years beginning after December 31, 1995. Due to such repeal, the Bank is no longer able to calculate its deduction for bad debts using the percentage-of-taxable-income or the experience method. Instead, the Bank is permitted to deduct as bad debt expense its specific charge-offs during the taxable year. In addition, the legislation required savings institutions to recapture into taxable income, over a six-year period, their post 1987 additions to their bad debt tax reserves. As of the effective date of the legislation, the Bank had no post 1987 additions to its bad debt tax reserves. As of June 30, 2013, the Bank's total pre-1988 bad debt reserve for tax purposes was approximately \$9.0 million. Under current law, a savings institution will not be required to recapture its pre-1988 bad debt reserve unless the Bank makes a "non-dividend distribution" as defined below. Currently, the Corporation uses the specific charge-off method to account for bad debt deductions for income tax purposes.

**Distributions.** In the event that the Bank makes "non-dividend distributions" to the Corporation that are considered as made from the reserve for losses on qualifying real property loans, to the extent the reserve for such losses exceeds the amount that would have been allowed under the experience method or from the supplemental reserve for losses on loans ("Excess Distributions"), then an amount based on the amount distributed will be included in the Bank's taxable income. Non-dividend distributions include distributions in excess of the Bank's current and accumulated earnings and profits, distributions in redemption of stock, and distributions in partial or complete liquidation. However, dividends paid out of the Bank's current or accumulated earnings and profits, as calculated for federal income tax purposes, will not be considered to result in a distribution from the Bank's bad debt reserve. Thus, any dividends to the Corporation that would reduce amounts appropriated to the Bank's bad debt reserve and deducted for federal income tax purposes would create a tax liability for the Bank. The amount of additional taxable income attributable to an Excess Distribution is an amount that, when reduced by the tax attributable to the income, is equal to the amount of the distribution. Thus, if the Bank makes a "non-dividend distribution," then approximately one and one-half times the amount distributed will be included in taxable income for federal income tax purposes, assuming a 35% corporate income tax rate (exclusive of state and local taxes). See "Regulation - Federal Regulation of Savings Institutions - Limitations on Capital Distributions" in this Form 10-K for limits on the payment of dividends by the Bank. The Bank does not intend to pay dividends that would result in a recapture of any portion of its tax bad debt reserve. During fiscal 2013, the Bank declared and paid \$10.0 million of cash dividends to the Corporation while the Corporation declared and paid \$2.5 million of cash dividends to shareholders.

**Corporate Alternative Minimum Tax.** The Code imposes a tax on alternative minimum taxable income ("AMTI") at a rate of 20%. In addition, only 90% of AMTI can be offset by net operating loss carryovers. AMTI is increased by an amount equal to 75% of the amount by which the Corporation's adjusted current earnings exceeds its AMTI (determined without regard to this preference and prior to reduction for net operating losses).

**Tax Effect from Stock-Based Compensation.** During fiscal 2013, there were no shares of restricted common stock distributed to non-employee members of the Corporation's Board of Directors. There were 72,250 restricted shares vested and distributed and 36,000 options to purchase shares of the Corporation's common stock exercised as non-qualified stock options during fiscal 2013. As a result, there was a \$483,000 federal benefit tax effect from stock-based compensation in fiscal 2013.

**Other Matters.** The Internal Revenue Service has audited the Bank's income tax returns through 1996 and the California Franchise Tax Board has audited the Bank through 1990. Also, the Internal Revenue Service completed a review of the Corporation's income tax returns for fiscal 2006 and 2007; and the California Franchise Tax Board completed a review of the Corporation's income tax returns for fiscal 2007 and 2008. Tax years subsequent to 2010 remain subject to federal examination, while the California state tax returns for years subsequent to 2008 are subject to examination by state taxing authorities.

In the quarter ended June 30, 2012, the Corporation recorded an \$825,000 tax liability as a result of a prior period adjustment for fiscal 2009 and an \$825,000 charge against retained earnings in stockholders' equity, pursuant to ASC 740-10: "Income Taxes." The

liability was established as a result of certain income items for tax reporting purposes from 2006 through 2007 resulting in an overpayment of taxes and an understatement of the deferred tax liability. The understatement was the result of the early recognition of taxable income in closed tax years that should have been recognized in open tax years. The liability has been established against the deferred tax asset created (or understated deferred tax liability) by the early recognition of taxable income, since the early recognition could be argued by the Internal Revenue Service to not relieve the Corporation of once again recognizing that same taxable income in the appropriate subsequent open tax years. The prior period adjustment was presented as a reduction in other assets and retained earnings. The Corporation filed a request for accounting method change with federal tax authorities to effectively recover the overpayment of taxes or eliminate any potential duplicate recognition. In August 2012, the Corporation received a notification from the tax authorities indicating the acceptance of the accounting method change. As a result, the Corporation reversed the \$825,000 tax liability in the quarter ending September 30, 2012, the same quarter in which the tax authorities granted the Corporation's request.

## State Taxation

**California.** The California franchise tax rate applicable to the Bank, equals the franchise tax rate applicable to corporations generally, plus an "in lieu" rate of 2%, which is approximately equal to personal property taxes and business license taxes paid by such corporations (but not generally paid by banks or financial corporations such as the Bank). At June 30, 2013 and 2012, the Corporation's net state tax rate was 7.0% and 6.9%, respectively. Bad debt deductions are available in computing California franchise taxes using the specific charge-off method. The Bank and its California subsidiaries file California franchise tax returns on a combined basis. The Corporation will be treated as a general corporation subject to the general corporate tax rate. During fiscal 2013, the California Franchise Tax Board has been conducting an audit for fiscal years 2010 and 2009. There was an \$150,000 state benefit tax effect from stock-based compensation in fiscal 2013, as described above in the section entitled "Federal Taxation."

**Delaware.** As a Delaware holding company not earning income in Delaware, the Corporation is exempted from Delaware corporate income tax, but is required to file an annual report with and pay an annual franchise tax to the State of Delaware. In fiscal 2013, 2012 and 2011, the Corporation paid annual franchise taxes of \$180,000 for each year.

## EXECUTIVE OFFICERS

The following table sets forth information with respect to the executive officers of the Corporation and the Bank.

Name	Age <sup>(1)</sup>	Position	
		Corporation	Bank
Craig G. Blunden	65	Chairman and Chief Executive Officer	Chairman and Chief Executive Officer
Richard L. Gale	62	—	Senior Vice President Provident Bank Mortgage
Kathryn R. Gonzales	55	—	Senior Vice President Retail Banking
Donavon P. Ternes	53	President Chief Operating Officer Chief Financial Officer Corporate Secretary	President Chief Operating Officer Chief Financial Officer Corporate Secretary
David S. Weiant	54	—	Senior Vice President Chief Lending Officer

<sup>(1)</sup> As of June 30, 2013.

## **Biographical Information**

Set forth below is certain information regarding the executive officers of the Corporation and the Bank. There are no family relationships among or between the executive officers.

*Craig G. Blunden* has been associated with the Bank since 1974, has held his positions at the Bank since 1991 and Chairman and Chief Executive Officer of the Corporation since its formation in 1996. Mr. Blunden also serves on the Board of Directors of the FHLB – San Francisco, the California Bankers Association, the Monday Morning Group, and is past Chairman of the Board of the Greater Riverside Chamber of Commerce.

*Richard L. Gale*, who joined the Bank in 1988, has served as President of the Provident Bank Mortgage division since 1989. Mr. Gale has held his current position with the Bank since 1993.

*Kathryn R. Gonzales* joined the Bank as Senior Vice President of Retail Banking on August 7, 2006. Prior to joining the Bank, Ms. Gonzales was with Bank of America where she was responsible for working with under-performing branches and re-energizing their business development capabilities. Prior to that she was with Arrowhead Central Credit Union where she was responsible for 25 retail branches and oversaw their significant deposit growth. Her experience includes retail branch sales development, branch operations, development of business related products and services, and commercial lending.

*Donavon P. Ternes* joined the Bank and the Corporation as Senior Vice President and Chief Financial Officer on November 1, 2000 and was appointed Secretary of the Corporation and the Bank in April 2003. Effective January 1, 2008, Mr. Ternes was appointed Executive Vice President and Chief Operating Officer, while continuing to serve as the Chief Financial Officer and Corporate Secretary of the Bank and the Corporation. Effective June 27, 2011, the Board of Directors of the Bank and the Corporation promoted Mr. Ternes to serve as President of the Bank and the Corporation, while continuing to serve as Chief Operating Officer, Chief Financial Officer and Corporate Secretary. Prior to joining the Bank, Mr. Ternes was the President, Chief Executive Officer, Chief Financial Officer and Director of Mission Savings and Loan Association, located in Riverside, California, holding those positions for over 11 years.

*David S. Weiant* joined the Bank as Senior Vice President and Chief Lending Officer on June 29, 2007. Prior to joining the Bank, Mr. Weiant was a Senior Vice President of Professional Business Bank (June 2006 to June 2007) where he was responsible for commercial lending in the Los Angeles and Inland Empire regions of Southern California.

## **Item 1A. Risk Factors**

We assume and manage a certain degree of risk in order to conduct our business. In addition to the risk factors described below, other risks and uncertainties not specifically mentioned, or that are currently known to, or deemed by, management to be immaterial also may materially and adversely affect our financial position, results of operation and/or cash flows. Before making an investment decision, you should carefully consider the risks described below together with all of the other information included in this Form 10-K. If any of the circumstances described in the following risk factors actually occur to a significant degree, the value of our common stock could decline, and you could lose all or part of your investment.

### **Our business may continue to be adversely affected by downturns in the national economy and the regional economies on which we depend.**

As of June 30, 2013, approximately 84% of our real estate loans were secured by collateral and made to borrowers located in Southern California. Adverse economic conditions in Southern California has and may continue to reduce our rate of growth, affect our customers' ability to repay loans and adversely impact our financial condition and earnings. General economic conditions, including inflation, unemployment and money supply fluctuations, also may affect our profitability adversely. Weak economic conditions and ongoing strains in the financial and housing markets have resulted in higher levels of loan delinquencies, problem assets and foreclosures and a decline in the values of the collateral securing our loans.

A further deterioration in economic conditions in the market areas we serve could result in the following consequences, any of which could have a materially adverse impact on our business, financial condition and results of operations:

- an increase in loan delinquencies, problem assets and foreclosures;
- the slowing of sales of foreclosed assets;

- a decline in demand for our products and services;
- a continuing decline in the value of collateral for loans may in turn reduce customers' borrowing power, and the value of assets and collateral associated with existing loans; and
- a decrease in the amount of our low cost or non interest-bearing deposits.

**A return of recessionary conditions could result in increases in our level of non-performing loans and/or reduce demand for our products and services, which could have an adverse effect on our results of operations.**

The ongoing debate in Congress regarding the national debt ceiling and federal budget deficit and concerns over the United States' credit rating (which was downgraded by Standard & Poor's), the European sovereign debt crisis, the overall weakness in the economy and continued high unemployment in the United States, among other economic indicators, have contributed to increased volatility in the capital markets and uncertainty for the economy.

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

Furthermore, the Board of Governors of the Federal Reserve System, in an attempt to help the overall economy, has, among other things, kept interest rates low through its targeted federal funds rate and the purchase of mortgage-backed securities. If the Federal Reserve increases the federal funds rate, overall interest rates will likely rise, which may negatively impact the housing markets and the U.S. economic recovery. In addition, deflationary pressures, while possibly lowering our operating costs, could have a significant negative effect on our borrowers, especially our business borrowers, and the values of underlying collateral securing loans, which could negatively affect our financial performance

**Our business may be adversely affected by credit risk associated with residential property.**

At June 30, 2013, \$404.3 million, or 53.1% of our total loan portfolio, was secured by single-family residential real property. This type of lending is generally sensitive to regional and local economic conditions that may significantly impact the ability of borrowers to meet their loan payment obligations, making loss levels difficult to predict. The decline in residential real estate values since their high levels in 2006 as a result of the downturn in the California housing market has reduced the value of the real estate collateral securing the majority of our loans and increased the risk that we would incur losses if borrowers default on their loans. Continued economic weakness and the associated elevated unemployment rates, may result in higher loan delinquencies or problem assets, a decline in demand for our products and services, a lack of growth and/or a decrease in our deposits. These potential negative events may cause us to incur losses, adversely affect our capital and liquidity and damage our financial condition and business operations. These declines may have a greater effect on our earnings and capital than on the earnings and capital of financial institutions whose loan portfolios are more diversified.

**Our prior emphasis on non-traditional single-family residential loans exposes us to increased lending risk.**

During the fiscal years ended June 30, 2013 and 2012, we originated \$3.51 billion and \$2.52 billion, respectively, in single-family residential loans. We historically sell the vast majority of the single-family residential loans we originate and retain the remaining loans in our single-family loans held for investment. As a result of our current focus on managing our asset quality, single-family loans originated for investment were \$11.0 million and \$2.5 million during these same time periods, virtually all of which conform to or satisfy the requirements for sale in the secondary market.

Prior to fiscal 2009, many of the loans we originated for investment consisted of non-traditional single-family residential loans that do not conform to Fannie Mae or Freddie Mac underwriting guidelines as a result of characteristics of the borrower or property, the loan terms, loan size or exceptions from agency underwriting guidelines. In exchange for the additional risk to us associated with these loans, these borrowers generally are required to pay a higher interest rate, and depending on the credit history, a lower loan-to-value ratio was generally required than for a conforming loan. Our non-traditional single-family residential loans include interest-only loans, loans to borrowers who provided limited or no documentation of their income or stated income loans, negative amortization loans (a loan in which accrued interest exceeding the required monthly loan payment is added to loan principal up to 115% of the original loan amount), more than 30-year amortization loans, and loans to borrowers with a FICO score below 660 (these loans are considered subprime by the OCC). Including these low FICO score loans, as of June 30, 2013, borrowers of our single-family residential loans held for investment had a weighted average FICO score of 733 at the time of origination.

As of June 30, 2013, these non-traditional loans totaled \$301.4 million, comprising 75.0% of total single-family residential loans held for investment and 39.8% of total loans held for investment. At that date, interest-only loans totaled \$187.3 million, stated income loans totaled \$197.9 million, negative amortization loans totaled \$5.1 million, more than 30-year amortization loans totaled \$16.6 million, and low FICO score loans totaled \$13.5 million (the outstanding balances described may overlap more than one category). In the case of interest-only loans, a borrower's monthly payment is subject to change when the loan converts to fully-amortizing status. Of the \$187.3 million of interest-only loans, \$185.8 million begin to fully amortize within five years and \$1.5 million begin to fully amortize after five years. Since the borrower's monthly payment may increase by a substantial amount even without an increase in prevailing market interest rates, there is no assurance that the borrower will be able to afford the increased monthly payment at the time of conversion. Additionally, lower prevailing prices for residential real estate may make it difficult for borrowers to sell their homes to pay off their mortgages and tightened underwriting standards may make it difficult for borrowers to refinance their loan prior to the time of conversion to fully-amortizing status. At June 30, 2013, \$6.7 million of our interest-only single-family residential loans were non-performing and none were 30-89 days delinquent.

In the case of stated income loans, a borrower may misrepresent his income or source of income (which we have not verified) to obtain the loan. The borrower may not have sufficient income to qualify for the loan amount and may not be able to make the monthly loan payment. At June 30, 2013, \$10.7 million of our stated income single-family residential loans were non-performing and none were 30-89 days delinquent.

In the case of more than 30-year amortization loans, the term of the loan requires many more monthly payments from the borrower (ultimately increasing the cost of the home) and subjects the loan to more interest rate cycles, economic cycles and employment cycles, which increases the possibility that the borrower is negatively impacted by one of these cycles and is no longer willing or able to meet his or her monthly payment obligations. At June 30, 2013, \$240,000 of our more than 30-year amortization single-family residential loans were non-performing and none were 30-89 days delinquent.

Negative amortization involves a greater risk to us because credit risk exposure increases when the loan incurs negative amortization and the value of the home serving as collateral for the loan does not increase proportionally. Negative amortization is only permitted up to a specified level and the payment on such loans is subject to increased payments when the level is reached, adjusting periodically as provided in the loan documents and potentially resulting in higher payments from the borrower. The adjustment of these loans to higher payment requirements can be a substantial factor in higher loan delinquency levels because the borrowers may not be able to make the higher payments. Also, real estate values may decline and credit standards may tighten in concert with the higher payment requirement, making it difficult for borrowers to sell their homes or refinance their mortgages to pay off their mortgage obligation. As of June 30, 2013, the Bank had \$5.1 million of single-family loans which permitted negative amortization as compared to \$6.5 million of single-family loans at June 30, 2012.

**High loan-to-value ratios on a significant portion of our residential mortgage loan portfolio exposes us to greater risk of loss.**

Many of our residential mortgage loans are secured by liens on mortgage properties in which the borrowers have little or no equity because either we originated a first mortgage with an 80% loan-to-value ratio and a concurrent second mortgage for sale with a combined loan-to-value ratio of up to 100% or because of the decline in home values in our market areas. Residential loans with high loan-to-value ratios will be more sensitive to declining property values than those with lower combined loan-to-value ratios and therefore may experience a higher incidence of default and severity of losses. In addition, if the borrowers sell their homes, such borrowers may be unable to repay their loans in full from the sale. As a result, these loans may experience higher rates of delinquencies, defaults and losses.

**Our multi-family and commercial real estate loans involve higher principal amounts than other loans and repayment of these loans may be dependent on factors outside our control or the control of our borrowers.**

We originate multi-family residential and commercial real estate loans for individuals and businesses for various purposes, which are secured by residential and non-residential properties. At June 30, 2013, we had \$354.8 million or 46.6% of total loans held for investment in multi-family and commercial real estate mortgage loans. These loans typically involve higher principal amounts than other types of loans, and repayment is dependent upon income generated, or expected to be generated, by the property securing the loan in amounts sufficient to cover operating expenses and debt service, which may be adversely affected by changes in the economy or local market conditions. For example, if the cash flow from the borrower's project is reduced as a result of leases not being obtained or renewed, the borrower's ability to repay the loan may be impaired. Multi-family and commercial real estate loans also expose a lender to greater credit risk than loans secured by single-family residential real estate because the collateral

securing these loans typically cannot be sold as easily as single-family residential real estate. In addition, many of our multi-family and commercial real estate loans are not fully amortizing and contain large balloon payments upon maturity. Such balloon payments may require the borrower to either sell or refinance the underlying property to make the payment, which may increase the risk of default or non-payment. In addition, as of June 30, 2013, the Bank had \$28.3 million in negative amortization multi-family and commercial real estate mortgage loans (a loan in which accrued interest exceeding the required monthly loan payment may be added to the loan principal) as compared to \$33.7 million at June 30, 2012. Negative amortization involves a greater risk to the Bank because the credit risk exposure increases when the loan incurs negative amortization and the value of the property serving as a collateral for the loan does not increase proportionally.

If we foreclose on a multi-family or commercial real estate loan, our holding period for the collateral typically is longer than for a single-family residential mortgage loan because there are fewer potential purchasers of the collateral. Additionally, multi-family and commercial real estate loans generally have relatively large balances to single borrowers or related groups of borrowers. Accordingly, charge-offs on multi-family and commercial real estate loans may be larger on a per loan basis than those incurred with our single-family residential or consumer loan portfolios.

**Our provision for loan losses increased substantially during previous years, before declining recently, and we may be required to make further increases in our provision for loan losses and to charge-off additional loans in the future, which could adversely affect our results of operations.**

For the fiscal years ended June 30, 2013 and 2012 we recorded a (recovery) provision for loan losses of \$(1.5) million and \$5.8 million, respectively. We also recorded net loan charge-offs of \$5.0 million and \$14.8 million for the fiscal years ended June 30, 2013 and 2012, respectively. Improved conditions in the general economy and our markets have been a significant contributing factor to decreased levels of loan delinquencies and non-performing assets during the past three fiscal years. Single-family residential loans and properties represented 64.7% of our non-performing assets at June 30, 2013. At June 30, 2013, our total non-performing assets had decreased to \$24.0 million compared to \$40.0 million at June 30, 2012 and \$45.5 million at June 30, 2011. Our allowance for loan losses was 1.96% of gross loans held for investment and 58.77% of non-performing loans at June 30, 2013.

Further, our single-family residential loan portfolio, which comprised 53.1% of our total loan portfolio at June 30, 2013, is concentrated in non-traditional single-family loans, which include interest-only loans, negative amortization and more than 30-year amortization loans, stated income loans and low FICO score loans, all of which have a higher risk of default and loss than conforming residential mortgage loans. See “Our prior emphasis on non-traditional single-family residential loans exposes us to increased lending risk” above.

Until general economic conditions improve further, we will likely continue to experience elevated delinquencies and credit losses. As a result, we may be required to make further increases in our provision for loan losses and to charge-off additional loans in the future, which could materially adversely affect our financial condition and results of operations.

**We may incur net losses and experience continuing variation in our operating results.**

We reported net income of \$25.8 million, \$10.8 million and \$13.2 million for the fiscal years ended June 30, 2013, 2012 and 2011, respectively. Although net income has substantially improved in fiscal 2013 and our non-performing assets have declined, we continue to monitor the levels of non-performing assets and provision for loan losses, as significant increases in our non-performing assets and provision for loan losses could cause us to incur net losses in future quarterly or annual periods. In addition, several factors affecting our business can cause significant variations in our quarterly and annual results of operations. In particular, variations in the volume of our loan originations and sales, the differences between our costs of funds and the average interest rates of originated or purchased loans, our inability to complete significant loan sale transactions in a particular quarter and problems generally affecting the mortgage loan industry can result in significant increases or decreases in our revenues from quarter to quarter. A delay in closing a particular loan sale transaction during a quarter or year could postpone recognition of the gain on sale of loans. If we were unable to sell a sufficient number of loans at a premium in a particular reporting period, our revenues for such period would decline, resulting in lower net income and possibly a net loss for such period, which could have a material adverse effect on our results of operations and financial condition.

**Our allowance for loan losses may prove to be insufficient to absorb losses in our loan portfolio.**

Lending money is a substantial part of our business and each loan carries a certain risk that it will not be repaid in accordance with its terms or that any underlying collateral will not be sufficient to assure repayment. This risk is affected by, among other things:

- cash flow of the borrower and/or the project being financed;
- the changes and uncertainties as to the future value of the collateral, in the case of a collateralized loan;
- the duration of the loan;
- the character and credit worthiness of a particular borrower; and
- changes in economic and industry conditions.

We maintain an allowance for loan losses, which is a reserve established through a provision for loan losses charged to expense, which we believe is appropriate to provide for probable losses in our loan portfolio. The amount of this allowance is determined by management through periodic reviews and consideration of several factors, including, but not limited to:

- our collectively evaluated allowance, based on our historical default and loss experience and certain macroeconomic factors based on management's expectations of future events; and
- our individually evaluated allowance, based on our evaluation of non-performing loans and the underlying collateral.

The determination of the appropriate level of the allowance for loan losses inherently involves a high degree of subjectivity and requires us to make various assumptions and judgments about the collectability of our loan portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for the repayment of many of our loans. In determining the amount of the allowance for loan losses, we review our loans, losses, and delinquency experience, and evaluate economic conditions and make significant estimates of current credit risks and future trends, all of which may undergo material changes. If our estimates are incorrect, the allowance for loan losses may not be sufficient to cover losses inherent in our loan portfolio, resulting in the need for additions to our allowance through an increase in the provision for loan losses. Continuing deterioration in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside of our control, may require an increase in the allowance for loan losses. In addition, bank regulatory agencies periodically review our allowance for loan losses and may require an increase in the provision for possible loan losses or the recognition of further loan charge-offs, based on judgments different than those of management. In addition, if charge-offs in future periods exceed the allowance for loan losses, we will need additional provisions to increase the allowance for loan losses. Any increases in the provision for loan losses will result in a decrease in net income and may have a material adverse effect on our financial condition, results of operations and capital.

**If our non-performing assets increase, our earnings will be adversely affected.**

At June 30, 2013, 2012 and 2011, our non-performing assets (which consist of non-accrual loans and real estate owned ("REO")) were \$24.0 million, \$40.0 million and \$45.5 million, respectively, or 2.0%, 3.2% and 3.5% of total assets, respectively. Our non-performing assets adversely affect our net income in various ways:

- we record interest income only on a cash basis for non-accrual loans except for non-performing loans under the cost recovery method where interest is applied to the principal of the loan as a recovery of the charge-offs and do not record interest income for REO;
- we must provide for probable loan losses through a current period charge to the provision for loan losses;
- non-interest expense increases when we write down the value of properties in our REO portfolio to reflect changing market values or recognize other-than-temporary impairment ("OTTI") on non-performing investment securities;
- there are legal fees associated with the resolution of problem assets, as well as carrying costs, such as taxes, insurance, and maintenance fees related to our REO; and
- the resolution of non-performing assets requires the active involvement of management, which can distract them from more profitable activity.

If additional borrowers become delinquent and do not pay their loans and we are unable to successfully manage our non-performing assets, our losses and troubled assets could increase significantly, which could have a material adverse effect on our financial condition and results of operations. We also had \$434,000 in performing restructured loans at June 30, 2013.



**If our investments in real estate are not properly valued or sufficiently reserved to cover actual losses, or if we are required to increase our valuation reserves, our earnings could be reduced.**

We obtain updated valuations in the form of appraisals and broker price opinions when a loan has been foreclosed upon and the property taken in as REO and at certain other times during the assets holding period. Our net book value (“NBV”) in the loan at the time of foreclosure and thereafter is compared to the updated market value of the foreclosed property less estimated selling costs (“fair value”). A charge-off is recorded for any excess in the asset's NBV over its fair value. If our valuation process is incorrect, the fair value of the investments in real estate may not be sufficient to recover our NBV in such assets, resulting in the need for additional charge-offs. Additional material charge-offs to our investments in real estate could have a material adverse effect on our financial condition and results of operations.

In addition, bank regulators periodically review our REO and may require us to recognize further charge-offs. Any increase in our charge-offs, as required by the bank regulators, may have a material adverse effect on our financial condition and results of operations.

**An increase in interest rates, change in the programs offered by governmental sponsored entities (“GSE”) or our ability to qualify for such programs may reduce our mortgage revenues, which would negatively impact our non-interest income.**

Our mortgage banking operations provide a significant portion of our non-interest income. We generate mortgage revenues primarily from gains on the sale of single-family residential loans pursuant to programs currently offered by Fannie Mae, Freddie Mac and other investors on a servicing released basis. These entities account for a substantial portion of the secondary market in residential mortgage loans. Any future changes in these programs, our eligibility to participate in such programs, the criteria for loans to be accepted or laws that significantly affect the activity of such entities could, in turn, materially adversely affect our results of operations. Further, in a rising or higher interest rate environment, our originations of mortgage loans may decrease, resulting in fewer loans that are available to be sold to investors. This would result in a decrease in mortgage revenues and a corresponding decrease in non-interest income. In addition, our results of operations are affected by the amount of non-interest expense associated with mortgage banking activities, such as salaries and employee benefits, occupancy, equipment and data processing expense and other operating costs. During periods of reduced loan demand, our results of operations may be adversely affected to the extent that we are unable to reduce expenses commensurate with the decline in loan originations.

**Secondary mortgage market conditions could have a material adverse impact on our financial condition and earnings.**

In addition to being affected by interest rates, the secondary mortgage markets are also subject to investor demand for single-family residential loans and mortgage-backed securities and increased investor yield requirements for those loans and securities. These conditions may fluctuate or even worsen in the future. In light of current conditions, there is a higher risk to retaining a larger portion of mortgage loans than we would in other environments until they are sold to investors. We believe our ability to retain mortgage loans is limited. As a result, a prolonged period of secondary market illiquidity may reduce our loan production volumes and could have a material adverse impact on our future earnings and financial condition.

**Any breach of representations and warranties made by us to our loan purchasers or credit default on our loan sales may require us to repurchase or substitute such loans we have sold.**

We engage in bulk loan sales pursuant to agreements that generally require us to repurchase or substitute loans in the event of a breach of a representation or warranty made by us to the loan purchaser. Any misrepresentation during the mortgage loan origination process or, in some cases, upon any fraud or early payment default on such mortgage loans, may require us to repurchase or substitute loans. Any claims asserted against us in the future by one of our loan purchasers may result in liabilities or legal expenses that could have a material adverse effect on our results of operations and financial condition. During fiscal 2013, 2012 and 2011, the Bank repurchased \$1.4 million, \$1.6 million and \$0 of single-family loans, respectively. However, many additional repurchase requests were settled during the periods, aggregate payments of \$5.6 million, \$439,000 and \$2.0 million in fiscal 2013, 2012 and 2011, respectively, that did not result in the repurchase of the loan itself. The increase in the loan repurchase settlement in fiscal 2013 was due primarily to a global settlement with the Bank’s largest legacy loan investor, which eliminated all past, current and future repurchase claims from this particular investor.

**Hedging against interest rate exposure may adversely affect our earnings.**

We employ techniques that limit, or “hedge,” the adverse effects of rising interest rates on our loans held for sale, originated interest rate locks and our mortgage servicing asset. Our hedging activity varies based on the level and volatility of interest rates and other

changing market conditions. These techniques may include purchasing or selling futures contracts, purchasing put and call options on securities or securities underlying futures contracts, or entering into other mortgage-backed derivatives. There are, however, no perfect hedging strategies, and interest rate hedging may fail to protect us from loss. Moreover, hedging activities could result in losses if the event against which we hedge does not materialize. Additionally, interest rate hedging could fail to protect us or adversely affect us because, among other things:

- available interest rate hedging may not correspond directly with the interest rate risk for which protection is sought;
- the duration of the hedge may not match the duration of the related liability;
- the party owing money in the hedging transaction may default on its obligation to pay;
- the credit quality of the party owing money on the hedge may be downgraded to such an extent that it impairs our ability to sell or assign our side of the hedging transaction;
- the value of derivatives used for hedging may be adjusted from time to time in accordance with accounting rules to reflect changes in fair value; and
- downward adjustments, or “mark-to-market losses,” would reduce our stockholders' equity.

#### **Fluctuating interest rates can adversely affect our profitability.**

Our earnings and cash flows are largely dependent upon our net interest income. Interest rates are highly sensitive to many factors that are beyond our control, including general economic conditions and policies of various governmental and regulatory agencies and, in particular, the Federal Reserve Board. Changes in monetary policy, including changes in interest rates, could influence not only the interest we receive on loans and investments and the amount of interest we pay on deposits and borrowings, but these changes could also affect (i) our ability to originate loans and obtain deposits, (ii) the fair value of our financial assets and liabilities and (iii) the average duration of our mortgage-backed securities portfolio and other interest-earning assets. If the interest rates paid on deposits and other borrowings increase at a faster rate than the interest rates received on loans and other investments, our net interest income, and therefore earnings, could be adversely affected. As a result of the relatively low interest rate environment, an increasing percentage of our deposits have been comprised of short-term time deposits and other deposits yielding no or a relatively low rate of interest. At June 30, 2013, we had \$255.6 million in time deposits that mature within one year and \$520.8 million in interest-bearing checking, savings and money market accounts. We would incur a higher cost of funds to retain these deposits in a rising interest rate environment. Earnings could also be adversely affected if the interest rates received on loans and other investments fall more quickly than the interest rates paid on deposits and other borrowings. In addition, a substantial majority of our single family residential mortgage loans have adjustable interest rates. As a result, these loans may experience a higher rate of default in a rising interest rate environment.

#### **Historically low interest rates may adversely affect our net interest income and profitability.**

During the last four years it has been the policy of the Federal Reserve to maintain interest rates at historically low levels through its targeted federal funds rate and the purchase of mortgage-backed securities. As a result, yields on securities we have purchased, and market rates on the loans we have originated, have been at levels lower than were available prior to 2008. Consequently, the average yield on our interest-earning assets has decreased during the recent low interest rate environment. As a general matter, our interest-bearing liabilities re-price or mature more quickly than our interest-earning assets, which has contributed to increases in net interest income in the short term. However, our ability to lower our interest expense is limited at these interest rate levels, while the average yield on our interest-earning assets may continue to decrease. How long the Federal Reserve will maintain low interest rates in the future is unknown. So long as a low interest rate environment is maintained, our net interest income may decrease, which may have an adverse effect on our profitability. For information with respect to changes in interest rates, see “- Fluctuating interest rates can adversely affect our profitability.”

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

Liquidity is essential to our business. An inability to raise funds through deposits, borrowings, the sale of loans or other sources could have a substantial negative effect on our liquidity. Our access to funding sources in amounts adequate to finance our activities or the terms of which are acceptable to us could be impaired by factors that affect us specifically or the financial services industry or economy in general. Factors that could detrimentally impact our access to liquidity sources include a decrease in the level of our business activity as a result of a downturn in the California markets in which our loans are concentrated or adverse regulatory action against us. Our ability to borrow could also be impaired by factors that are not specific to us, such as a disruption in the financial markets or negative views and expectations about the prospects for the financial services industry in light of the recent turmoil faced by banking organizations and the continued deterioration in credit markets. Deposit flows, calls of investment securities and wholesale borrowings, and the prepayment of loans and mortgage-related securities are also strongly influenced by

such external factors as the direction of interest rates, whether actual or perceived, and competition for deposits and loans in the markets we serve. Furthermore, changes to the FHLB's underwriting guidelines for wholesale borrowings or lending policies may limit or restrict our ability to borrow, and could therefore have a significant adverse impact on our liquidity. In addition, the need to replace funds in the event of large-scale withdrawals of brokered deposits could require us to pay significantly higher interest rates on retail deposits or other wholesale funding sources, which would have an adverse impact on our net interest income and net income. A decline in available funding could adversely impact our ability to originate loans, invest in securities, meet our expenses, or to fulfill such obligations as repaying our borrowings or meeting deposit withdrawal demands.

**We operate in a highly regulated environment and may be adversely affected by changes in federal and state laws and regulations that are expected to increase our costs of operations.**

The Bank is currently subject to extensive examination, supervision and comprehensive regulation by the OCC and as a savings and loan holding company the Corporation is subject to examination, supervision and regulation by the Federal Reserve Board. These regulatory authorities have extensive discretion in connection with their supervisory and enforcement activities, including the ability to impose restrictions on an institution's operations, reclassify assets, determine the adequacy of an institution's allowance for loan losses and determine the level of deposit insurance premiums assessed.

Additionally, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") has significantly changed the bank regulatory structure and will affect the lending, deposit, investment, trading and operating activities of financial institutions and their holding companies. The Dodd-Frank Act requires various federal agencies to adopt a broad range of new implementing rules and regulations, and to prepare numerous studies and reports for Congress. The federal agencies are given significant discretion in drafting the implementing rules and regulations, and consequently, many of the details and much of the impact of the Dodd-Frank Act may not be known for many months or years.

Certain provisions of the Dodd-Frank Act are expected to have a near term impact on us. For example, a provision of the Dodd-Frank Act eliminates the federal prohibitions on paying interest on demand deposits, thus allowing businesses to have interest bearing checking accounts. Depending on competitive responses, this significant change to existing law could have an adverse impact on our interest expense.

The Dodd-Frank Act also broadens the base for FDIC insurance assessments. Assessments are now based on the average consolidated total assets less tangible equity capital of a financial institution. The Dodd-Frank Act also permanently increased the maximum amount of deposit insurance for banks, savings institutions and credit unions to \$250,000 per depositor.

The Dodd-Frank Act requires publicly traded companies to give stockholders a non-binding vote on executive compensation and so-called "golden parachute" payments and authorizes the SEC to promulgate rules that would allow stockholders to nominate their own candidate using a company's proxy materials. The legislation also directs the Federal Reserve Board to promulgate rules prohibiting excessive compensation paid to bank holding company executives, regardless of whether the company is publicly traded or not.

The Dodd-Frank Act created a new Consumer Financial Protection Bureau with broad powers to supervise and enforce consumer protection laws. The Consumer Financial Protection Bureau has broad rule-making authority for a wide range of consumer protection laws that apply to all banks and savings institutions, including the authority to prohibit "unfair, deceptive or abusive" acts and practices. The Consumer Financial Protection Bureau has examination and enforcement authority over all banks and savings institutions with more than \$10 billion in assets. Financial institutions such as the Bank with \$10 billion or less in assets will continue to be examined for compliance with the consumer laws by their primary bank regulators but are subject to the rules of the Consumer Financial Protection Bureau.

In June 2012, the Federal Reserve and the OCC approved proposed rules that substantially amend the regulatory risk-based capital rules applicable to us. The final rules implement the "Basel III" regulatory capital reforms and changes required by the Dodd-Frank Act.

**The short-term and long-term impact of the changing regulatory capital requirements and new capital rules is uncertain.**

As discussed under "Regulation" in Part 1, Item 1 of this Form 10-K, effective January 1, 2015, we will be subject to new capital requirements under regulations adopted by the federal banking regulators to implement the Basel III regulatory capital reforms and changes required by the Dodd-Frank Act. These new requirements establish the following minimum capital ratios: (1) a common equity Tier 1 ("CET1") capital ratio of 4.5% of risk-weighted assets; (2) a Tier 1 capital ratio of 6.0% of risk-weighted

assets; (3) a total capital ratio of 8.0% of risk-weighted assets; and 94) a leverage ratio of 4.0%. In addition, there is a new requirement to maintain a capital conservation buffer, comprised of CET1 capital, in an amount greater than 2.5% of risk-weighted assets over the minimum capital required by each of the minimum risk-based capital ratios in order to avoid limitations on the organization's ability to pay dividends, repurchase shares or pay discretionary bonuses. The capital conservation buffer requirement will be phased in, beginning January 1, 2016, requiring during 2016 a buffer amount greater than 0.625% in order to avoid these limitations, and increasing the amount each year until beginning January 1, 2019, the buffer amount must be greater than 2.5% in order to avoid the limitation.

The new regulations also change what qualifies as capital for purposes of meeting these various capital requirements, as well as the risk-weighted of certain assets for purposes of the risk-based capital ratios.

Under the new regulations, in order to be considered well-capitalized for prompt corrective action purposes, the Bank will be required to maintain the following ratios: (1) a CET1 ratio of at least 6.5% of risk-weighted assets; (2) a Tier 1 capital ratio of at least 8.0% of risk-weighted assets; (3) a total capital ratio of a least 10.0% of risk-weighted assets; and (4) a leverage ratio of at least 5.0%

We have conducted a pro forma analysis of these new requirements as of June 30, 2013. We have determined that if these requirements were in effect on that date, the Bank would be considered well-capitalized and the Corporation and the Bank each would have a capital conservation buffer greater than 2.5%.

The application of these more stringent capital requirements could, among other things, result in lower returns on invested capital, over time require the raising of additional capital, and result in regulatory actions if we were to be unable to comply with such requirements. Implementation of changes to asset risk weightings for risk based capital calculations, items included or deducted in calculating regulatory capital and/or additional capital conservation buffers could result in management modifying its business strategy and could limit our ability to make distributions, including paying out dividends or buying back shares. Furthermore, the imposition of liquidity requirements in connection with the implementation of Basel III could result in our having to lengthen the term of our funding, restructure our business models, and/or increase our holdings of liquid assets. Any additional changes in our regulation and oversight, in the form of new laws, rules and regulations could make compliance more difficult or expensive or otherwise materially adversely affect our business, financial condition or prospects.

**Our growth or future losses may require us to raise additional capital in the future, but that capital may not be available when it is needed or the cost of that capital may be very high.**

We are required by federal regulatory authorities to maintain adequate levels of capital to support our operations. Currently, we believe our capital resources satisfy our capital requirements for the foreseeable future. However, we may at some point need to raise additional capital to support continued growth.

Our ability to raise additional capital, if needed, will depend on conditions in the capital markets at that time, which are outside of our control, and on our financial condition and performance. Accordingly, we cannot make assurances that we will be able to raise additional capital if needed on terms that are acceptable to us, or at all. If we cannot raise additional capital when needed, our ability to further expand our operations could be materially impaired and our financial condition and liquidity could be materially and adversely affected.

**New or changing tax, accounting, and regulatory rules and interpretations could significantly impact strategic initiatives, results of operations, cash flows, and financial condition.**

The financial services industry is extensively regulated. Federal and state banking regulations are designed primarily to protect the deposit insurance funds and consumers, not to benefit our stockholders. These regulations may sometimes impose significant limitations on operations. Regulatory authorities have extensive discretion in connection with their supervisory and enforcement activities, including the imposition of restrictions on the operation of an institution, the classification of assets by the institution and the adequacy of an institution's allowance for loan losses. Additionally, actions by regulatory agencies or significant litigation against us could require us to devote significant time and resources to defending our business and may lead to penalties that materially affect us. These regulations, along with the currently existing tax, accounting, securities, insurance, and monetary laws, regulations, rules, standards, policies, and interpretations control the methods by which financial institutions conduct business, implement strategic initiatives and tax compliance, and govern financial reporting and disclosures. These laws, regulations, rules, standards, policies, and interpretations are constantly evolving and may change significantly over time.

Some of these regulations may increase our costs and thus place other financial institutions in stronger, more favorable competitive positions. We cannot predict what restrictions may be imposed upon us with future legislation.

**Our litigation related costs might continue to increase.**

The Bank is subject to a variety of legal proceedings that have arisen in the ordinary course of the Bank's business. In the current economic environment, the Bank's involvement in litigation has increased significantly, primarily as a result of defaulted borrowers asserting claims to defeat or delay foreclosure proceedings. The Bank believes that it has meritorious defenses in legal actions where it has been named as a defendant and is vigorously defending these suits. Although management, based on discussion with litigation counsel, believes that such proceedings will not have a material adverse effect on the financial condition or operations of the Bank, there can be no assurance that a resolution of any such legal matters will not result in significant liability to the Bank nor have a material adverse impact on its financial condition and results of operations or the Bank's ability to meet applicable regulatory requirements. Moreover, the expenses of pending legal proceedings will adversely affect the Bank's results of operations until they are resolved. There can be no assurance that the Bank's loan workout and other activities will not expose the Bank to additional legal actions, including lender liability or environmental claims.

**Our business may be adversely affected by an increasing prevalence of fraud and other financial crimes.**

Our loans to businesses and individuals and our deposit relationships and related transactions are subject to exposure to the risk of loss due to fraud and other financial crimes. Nationally, reported incidents of fraud and other financial crimes have increased. We have also experienced an increase in losses due to apparent fraud and other financial crimes. While we have policies and procedures designed to prevent such losses, there can be no assurance that such losses will not occur.

**We rely on communications, information, operating and financial control systems technology from third-party service providers, and we may suffer an interruption in those systems.**

We rely heavily on third-party service providers for much of our communications, information, operating and financial control systems technology, including our internet banking services and data processing systems. Any failure or interruption of these services or systems or breaches in security of these systems could result in failures or interruptions in our customer relationship management, general ledger, deposit, servicing and/or loan origination systems. The occurrence of any failures or interruptions may require us to identify alternative sources of such services, and we cannot assure you that we could negotiate terms that are as favorable to us, or could obtain services with similar functionality as found in our existing systems without the need to expend substantial resources, if at all.

**Earthquakes, fires and other natural disasters in our primary market area may result in material losses because of damage to collateral properties and borrowers' inability to repay loans.**

Since our geographic concentration is in Southern California, we are subject to earthquakes, fires and other natural disasters. A major earthquake or other natural disaster may disrupt our business operations for an indefinite period of time and could result in material losses, although we have not experienced any losses in the past six years as a result of earthquake damage or other natural disaster. In addition to possibly sustaining damage to our own property, a substantial number of our borrowers would likely incur property damage to the collateral securing their loans. Although we are in an earthquake prone area, we and other lenders in the market area may not require earthquake insurance as a condition of making a loan. Additionally, if the collateralized properties are only damaged and not destroyed to the point of total insurable loss, borrowers may suffer sustained job interruption or job loss, which may materially impair their ability to meet the terms of their loan obligations.

**Our assets as of June 30, 2013 include a deferred tax asset, the full value of which we may not be able to realize.**

We recognize deferred tax assets and liabilities based on differences between the financial statement carrying amounts and the tax bases of assets and liabilities. At June 30, 2013, the net deferred tax asset was approximately \$4.4 million, a decrease from a balance of approximately \$8.6 million at June 30, 2012. The net deferred tax asset results primarily from our provisions for loan losses recorded for financial reporting purposes, which were in the past significantly larger than net loan charge-offs deducted for tax reporting purposes.

As a result of our follow-on stock offering in December 2009, we may experience an "ownership change" as defined under Section 382 of the Internal Revenue Code of 1986, as amended (which is generally a greater than 50 percentage point increase by certain "5% shareholders" over a rolling three-year period). Section 382 imposes an annual limitation on the utilization of deferred tax

assets, such as net operating loss carryforwards and other tax attributes, once an ownership change has occurred. Depending on the size of the annual limitation (which is in part a function of our market capitalization at the time of the ownership change) and the remaining carryforward period of the tax assets (U.S. federal net operating losses generally may be carried forward for a period of 20 years), we could realize a permanent loss of a portion of our U.S. federal and state deferred tax assets and certain built-in losses that have not been recognized for tax purposes.

We regularly review our deferred tax assets for recoverability based on our history of earnings, expectations for future earnings and expected timing of reversals of temporary differences. Realization of deferred tax assets ultimately depends on the existence of sufficient taxable income, including taxable income in prior carryback years, as well as future taxable income. We believe the recorded net deferred tax asset at June 30, 2013 is fully realizable based on our expected future earnings; however, we will not know the impact of the recent ownership change until we complete our fiscal 2013 tax return. Based on our preliminary analysis of the actual impact of the “ownership change” on our deferred tax assets, we believe that the impact on our deferred tax asset is unlikely to be material. This is a preliminary and complex analysis and requires us to make certain judgments in determining the annual limitation. As a result, it is possible that we could ultimately lose a significant portion of our deferred tax assets, which could have a material adverse effect on our results of operations and financial condition.

#### **Item 1B. Unresolved Staff Comments**

None.

#### **Item 2. Properties**

At June 30, 2013, the net book value of the Bank’s property (including land and buildings) and its furniture, fixtures and equipment was \$6.7 million. The Bank’s home office is located in Riverside, California. Including the home office, the Bank has 15 retail banking offices, 14 of which are located in Riverside County in the cities of Riverside (5), Moreno Valley (2), Hemet, Sun City, Rancho Mirage, Corona, Temecula, La Quinta and Blythe. One office is located in Redlands, San Bernardino County, California. The Bank owns seven of the retail banking offices and has eight leased retail banking offices. The leases expire from 2013 to 2020. The Bank also leases 19 stand-alone loan production offices, which are located in City of Industry, Escondido, Fairfield, Glendora, Hermosa Beach, Pleasanton (2), Rancho Cucamonga (3), Riverside (3), Roseville, San Diego, San Rafael, Santa Barbara, Stockton and Westlake Village, California. The leases expire from 2013 to 2020.

#### **Item 3. Legal Proceedings**

Periodically, there have been various claims and lawsuits involving the Bank, 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 in the ordinary course of and 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 the financial condition, operations and cash flows of the Bank.

#### **Item 4. Mine Safety Disclosures**

Not applicable.

## **PART II**

#### **Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

The common stock of Provident Financial Holdings, Inc. is listed on the NASDAQ Global Select Market under the symbol PROV. The following table provides the high and low sales prices for Provident Financial Holdings, Inc. common stock during the last two fiscal years by quarter. As of June 30, 2013, there were approximately 325 stockholders of record.

	First (Ended September 30)	Second (Ended December 31)	Third (Ended March 31)	Fourth (Ended June 30)
<b>2013 Quarters:</b>				
High	\$14.25	\$17.55	\$19.69	\$17.20
Low	\$10.92	\$12.74	\$15.61	\$14.91
<b>2012 Quarters:</b>				
High	\$8.75	\$9.47	\$11.00	\$11.81
Low	\$7.92	\$8.38	\$9.21	\$10.28

The Corporation adopted a quarterly cash dividend policy on July 24, 2002. Quarterly dividends paid for the quarters ended September 30, 2012, December 31, 2012, March 31, 2013 and June 30, 2013 were \$0.05 per share for the first two quarters and \$0.07 per share for the last two quarters. By comparison, quarterly dividends paid for the quarters ended September 30, 2011, December 31, 2011, March 31, 2012 and June 30, 2012 were \$0.03 per share for the first two quarters and \$0.04 per share for the last two quarters. Future declarations or payments of dividends will be subject to the approval of the Corporation's Board of Directors, which will take into account the Corporation's financial condition, results of operations, tax considerations, capital requirements, industry standards, economic conditions and other factors, including the regulatory restrictions which affect the payment of dividends by the Bank to the Corporation. In addition, the Corporation's wholly-owned operating subsidiary, the Bank, is required to file a notice and receive the non-objection of the Federal Reserve Board prior to paying any dividends or making any capital distributions to the Corporation. In fiscal 2013 and 2012, the Bank declared and paid cash dividends of \$10.0 million and \$8.0 million, respectively, to the Corporation. See Item 1, "Business – Regulation - Federal Regulation of Savings Institutions - Limitations on Capital Distributions" and Item 1A., "Risk Factors - The short-term and long-term impact of the changing regulatory capital requirements and new capital rules is uncertain" in this Form 10-K. Under Delaware law, dividends may be paid either out of surplus or, if there is no surplus, out of net profits for the current fiscal year and/or the preceding fiscal year in which the dividend is declared.

The Corporation repurchases its common stock consistent with Board-approved stock repurchase plans. During fiscal 2013, the Corporation repurchased 571,087 shares under the April 2012 and March 2013 stock repurchase programs with an average cost of \$15.32 per share. The April 2012 program was completed in March 2013. As of June 30, 2013, a total of 122,731 shares have been purchased (at an average cost of \$15.78 per share), or 23% of the shares authorized in the March 2013 stock repurchase program, leaving 399,792 shares available for future purchases. This compared to fiscal 2012 when the Corporation repurchased 670,348 shares under the July 2011 and April 2012 stock repurchase programs with an average cost of \$9.83 per share. During fiscal 2013 and 2012, the Corporation also repurchased 13,591 shares and 12,779 shares of restricted stock in lieu of distribution to employees at an average cost of \$15.65 and \$8.26 per share, respectively.

The table below sets forth information regarding the Corporation's purchases of its common stock during the fourth quarter of fiscal 2013.

<b>Period</b>	<b>(a) Total Number of Shares Purchased</b>	<b>(b) Average Price Paid per Share</b>	<b>(c) Total Number of Shares Purchased as Part of Publicly Announced Plan</b>	<b>(d) Maximum Number of Shares that May Yet Be Purchased Under the Plan <sup>(1)</sup></b>
April 1, 2013 – April 30, 2013	—	\$ —	—	522,523
May 1, 2013 – May 31, 2013	122,731	\$ 15.78	122,731	399,792
June 1, 2013 – June 30, 2013	13,591	\$ 15.65	—	399,792
<b>Total</b>	<b>136,322</b>	<b>\$ 15.77</b>	<b>122,731</b>	<b>399,792</b>

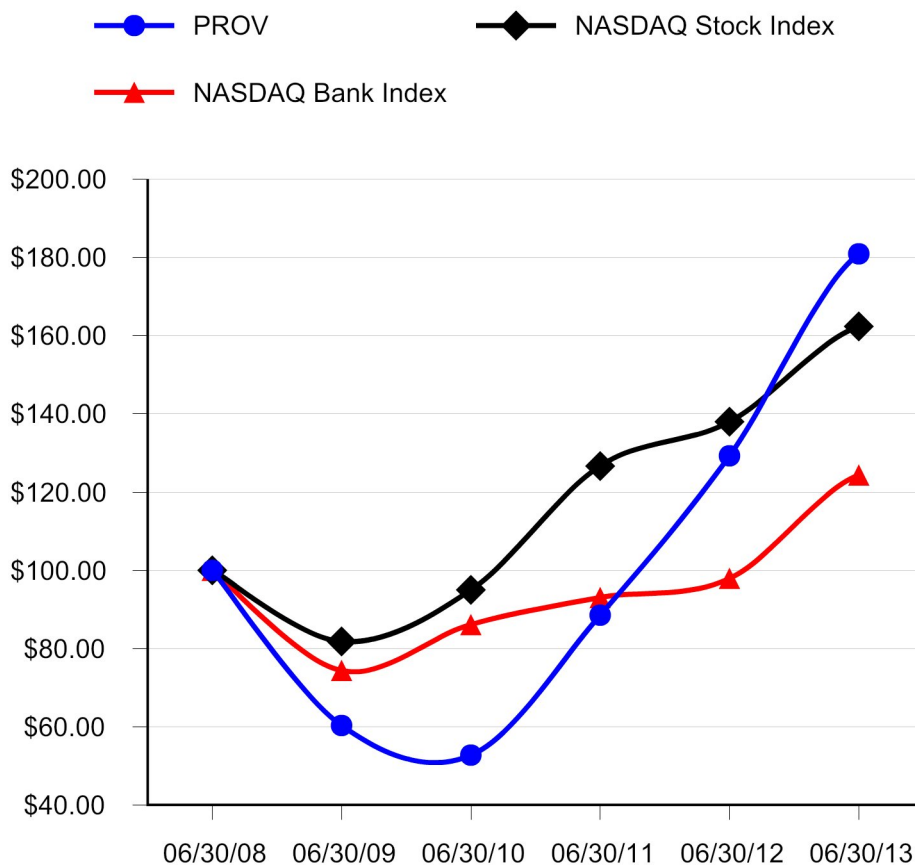
<sup>(1)</sup> On March 21, 2013, the Corporation announced a new stock repurchase plan to repurchase up to 522,523 shares, which expires on March 21, 2014.



## Performance Graph

The following graph compares the cumulative total shareholder return on the Corporation's common stock with the cumulative total return on the Nasdaq Stock Index (U.S. Stock) and Nasdaq Bank Index. Total return assumes the reinvestment of all dividends.

### Comparison of Cumulative Total Returns\*



	6/30/2008	6/30/2009	6/30/2010	6/30/2011	6/30/2012	6/30/2013
PROV	\$ 100.00	\$ 60.36	\$ 52.73	\$ 88.50	\$ 129.27	\$ 180.87
NASDAQ Stock Index	\$ 100.00	\$ 81.85	\$ 95.01	\$ 126.63	\$ 137.96	\$ 162.34
NASDAQ Bank Index	\$ 100.00	\$ 74.39	\$ 86.14	\$ 93.00	\$ 97.95	\$ 124.32

\* Assumes that the value of the investment in the Corporation's common stock and each index was \$100 on June 30, 2008 and that all dividends were reinvested.

See Part III, Item 12 of this Form 10-K for information regarding the Corporation's Equity Compensation Plans, which is incorporated into this Item 5 by reference.

## **Item 6. Selected Financial Data**

The information contained under the heading "Financial Highlights" in the Corporation's Annual Report to Shareholders included as Exhibit 13 to this Form 10-K and is incorporated herein by reference.

## **Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

### **Safe-Harbor Statement**

Certain matters in this Form 10-K constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. This Form 10-K contains statements that the Corporation believes are "forward-looking statements." These statements relate to the Corporation's financial condition, results of operations, plans, objectives, future performance or business. You should not place undue reliance on these statements, as they are subject to risks and uncertainties. When considering these forward-looking statements, you should keep in mind these risks and uncertainties, as well as any cautionary statements the Corporation may make. Moreover, you should treat these statements as speaking only as of the date they are made and based only on information then actually known to the Corporation. There are a number of important factors that could cause future results to differ materially from historical performance and these forward-looking statements. Factors which could cause actual results to differ materially include, but are not limited to, the credit risks of lending activities, including changes in the level and trend of loan delinquencies and charge-offs and changes in our allowance for loan losses and provision for loan losses that may be impacted by deterioration in the residential and commercial real estate markets and may lead to increased losses and non-performing assets and may result in our allowance for loan losses not being adequate to cover actual losses and require us to materially increase our reserve; changes in general economic conditions, either nationally or in our market areas; changes in the levels of general interest rates, and the relative differences between short and long term interest rates, deposit interest rates, our net interest margin and funding sources; fluctuations in the demand for loans, the number of unsold homes, land and other properties and fluctuations in real estate values in our market areas; secondary market conditions for loans and our ability to sell loans in the secondary market; results of examinations of the Corporation by the FRB or of the Bank by the OCC or other regulatory authorities, including the possibility that any such regulatory authority may, among other things, require us to enter into a formal enforcement action or to increase our allowance for loan losses, write-down assets, change our regulatory capital position or affect our ability to borrow funds or maintain or increase deposits, or impose additional requirements and restrictions on us, any of which could adversely affect our liquidity and earnings; legislative or regulatory changes that adversely affect our business including changes in regulatory policies and principles, including the interpretation of regulatory capital or other rules, including as a result of Basel III; the impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd Frank Act") and the implementing regulations; the availability of resources to address changes in laws, rules, or regulations or to respond to regulatory actions; adverse changes in the securities markets; our ability to attract and retain deposits; increases in premiums for deposit insurance; our ability to control operating costs and expenses; the use of estimates in determining fair value of certain of our assets, which estimates may prove to be incorrect and result in significant declines in valuation; difficulties in reducing risk associated with the loans on our balance sheet; staffing fluctuations in response to product demand or the implementation of corporate strategies that affect our workforce and potential associated charges; computer systems on which we depend could fail or experience a security breach; our ability to implement our branch expansion strategy; our ability to successfully integrate any assets, liabilities, customers, systems, and management personnel we have acquired or may in the future acquire into our operations and our ability to realize related revenue synergies and cost savings within expected time frames and any goodwill charges related thereto; our ability to manage loan delinquency rates; our ability to retain key members of our senior management team; costs and effects of litigation, including settlements and judgments; increased competitive pressures among financial services companies; changes in consumer spending, borrowing and savings habits; the availability of resources to address changes in laws, rules, or regulations or to respond to regulatory actions; our ability to pay dividends on our common stock; adverse changes in the securities markets; the inability of key third-party providers to perform their obligations to us; changes in accounting policies and practices, as may be adopted by the financial institution regulatory agencies or the Financial Accounting Standards Board, including additional guidance and interpretation on accounting issues and details of the implementation of new accounting methods; war or terrorist activities; and other economic, competitive, governmental, regulatory, and technological factors affecting our operations, pricing, products and services and other risks detailed in this report and in the Corporation's other reports filed with or furnished to the SEC.

### **General**

Provident Financial Holdings, Inc., a Delaware corporation, was organized in January 1996 for the purpose of becoming the holding company of Provident Savings Bank, F.S.B. upon the Bank's conversion from a federal mutual to a federal stock savings bank ("Conversion"). The Conversion was completed on June 27, 1996. The Corporation is regulated by the Federal Reserve Board ("FRB"). At June 30, 2013, the Corporation had total assets of \$1.21 billion, total deposits of \$923.0 million and total stockholders' equity of \$160.0 million. The Corporation has not engaged in any significant activity other than holding the stock of the Bank. Accordingly, the information set forth in this report, including financial statements and related data, relates primarily to the Bank and its subsidiaries. As used in this report, the terms "we," "our," "us," and "Corporation" refer to Provident Financial Holdings, Inc. and its consolidated subsidiaries, unless the context indicates otherwise.

The Bank, founded in 1956, is a federally chartered stock savings bank headquartered in Riverside, California. The Bank is regulated by the Office of the Comptroller of the Currency (“OCC”), its primary federal regulator, and the Federal Deposit Insurance Corporation (“FDIC”), the insurer of its deposits. The Bank’s deposits are federally insured up to applicable limits by the FDIC. The Bank has been a member of the Federal Home Loan Bank System since 1956.

The Corporation’s business consists of community banking activities and mortgage banking activities, conducted by Provident Bank and Provident Bank Mortgage, a division of the Bank. Community banking activities primarily consist of accepting deposits from customers within the communities surrounding the Bank’s full service offices and investing those funds in single-family loans, multi-family loans, commercial real estate loans, construction loans, commercial business loans, consumer loans and other real estate loans. The Bank also offers business checking accounts, other business banking services, and services loans for others. Mortgage banking activities consist of the origination, purchase and sale of mortgage loans secured primarily by single-family residences. The Bank currently operates 15 retail/business banking offices in Riverside County and San Bernardino County (commonly known as the Inland Empire). Provident Bank Mortgage operates two wholesale loan production offices: one in Pleasanton and one in Rancho Cucamonga, California; and 18 retail loan production offices in City of Industry, Escondido, Fairfield, Glendora, Hermosa Beach, Pleasanton, Rancho Cucamonga (2), Riverside (4), Roseville, San Diego, San Rafael, Santa Barbara, Stockton and Westlake Village, California. The Corporation’s revenues are derived principally from interest on its loans and investment securities and fees generated through its community banking and mortgage banking activities. There are various risks inherent in the Corporation’s business including, among others, the general business environment, interest rates, the California real estate market, the demand for loans, the prepayment of loans, the repurchase of loans previously sold to investors, the secondary market conditions to sell loans, competitive conditions, legislative and regulatory changes, fraud and other risks.

The Corporation began to distribute quarterly cash dividends in the quarter ended September 30, 2002. On April 30, 2013, the Corporation declared a quarterly cash dividend of \$0.07 per share for the Corporation’s shareholders of record at the close of business on May 22, 2013, which was paid on June 11, 2013. Future declarations or payments of dividends will be subject to the consideration of the Corporation’s Board of Directors, which will take into account the Corporation’s financial condition, results of operations, tax considerations, capital requirements, industry standards, legal restrictions, economic conditions and other factors, including the regulatory restrictions which affect the payment of dividends by the Bank to the Corporation. Under Delaware law, dividends may be paid either out of surplus or, if there is no surplus, out of net profits for the current fiscal year and/or the preceding fiscal year in which the dividend is declared.

Management’s Discussion and Analysis of Financial Condition and Results of Operations is intended to assist in understanding the financial condition and results of operations of the Corporation. The information contained in this section should be read in conjunction with the Consolidated Financial Statements and accompanying selected Notes to Consolidated Financial Statements included in Item 8 of this Form 10-K.

### **Critical Accounting Policies**

The discussion and analysis of the Corporation’s financial condition and results of operations is based upon the Corporation’s consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities at the date of the financial statements. Actual results may differ from these estimates under different assumptions or conditions.

The allowance for loan losses involves significant judgment and assumptions by management, which has a material impact on the carrying value of net loans. Management considers the accounting estimate related to the allowance for loan losses a critical accounting estimate because it is highly susceptible to change from period to period, requiring management to make assumptions about probable incurred losses inherent in the loan portfolio at the balance sheet date. The impact of a sudden large loss could deplete the allowance and require increased provisions to replenish the allowance, which would negatively affect earnings.

The allowance is based on two principles of accounting: (i) ASC 450, “Contingencies,” which requires that losses be accrued when they are probable of occurring and can be estimated; and (ii) ASC 310, “Receivables.” The allowance has two components: collectively evaluated allowances and individually evaluated allowances on substandard non-performing loans. Each of these components is based upon estimates that can change over time. The allowance is based on historical experience and as a result can differ from actual losses incurred in the future. Additionally, differences may result from adverse changes to qualitative factors such as unemployment data, gross domestic product, interest rates, retail sales, the value of real estate and real estate market

conditions. The historical data is reviewed at least quarterly and adjustments are made as needed. Various techniques are used to arrive at an individually evaluated allowance, including discounted cash flows and the fair market value of collateral. Management considers, based on currently available information, the allowance for loan losses sufficient to absorb probable losses inherent in loans held for investment. The use of these techniques is inherently subjective and the actual losses could be greater or less than the estimates, which, can materially affect amounts recognized in the Consolidated Statements of Financial Condition and Consolidated Statements of Operations.

The Corporation assesses loans individually and classifies loans when the accrual of interest has been discontinued, loans have been restructured or management has serious doubts about the future collectibility of principal and interest, even though the loans may currently be performing. Factors considered in determining classification include, but are not limited to, expected future cash flows, the financial condition of the borrower and current economic conditions. The Corporation measures each non-performing loan based on the fair value of its collateral, less selling costs, or discounted cash flow and charges off those loans or portions of loans deemed uncollectible.

In compliance with the OCC's regulatory reporting requirements, non-performing loans are charged-off to their fair values in the period the loans, or portion thereof, are deemed uncollectible, generally after the loan becomes 150 days delinquent for real estate secured first trust deed loans and 120 days delinquent for commercial business or real estate secured second trust deed loans. For restructured loans, the charge-off occurs when the loans becomes 90 days delinquent; and where borrowers file bankruptcy, the charge-off occurs when the loan becomes 60 days delinquent. The amount of the charge-off is determined by comparing the loan balance to the estimated fair value of the underlying collateral, less disposition costs, with the loan balance in excess of the estimated fair value charged-off against the allowance for loan losses. The allowance for loan losses for non-performing loans is determined by applying ASC 310. For restructured loans that are less than 90 days delinquent, the allowance for loan losses are segregated into (a) individually evaluated allowances for those loans with applicable discounted cash flow calculations or (b) collectively evaluated allowances based on the aggregated pooling method. For non-performing loans less than 60 days delinquent where the borrower has filed bankruptcy, the collectively evaluated allowances are assigned based on the aggregated pooling method. For non-performing commercial real estate loans, individually evaluated allowances are calculated based on their fair values and if their fair values are higher than their loan balances, no allowances are required.

A troubled debt restructuring ("restructured loan") is a loan which the Corporation, for reasons related to a borrower's financial difficulties, grants a concession to the borrower that the Corporation would not otherwise consider.

The loan terms which have been modified or restructured due to a borrower's financial difficulty, include but are not limited to:

- a) A reduction in the stated interest rate.
- b) An extension of the maturity at an interest rate below market.
- c) A reduction in the accrued interest.
- d) Extensions, deferrals, renewals and rewrites.

The Corporation measures the allowance for loan losses of restructured loans based on the difference between the original loan's carrying amount and the present value of expected future cash flows discounted at the original effective yield of the loan. Based on published guidance with respect to restructured loans from certain banking regulators and to conform to general practices within the banking industry, the Corporation determined it was appropriate to maintain certain restructured loans on accrual status because there is reasonable assurance of repayment and performance, consistent with the modified terms based upon a current, well-documented credit evaluation.

Other restructured loans are classified as "Substandard" and placed on non-performing status. The loans may be upgraded and placed on accrual status once there is a sustained period of payment performance (usually six months or, for loans that have been restructured more than once, 12 months) and there is a reasonable assurance that the payments will continue; and if the borrower has demonstrated satisfactory contractual payments beyond 12 consecutive months, the loan is no longer categorized as a restructured loan for SEC reporting purposes. In addition to the payment history described above, multi-family, commercial real estate, construction and commercial business loans must also demonstrate a combination of corroborating characteristics to be upgraded, such as: satisfactory cash flow, satisfactory guarantor support, and additional collateral support, among others.

To qualify for restructuring, a borrower must provide evidence of their creditworthiness such as, current financial statements, their most recent income tax returns, current paystubs, current W-2s, and most recent bank statements, among other documents, which are then verified by the Corporation. The Corporation re-underwrites the loan with the borrower's updated financial information, new credit report, current loan balance, new interest rate, remaining loan term, updated property value and modified payment schedule, among other considerations, to determine if the borrower qualifies.

Interest is not accrued on any loan when its contractual payments are more than 90 days delinquent or if the loan is deemed impaired. In addition, interest is not recognized on any loan where management has determined that collection is not reasonably assured. A non-performing loan may be restored to accrual status when delinquent principal and interest payments are brought current and future monthly principal and interest payments are expected to be collected.

When a loan is categorized as non-performing, all previously accrued but uncollected interest is reversed in the current operating results. When a full recovery of the outstanding principal loan balance is in doubt, subsequent payments received are first applied as a recovery of principal charge-offs and then to unpaid principal. This is referred to as the cost recovery method. A loan may be returned to accrual status at such time as the loan is brought fully current as to both principal and interest, and, in management's judgment, such loan is considered to be fully collectible on a timely basis. However, the Corporation's policy also allows management to continue the recognition of interest income on certain non-performing loans. This is referred to as the cash basis method under which the accrual of interest is suspended and interest income is recognized only when collected. This policy applies to non-performing loans that are considered to be fully collectible but the timely collection of payments is in doubt.

ASC 815, "Derivatives and Hedging," requires that derivatives of the Corporation be recorded in the consolidated financial statements at fair value. Management considers its accounting policy for derivatives to be a critical accounting policy because these instruments have certain interest rate risk characteristics that change in value based upon changes in the capital markets. The Corporation's derivatives are primarily the result of its mortgage banking activities in the form of commitments to extend credit, commitments to sell loans, TBA MBS trades and option contracts to mitigate the risk of the commitments to extend credit. Estimates of the percentage of commitments to extend credit on loans to be held for sale that may not fund are based upon historical data and current market trends. The fair value adjustments of the derivatives are recorded in the Consolidated Statements of Operations with offsets to other assets or other liabilities in the Consolidated Statements of Financial Condition included in Item 8 of this Form 10-K.

Management accounts for income taxes by estimating future tax effects of temporary differences between the tax and book basis of assets and liabilities considering the provisions of enacted tax laws. These differences result in deferred tax assets and liabilities, which are included in the Corporation's Consolidated Statements of Financial Condition. The application of income tax law is inherently complex. Laws and regulations in this area are voluminous and are often ambiguous. As such, management is required to make many subjective assumptions and judgments regarding the Corporation's income tax exposures, including judgments in determining the amount and timing of recognition of the resulting deferred tax assets and liabilities, including projections of future taxable income. Interpretations of and guidance surrounding income tax laws and regulations change over time. As such, changes in management's subjective assumptions and judgments can materially affect amounts recognized in the Consolidated Statements of Financial Condition and Consolidated Statements of Operations. Therefore, management considers its accounting for income taxes a critical accounting policy.

### **Executive Summary and Operating Strategy**

Provident Savings Bank, F.S.B., established in 1956, is a financial services company committed to serving consumers and small to mid-sized businesses in the Inland Empire region of Southern California. The Bank conducts its business operations as Provident Bank, Provident Bank Mortgage, a division of the Bank, and through its subsidiary, Provident Financial Corp. The business activities of the Corporation, primarily through the Bank and its subsidiary, consist of community banking, mortgage banking and, to a lesser degree, investment services for customers and trustee services on behalf of the Bank.

Community banking operations primarily consist of accepting deposits from customers within the communities surrounding the Corporation's full service offices and investing those funds in single-family, multi-family and commercial real estate loans. Also, to a lesser extent, the Corporation makes construction, commercial business, consumer and other loans. The primary source of income in community banking is net interest income, which is the difference between the interest income earned on loans and investment securities, and the interest expense paid on interest-bearing deposits and borrowed funds. Additionally, certain fees are collected from depositors, such as returned check fees, deposit account service charges, ATM fees, IRA/KEOGH fees, safe deposit box fees, travelers check fees, wire transfer fees and overdraft protection fees, among others.

During the next three years, subject to market conditions, the Corporation intends to improve its community banking business by moderately growing total assets; by decreasing the concentration of single-family mortgage loans within loans held for investment; and by increasing the concentration of higher yielding preferred loans (i.e., multi-family, commercial real estate, construction and commercial business loans). In addition, the Corporation intends to decrease the percentage of time deposits in its deposit base and to increase the percentage of lower cost checking and savings accounts. This strategy is intended to improve core revenue

through a higher net interest margin and ultimately, coupled with the growth of the Corporation, an increase in net interest income. While the Corporation's long-term strategy is for moderate growth, management recognizes that the total balance sheet may decline or stabilize in response to current weaknesses in general economic conditions, which may improve capital ratios and mitigate credit and liquidity risk.

Mortgage banking operations primarily consist of the origination, purchase and sale of mortgage loans secured by single-family residences. The primary sources of income in mortgage banking are gain on sale of loans and certain fees collected from borrowers in connection with the loan origination process. The Corporation will continue to modify its operations in response to the rapidly changing mortgage banking environment. Changes may include a different product mix, further tightening of underwriting standards, variations in its operating expenses or a combination of these and other changes.

Provident Financial Corp performs trustee services for the Bank's real estate secured loan transactions and has in the past held, and may in the future hold real estate for investment. Investment services operations primarily consist of selling alternative investment products such as annuities and mutual funds to the Bank's depositors. Investment services and trustee services contribute a very small percentage of gross revenue.

There are a number of risks associated with the business activities of the Corporation, many of which are beyond the Corporation's control, including: changes in accounting principles, laws, regulation, interest rates and the economy, among others. The Corporation attempts to mitigate many of these risks through prudent banking practices, such as interest rate risk management, credit risk management, operational risk management, and liquidity risk management. The current economic environment presents heightened risk for the Corporation primarily with respect to real estate values and loan delinquencies. Declining real estate values may lead to higher loan losses since the majority of the Corporation's loans are secured by real estate located within California. Significant declines in the value of California real estate may also inhibit the Corporation's ability to recover on defaulted loans by selling the underlying real estate. The Corporation's operating costs may increase significantly as a result of the Dodd-Frank Act. Many aspects of the Dodd-Frank Act are subject to rulemaking and will take effect over several years, making it difficult to anticipate the overall financial impact on the Corporation. For further details on risk factors, see "Safe-Harbor Statement" included above in this item 7, and Item 1A, "Risk Factors."

#### **Commitments and Derivative Financial Instruments**

The Corporation is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, in the form of originating loans or providing funds under existing lines of credit, loan sale agreements to third parties and option contracts. These instruments involve, to varying degrees, elements of credit and interest-rate risk in excess of the amount recognized in the accompanying Consolidated Statements of Financial Condition. The Corporation's exposure to credit loss, in the event of non-performance by the counterparty to these financial instruments, is represented by the contractual amount of these instruments. The Corporation uses the same credit policies in entering into financial instruments with off-balance sheet risk as it does for on-balance sheet instruments. For a discussion on commitments and derivative financial instruments, see Note 15 of the Notes to Consolidated Financial Statements included in Item 8 of this Form 10-K.

## Off-Balance Sheet Financing Arrangements and Contractual Obligations

The following table summarizes the Corporation's contractual obligations at June 30, 2013 and the effect these obligations are expected to have on the Corporation's liquidity and cash flows in future periods:

(Dollars In Thousands)	Payments Due by Period				
	Less than 1 year	1 year to less than 3 years	3 year to 5 years	Over 5 years	Total
Operating obligations	\$ 1,348	\$ 2,098	\$ 1,315	\$ 428	\$ 5,189
Pension benefits	—	228	456	7,504	8,188
Time deposits	258,780	129,698	18,332	1,624	408,434
FHLB – San Francisco advances	66,826	2,640	12,603	33,744	115,813
FHLB – San Francisco letter of credit	7,500	—	—	—	7,500
FHLB – San Francisco MPF credit enhancement <sup>(1)</sup>	176	352	352	1,668	2,548
<b>Total</b>	<b>\$ 334,630</b>	<b>\$ 135,016</b>	<b>\$ 33,058</b>	<b>\$ 44,968</b>	<b>\$ 547,672</b>

<sup>(1)</sup> Represents the recourse provision for loans previously sold by the Bank to the FHLB – San Francisco under its MPF program. The FHLB – San Francisco discontinued the MPF program on October 6, 2006. As of June 30, 2013, the Bank serviced \$52.1 million of loans under this program.

The expected obligation for time deposits and FHLB – San Francisco advances include anticipated interest accruals based on the respective contractual terms.

The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, in the form of originating loans or providing funds under existing lines of credit, loan sale commitments to investors, TBA MBS trades and option contracts. These instruments involve, to varying degrees, elements of credit and interest-rate risk in excess of the amount recognized in the accompanying Consolidated Statements of Financial Condition included in Item 8 of this Form 10-K. The Bank's exposure to credit loss, in the event of non-performance by the counter party to these financial instruments, is represented by the contractual amount of these instruments. The Bank uses the same credit policies in making commitments to extend credit as it does for on-balance sheet instruments. As of June 30, 2013 and 2012, these commitments were \$262.5 million and \$222.1 million, respectively.

### Comparison of Financial Condition at June 30, 2013 and 2012

Total assets decreased \$49.9 million, or four percent, to \$1.21 billion at June 30, 2013 from \$1.26 billion at June 30, 2012. The decrease was primarily attributable to decreases in loans held for sale and loans held for investment, partly offset by an increase in cash and cash equivalents.

Total cash and cash equivalents, primarily excess cash deposited with the Federal Reserve Bank of San Francisco, increased \$48.7 million, or 34 percent, to \$193.8 million at June 30, 2013 from \$145.1 million at June 30, 2012. The increase was primarily attributable to proceeds received from the decreases in loans held for sale and loans held for investment, partly offset by the decreases in deposits and borrowings. The relatively high balance of cash and cash equivalents was due to the current weakness in the general economic conditions and it is consistent with the Corporation's strategy of managing credit and liquidity risk.

Total investment securities decreased \$3.4 million, or 15 percent, to \$19.5 million at June 30, 2013 from \$22.9 million at June 30, 2012. The decrease was primarily the result of scheduled and accelerated principal payments on mortgage-backed securities. For further analysis on investment securities, see Note 2 of the Notes to Consolidated Financial Statements included in Item 8 of this Form 10-K.

Loans held for investment decreased \$48.4 million, or six percent, to \$748.4 million at June 30, 2013 from \$796.8 million at June 30, 2012. Total loan principal payments in fiscal 2013 were \$144.4 million, a 10 percent increase from \$131.0 million in fiscal 2012. In addition, real estate owned acquired in the settlement of loans in fiscal 2013 was \$11.0 million, a 54 percent decline from

\$24.1 million in the same period last year. In fiscal 2013, the Corporation originated \$81.3 million of loans held for investment, consisting primarily of multi-family and commercial real estate loans, compared to \$49.5 million, primarily in multi-family and commercial real estate loans, for the same period last year. In addition, the Corporation purchased \$12.8 million of loans to be held for investment, consisting solely of multi-family loans, in fiscal 2013, compared to \$8.2 million of purchased loans to be held for investment, consisting solely of multi-family loans, in fiscal 2012. The balance of preferred loans (i.e., multi-family, commercial real estate, construction and commercial business loans) decreased to \$356.5 million at June 30, 2013, compared to \$375.9 million at June 30, 2012, and represented 47 percent and 46 percent of loans held for investment, respectively. The balance of single-family loans held for investment decreased \$34.7 million, or eight percent, to \$404.3 million at June 30, 2013, from \$439.0 million at June 30, 2012, and represented approximately 53 percent and 54 percent of loans held for investment, respectively.

The table below describes the geographic dispersion of gross real estate secured loans held for investment at June 30, 2013 and 2012, as a percentage of the total dollar amount outstanding (dollars in thousands):

As of June 30, 2013

Loan Category	Inland Empire		Southern California <sup>(1)</sup>		Other California		Other States		Total	
	Balance	%	Balance	%	Balance	%	Balance	%	Balance	%
Single-family	\$ 119,858	29%	\$ 221,306	55%	\$ 59,624	15%	\$ 3,553	1%	\$ 404,341	100%
Multi-family	46,245	18%	158,058	60%	54,564	21%	3,449	1%	262,316	100%
Commercial real estate	49,660	54%	40,104	43%	2,724	3%	—	—%	92,488	100%
Construction	292	100%	—	—%	—	—%	—	—%	292	100%
Total	\$ 216,055	29%	\$ 419,468	55%	\$ 116,912	15%	\$ 7,002	1%	\$ 759,437	100%

<sup>(1)</sup> Other than the Inland Empire.

As of June 30, 2012

Loan Category	Inland Empire		Southern California <sup>(1)</sup>		Other California		Other States		Total	
	Balance	%	Balance	%	Balance	%	Balance	%	Balance	%
Single-family	\$ 133,874	31%	\$ 237,715	54%	\$ 63,432	14%	\$ 4,003	1%	\$ 439,024	100%
Multi-family	37,303	13%	188,229	68%	49,012	18%	3,513	1%	278,057	100%
Commercial real estate	46,291	49%	47,175	49%	1,836	2%	—	—%	95,302	100%
Other	755	100%	—	—%	—	—%	—	—%	755	100%
Total	\$ 218,223	27%	\$ 473,119	58%	\$ 114,280	14%	\$ 7,516	1%	\$ 813,138	100%

<sup>(1)</sup> Other than the Inland Empire.

Loans held for sale decreased \$43.5 million, or 19 percent, to \$188.1 million at June 30, 2013 from \$231.6 million at June 30, 2012. The decrease was primarily due to the timing difference between loan fundings and loan sale settlements, partly offset by a higher volume of loans originated for sale.

FHLB - San Francisco stock decreased \$7.0 million, or 10 percent, to \$15.3 million at June 30, 2013 from \$22.3 million at June 30, 2012, due to a partial redemption of the Bank's excess of FHLB - San Francisco required stock holding.

Total deposits decreased \$38.4 million, or four percent, to \$923.0 million at June 30, 2013 from \$961.4 million at June 30, 2012. Transaction accounts increased \$5.2 million, or one percent, to \$520.8 million at June 30, 2013 from \$515.6 million at June 30, 2012; and time deposits decreased \$43.6 million, or 10 percent, to \$402.2 million at June 30, 2013 from \$445.8 million at June 30, 2012. The increase in transaction accounts as compared to time deposits was primarily attributable to the Corporation's marketing strategy to promote transaction accounts and the strategic decision to compete less aggressively on time deposit interest rates.



Borrowings, consisting of FHLB – San Francisco advances, decreased \$20.0 million, or 16 percent, to \$106.5 million from \$126.5 million at June 30, 2012, primarily due to scheduled maturities during fiscal 2013. The weighted-average maturity of the Corporation's FHLB – San Francisco advances was approximately 32 months at June 30, 2013, down from 39 months at June 30, 2012.

Total stockholders' equity increased \$15.2 million, or 10 percent, to \$160.0 million at June 30, 2013, from \$144.8 million at June 30, 2012, primarily as a result of net income, partly offset by stock repurchases (see Part II, Item 2, "Unregistered Sales of Equity Securities and Use of Proceeds" of this Form 10-K) and quarterly cash dividends paid during fiscal 2013.

### **Comparison of Operating Results for the Years Ended June 30, 2013 and 2012**

**General.** The Corporation recorded net income of \$25.8 million, or \$2.38 per diluted share, for the fiscal year ended June 30, 2013, as compared to net income of \$10.8 million, or \$0.96 per diluted share, for the fiscal year ended June 30, 2012. The \$15.0 million increase in net income in fiscal 2013 was primarily attributable to a \$32.0 million increase in non-interest income and a \$7.3 million improvement in provision for loan losses, partly offset by a \$12.0 million increase in non-interest expense, a \$3.3 million decrease in net interest income and a \$9.0 million increase in the provision for income taxes. The increase in non-interest income and non-interest expense are both attributable to an increase in mortgage banking production. The Corporation's efficiency ratio, defined as non-interest expense divided by the sum of net interest income and non-interest income, improved to 62% in fiscal 2013 from 69% in fiscal 2012. Return on average assets in fiscal 2013 increased to 2.09% from 0.84% in fiscal 2012 and return on average equity in fiscal 2013 increased to 16.80% from 7.58% in fiscal 2012.

**Net Interest Income.** Net interest income decreased \$3.3 million, or 9%, to \$33.4 million in fiscal 2013 from \$36.7 million in fiscal 2012. This decrease resulted principally from a decrease in the average balance of earning assets and, to a lesser extent, a decrease in the net interest margin. The average balance of earning assets decreased \$53.4 million, or 4%, to \$1.19 billion in fiscal 2013 from \$1.24 billion in fiscal 2012. The net interest margin decreased 15 basis points to 2.80% in fiscal 2013 from 2.95% in fiscal 2012.

**Interest Income.** Interest income decreased \$7.2 million, or 14%, to \$44.2 million for fiscal 2013 from \$51.4 million for fiscal 2012. The decrease in interest income was primarily a result of decreases in the average yield of earning assets and the average balance. The average yield on earning assets decreased 43 basis points to 3.71% in fiscal 2013 from 4.14% in fiscal 2012. The decrease in the average yield on earning assets was the result of a decrease in the average yield on loans receivable and investment securities during fiscal 2013 due to the downward repricing of loans and investment securities to lower current market interest rates, partly offset by an increase in cash dividends received from the FHLB - San Francisco. The decrease in average earning assets was primarily attributable to the decrease in loans receivable and to a lesser extent, investment securities and FHLB - San Francisco stock, partly offset by the increase in the average balance of interest earning deposits. The decline in average earning assets was primarily due to the current weakness in general economic conditions and is consistent with the Corporation's strategy of managing credit and liquidity risk.

Loan interest income decreased \$7.6 million, or 15%, to \$42.9 million in fiscal 2013 from \$50.5 million in fiscal 2012. This decrease was attributable to a lower average loan yield and, to a lesser extent, a lower average loan balance. The average loan yield during fiscal 2013 decreased 39 basis points to 4.31% from 4.70% during fiscal 2012. The decrease in the average loan yield was primarily attributable to payoffs of loans which had a higher yield than the average yield of loans held for investment, adjustable-rate loans repricing to lower interest rates and a higher average balance of loans held for sale at a lower average yield. The average balance of loans receivable, consisting of loans held for investment and loans held for sale, decreased \$80.0 million, or 7%, to \$994.5 million during fiscal 2013 from \$1.07 billion during fiscal 2012. The average balance of loans held for sale, decreased \$3.0 million, or 1%, to \$227.8 million for fiscal 2013 from \$230.8 million in fiscal 2012 and the average loan yield decreased 49 basis points to 3.43% in fiscal 2013 from 3.92% in fiscal 2012.

Interest income from investment securities decreased \$100,000, or 19%, to \$428,000 in fiscal 2013 from \$528,000 in fiscal 2012. This decrease was primarily a result of a decrease in the average balance and, to a lesser extent, a decrease in the average yield. The average balance of investment securities decreased \$3.1 million, or 13%, to \$21.3 million in fiscal 2013 from \$24.4 million in fiscal 2012 as a result of principal payments received. During fiscal 2013, the Bank did not purchase or sell any investment securities. The average yield on the investment securities decreased 15 basis points to 2.01% during fiscal 2013 from 2.16% during fiscal 2012. The decrease in the average yield of investment securities was primarily attributable to the repricing of adjustable rate mortgage-backed securities to lower interest rates.

During fiscal 2013, the Bank received \$438,000 of cash dividends from its FHLB - San Francisco stock, up \$339,000, or 342%, from \$99,000 of cash dividends received in fiscal 2012. The increase in cash dividends was due to improved earnings and capital position for the FHLB - San Francisco in fiscal 2013 as compared to the prior year. The average balance of FHLB stock decreased by \$5.4 million, or 22%, to \$19.3 million in fiscal 2013 from \$24.7 million in fiscal 2012, due to the stock redemptions by the FHLB - San Francisco.

Interest income from interest-earning deposits increased \$87,000, or 29%, to \$390,000 in fiscal 2013 from \$303,000 in fiscal 2012, due to the increase in cash deposited at the Federal Reserve Bank of San Francisco with a nominal yield of 25 basis points for both periods. The average balance of interest-earning deposits increased by \$35.0 million, or 29%, to \$155.2 million in fiscal 2013 from \$120.2 million in fiscal 2012.

**Interest Expense.** Total interest expense for fiscal 2013 was \$10.8 million as compared to \$14.7 million for fiscal 2012, a decrease of \$3.9 million, or 27%. This decrease was primarily attributable to a lower average balance of interest-bearing liabilities and, to a lesser extent, a decrease in the average cost. The average balance of interest-bearing liabilities, principally deposits and borrowings, decreased \$66.8 million, or 6%, to \$1.06 billion during fiscal 2013 from \$1.13 billion during fiscal 2012. The decrease was attributable to a decline in borrowings due to scheduled maturities and, to a lesser extent, a decline in the deposit average balance. The average cost of interest-bearing liabilities was 1.02% during fiscal 2013, down 29 basis points from 1.31% during fiscal 2012. The decline in the average cost of liabilities was primarily due to the scheduled maturities with higher interest rates than the average cost of the borrowings and the downward repricing of deposits.

Interest expense on deposits for fiscal 2013 was \$6.6 million as compared to \$8.4 million for the same period of fiscal 2012, a decrease of \$1.8 million, or 21%. The decrease in interest expense on deposits was attributable to a lower average cost and, to a lesser extent, a decrease in the average balance of deposits. The average cost of deposits decreased to 0.70% in fiscal 2013 from 0.88% during fiscal 2012, a decrease of 18 basis points. The average cost of time deposits in fiscal 2013 was 1.32%, down 20 basis points, from 1.52% in fiscal 2012, while the average cost of transaction accounts in fiscal 2013 was 0.19%, down nine basis points, from 0.28% in fiscal 2012. The average balance of deposits decreased \$17.1 million, or 2%, to \$940.9 million during fiscal 2013 from \$958.0 million during fiscal 2012. The average balance of time deposits decreased by \$36.6 million, or 8%, to \$425.5 million in fiscal 2013 from \$462.1 million in fiscal 2012. The decrease in the average balance of time deposits was partly offset by an increase in the average balance of transaction accounts, consistent with the Bank's marketing strategy to promote transaction accounts and the strategic decision to compete less aggressively on time deposit interest rates. The average balance of transaction accounts increased \$19.5 million, or 4%, to \$515.4 million in fiscal 2013 from \$495.9 million in fiscal 2012.

Interest expense on borrowings, solely FHLB - San Francisco advances, for fiscal 2013 decreased \$2.1 million, or 33%, to \$4.2 million from \$6.3 million for fiscal 2012. The decrease in interest expense on borrowings was due primarily to a lower average balance, and to a lesser extent, a lower average cost. The average balance of borrowings decreased \$49.7 million, or 30%, to \$117.6 million during fiscal 2013 from \$167.3 million during fiscal 2012. The average cost of borrowings decreased to 3.59% in fiscal 2013 from 3.76% in fiscal 2012, a decrease of 17 basis points, resulting primarily from scheduled maturities with higher average costs.

**Provision for Loan Losses.** During fiscal 2013, the Corporation recorded a recovery from the allowance for loan losses of \$1.5 million, as compared to a \$5.8 million provision for loan losses during fiscal 2012. The allowance for loan losses declined which reflected the improving quality of loans held for investment as described below.

Non-performing assets (net of the collectively evaluated allowance and individually evaluated allowance), with underlying collateral primarily located in Southern California, decreased to \$24.0 million, or 1.98% of total assets, at June 30, 2013, compared to \$40.0 million, or 3.17% of total assets, at June 30, 2012. The non-performing assets at June 30, 2013 were primarily comprised of 50 single-family loans (\$13.2 million); eight commercial real estate loans (\$4.6 million); seven multi-family loans (\$3.8 million); five commercial business loans (\$130,000); and real estate owned comprised of seven single-family properties (\$2.3 million), two undeveloped lots (\$9,000) and one commercial real estate property (\$0, fully reserved) acquired in the settlement of loans. As of June 30, 2013, 55%, or \$12.0 million of non-performing loans have a current payment status. Net charge-offs in fiscal 2013 were \$5.0 million or 0.51% of average loans receivable, compared to \$14.8 million or 1.38% of average loans receivable in fiscal 2012.

Classified assets at June 30, 2013 were \$47.0 million, comprised of \$6.9 million in the special mention category, \$37.8 million in the substandard category and \$2.3 million in real estate owned. Classified assets at June 30, 2012 were \$58.5 million, comprised of \$4.9 million in the special mention category, \$48.1 million in the substandard category and \$5.5 million in real estate owned. Classified assets decreased at June 30, 2013 from the June 30, 2012 level primarily as a result of improvements in credit quality

and stabilization of the real estate market. For additional information, see Item 1, "Business - "Delinquencies and Classified Assets" in this Form 10-K.

In fiscal 2013, no loans were modified from their original terms. This compares to 24 loans for \$10.1 million which were modified from their original terms, were re-underwritten and were identified in the Corporation's asset quality reports as restructured loans in fiscal 2012. As of June 30, 2013, the outstanding balance of restructured loans was \$9.5 million: one loan was classified as special mention and remained on accrual status (\$434,000); and 25 loans were classified as substandard (\$9.1 million, all are on non-accrual status). As of June 30, 2013, 68%, or \$6.5 million of the restructured loans have a current payment status.

The allowance for loan losses was \$14.9 million at June 30, 2013, or 1.96% of gross loans held for investment, compared to \$21.5 million, or 2.63% of gross loans held for investment at June 30, 2012. The allowance for loan losses at June 30, 2013 includes \$154,000 of individually evaluated allowances, compared to \$771,000 of individually evaluated allowances at June 30, 2012. Management believes that, based on currently available information, the allowance for loan losses is sufficient to absorb potential losses inherent in loans held for investment. For additional information, see Item 1, "Business - Delinquencies and Classified Assets - Allowance for Loan Losses" in this Form 10-K.

The allowance for loan losses is maintained at a level sufficient to provide for estimated losses based on evaluating known and inherent risks in the loans held for investment portfolio and upon management's continuing analysis of the factors underlying the quality of the loans held for investment. These factors include changes in the size and composition of the loans held for investment, actual loan loss experience, current economic conditions, detailed analysis of individual loans for which full collectibility may not be assured, and determination of the realizable value of the collateral securing the loans. Provisions for loan losses are charged against operations on a quarterly basis, as necessary, to maintain the allowance at appropriate levels. Management believes that the amount maintained in the allowance will be adequate to absorb probable losses inherent in the loans held for investment. Although management believes it uses the best information available to make such determinations, there can be no assurance that regulators, in reviewing the Bank's loans held for investment, will not request the Bank to significantly increase its allowance for loan losses. Future adjustments to the allowance for loan losses may be necessary and results of operations could be significantly and adversely affected as a result of economic, operating, regulatory and other conditions beyond the control of the Bank.

**Non-Interest Income.** Total non-interest income increased \$32.0 million, or 74%, to \$75.2 million in fiscal 2013 from \$43.2 million in fiscal 2012. The increase was primarily attributable to an increase in the gain on sale of loans and an improvement in the gain (loss) on the sale and operations of real estate owned acquired in the settlement of loans.

The gain on sale of loans increased \$30.5 million, or 80%, to \$68.5 million for fiscal 2013 from \$38.0 million in fiscal 2012. The increase was a result of a higher volume of loans originated for sale and a higher average loan sale margin. Total loan sale volume, which includes the net change in commitments to extend credit on loans to be held for sale, was \$3.53 billion in fiscal 2013 as compared to \$2.63 billion in fiscal 2012, up \$902.2 million or 34%. The increase in the loan sale volume in fiscal 2013 was attributable to relatively low mortgage interest rates and more stable real estate markets. The average loan sale margin for PBM during fiscal 2013 was 1.94% as compared to 1.49% in fiscal 2012, an increase of 45 basis points. The gain on sale of loans includes an unfavorable fair-value adjustment on loans held for sale and derivative financial instruments (commitments to extend credit, commitments to sell loans, TBA MBS trades and option contracts) that amounted to a net loss of \$8.0 million in fiscal 2013, as compared to a favorable fair-value adjustment that amounted to a net gain of \$5.7 million in fiscal 2012. The gain on sale of loans in fiscal 2013 also includes a \$1.7 million recourse reserve provision on loans sold that are subject to repurchase, compared to a \$2.8 million recourse reserve provision on loan sold in fiscal 2012. The recourse reserve provision on loans sold in fiscal 2013 was due primarily to an accrual for a global settlement with the Bank's largest legacy loan investor, discussed below.

In December 2012, the Bank accrued for a global settlement with the Bank's largest legacy loan investor, which eliminated all past, current and future repurchase claims from this particular investor. The settlement agreement was executed and paid in February 2013. The settlement required the accrual of an additional recourse provision of \$1.5 million during the second quarter of fiscal 2013 which fully funded the settlement amount in addition to the recourse reserve that had already been provided in prior periods for this investor. This investor purchased approximately 39 percent of the Corporation's total loan sale volume from January 1, 2005 through December 31, 2011 and accounted for approximately 64 percent of all recourse claims paid prior to the settlement. The mortgage banking environment has shown improvement as a result of relatively low mortgage interest rates but remains volatile.

The sale and operations of real estate owned acquired in the settlement of loans reflected a net gain of \$916,000 in fiscal 2013, as compared to a net loss of \$120,000 in fiscal 2012. The net gain in fiscal 2013 was comprised of a \$1.2 million net gain on the sale of 39 real estate owned properties and a \$98,000 recovery from the loss reserve on real estate owned, partly offset by the net

operating expenses of \$395,000. The net loss in fiscal 2012 was comprised of a \$287,000 net loss on the sale of 98 real estate owned properties and net operating expenses of \$835,000, partly offset by \$1.0 million recovery from the loss reserve on real estate owned.

**Non-Interest Expense.** Total non-interest expense in fiscal 2013 was \$67.3 million, an increase of \$11.9 million, or 21%, as compared to \$55.4 million in fiscal 2012. The increase in non-interest expense was primarily the result of increases in incentive compensation and other operating expenses related to mortgage banking operations.

Salaries and employee benefits increased \$11.2 million, or 28%, to \$50.5 million in fiscal 2013 from \$39.3 million in fiscal 2012. The increase in salaries and employee benefits was primarily due to higher PBM incentive compensation resulting primarily from higher loan originations in fiscal 2013. PBM loan originations were \$3.51 billion in fiscal 2013 as compared to \$2.52 billion in fiscal 2012, up \$988.4 million, or 39%. See Note 17 of the Notes to Consolidated Financial Statements contained in Item 8 of this Form 10-K, for further details on PBM salaries and employee benefits.

Other operating expenses, including premises and occupancy, equipment expense, professional expenses, sales and marketing expenses and deposit insurance premiums and regulatory assessments, increased \$811,000, or 5%, to \$16.9 million in fiscal 2013 from \$16.1 million in fiscal 2012. The increase in was due primarily to higher PBM loan production related costs, including several new PBM loan production offices.

**Income Taxes.** The provision for income taxes was \$16.9 million for fiscal 2013, representing an effective tax rate of 39.6%, as compared to \$7.9 million in fiscal 2012, representing an effective tax rate of 42.3%. The income tax provision in fiscal 2013 includes a \$1.1 million net tax recovery from prior period adjustments, primarily as a result of a tax liability reversal of \$825,000 from the August 2, 2012 notification from the tax authorities indicating the acceptance of an accounting method change. The Corporation determined that the above tax rates meet its estimated income tax obligations (see Note 9, "Income Taxes," of the Notes to Consolidated Financial Statements, contained in Item 8 of this Form 10-K).

#### **Comparison of Operating Results for the Years Ended June 30, 2012 and 2011**

**General.** The Corporation recorded net income of \$10.8 million, or \$0.96 per diluted share, for the fiscal year ended June 30, 2012, as compared to a net income of \$13.2 million, or \$1.16 per diluted share, for the fiscal year ended June 30, 2011. The \$2.4 million decline in net income in fiscal 2012 was primarily attributable to a \$10.0 million increase in non-interest expense and \$1.0 million decrease in net interest income, partly offset by a \$6.8 million increase in non-interest income and a \$2.1 million decrease in the provision for income taxes. The increase in non-interest income and non-interest expense are both attributable to an increase in mortgage banking production. The Corporation's efficiency ratio, defined as non-interest expense divided by the sum of net interest income and non-interest income, increased to 69% in fiscal 2012 from 61% in fiscal 2011. Return on average assets in fiscal 2012 decreased to 0.84% from 0.97% in fiscal 2011 and return on average equity in fiscal 2012 decreased to 7.58% from 9.80% in fiscal 2011.

**Net Interest Income.** Net interest income decreased \$1.0 million, or 3%, to \$36.7 million in fiscal 2012 from \$37.7 million in fiscal 2011. This decrease resulted principally from a decrease in average earning assets, partly offset by an increase in the net interest margin. The average balance of earning assets decreased \$59.1 million, or 5%, to \$1.24 billion in fiscal 2012 from \$1.30 billion in fiscal 2011. The net interest margin increased five basis points to 2.95% in fiscal 2012 from 2.90% in fiscal 2011.

**Interest Income.** Interest income decreased \$7.3 million, or 12%, to \$51.4 million for fiscal 2012 from \$58.7 million for fiscal 2011. The decrease in interest income was primarily a result of decreases in the average balance and the average yield of earning assets. The decrease in average earning assets was primarily attributable to the decrease in loans receivable and interest-earning deposits and to a lesser extent, investment securities and FHLB - San Francisco stock. The average yield on earning assets decreased 36 basis points to 4.14% in fiscal 2012 from 4.50% in fiscal 2011. The decrease in the average yield on earning assets was the result of a decrease in the average yield on loans receivable and investment securities during fiscal 2012 due to the downward repricing of loans and investment securities to lower current market interest rates. The decline in the average earning assets was consistent with the Corporation's strategy of managing credit and liquidity risk.

Loan interest income decreased \$6.9 million, or 12%, to \$50.5 million in fiscal 2012 from \$57.4 million in fiscal 2011. This decrease was attributable to a lower average loan balance and a lower average loan yield. The average balance of loans receivable, consisting of loans held for investment and loans held for sale, decreased \$33.6 million, or 3%, to \$1.07 billion during fiscal 2012 from \$1.11 billion during fiscal 2011. The average loan yield during fiscal 2012 decreased 48 basis points to 4.70% from 5.18% during fiscal 2011. The decrease in the average loan yield was primarily attributable to payoffs of loans which had a higher yield

than the average yield of loans held for investment, adjustable-rate loans repricing to lower interest rates and a higher average balance of loans held for sale at a lower average yield. The average balance of loans held for sale, increased \$63.4 million, or 38 percent, to \$230.8 million for fiscal 2012 as compared to \$167.4 million in fiscal 2011 and the average loan yield decreased 35 basis points to 3.92% in fiscal 2012 from 4.27% in fiscal 2011.

Interest income from investment securities decreased \$270,000, or 34%, to \$528,000 in fiscal 2012 from \$798,000 in fiscal 2011. This decrease was primarily a result of a decrease in the average balance and a decrease in the average yield. The average balance of investment securities decreased \$6.0 million, or 20%, to \$24.4 million in fiscal 2012 from \$30.4 million in fiscal 2011. During fiscal 2012, the Bank did not purchase any investment securities, while \$3.3 million of principal payments were received on mortgage-backed securities. The average yield on the investment securities decreased 47 basis points to 2.16% during fiscal 2012 from 2.63% during fiscal 2011. The decrease in the average yield of investment securities was primarily attributable to the repricing of adjustable rate mortgage-backed securities to lower interest rates.

**Interest Expense.** Total interest expense for fiscal 2012 was \$14.7 million as compared to \$20.9 million for fiscal 2011, a decrease of \$6.2 million, or 30%. This decrease was primarily attributable to a lower average balance of interest-bearing liabilities, and to a lesser extent, a decrease in the average cost. The average cost of interest-bearing liabilities was 1.31% during fiscal 2012, down 43 basis points from 1.74% during fiscal 2011. The decline in the average cost of liabilities was primarily due to the downward repricing of deposits. The average balance of interest-bearing liabilities, principally deposits and borrowings, decreased \$77.7 million, or 6%, to \$1.13 billion during fiscal 2012 from \$1.20 billion during fiscal 2011. The decrease was primarily attributable to a decline in borrowings due to scheduled maturities, partly offset by an increase in the deposit average balance.

Interest expense on deposits for fiscal 2012 was \$8.4 million as compared to \$10.3 million for the same period of fiscal 2011, a decrease of \$1.9 million, or 18%. The decrease in interest expense on deposits was primarily attributable to a lower average cost, partly offset by an increase in the average balance of deposits. The average cost of deposits decreased to 0.88% in fiscal 2012 from 1.09% during fiscal 2011, a decrease of 21 basis points. The average cost of time deposits in fiscal 2012 was 1.52%, down 20 basis points, from 1.72% in fiscal 2011, while the average cost of transaction accounts in fiscal 2012 was 0.28%, down 18 basis points, from 0.46% in fiscal 2011. The average balance of deposits increased \$18.8 million, or 2%, to \$958.0 million during fiscal 2012 from \$939.2 million during fiscal 2011. The average balance of time deposits decreased by \$9.3 million, or 2%, to \$462.1 million in fiscal 2012 from \$471.4 million in fiscal 2011. The decrease in the average balance of time deposits was offset by an increase in the average balance of transaction accounts, consistent with the Bank's marketing strategy to promote transaction accounts and the strategic decision to compete less aggressively on time deposit interest rates. The average balance of transaction accounts increased \$28.1 million, or 6%, to \$495.9 million in fiscal 2012 from \$467.8 million in fiscal 2011.

Interest expense on borrowings, solely FHLB - San Francisco advances, for fiscal 2012 decreased \$4.4 million, or 41%, to \$6.3 million from \$10.7 million for fiscal 2011. The decrease in interest expense on borrowings was due primarily to a lower average balance, and to a lesser extent, a lower average cost. The average balance of borrowings decreased \$96.5 million, or 37%, to \$167.3 million during fiscal 2012 from \$263.8 million during fiscal 2011. The average cost of borrowings decreased to 3.76% in fiscal 2012 from 4.05% in fiscal 2011, a decrease of 29 basis points, resulting primarily from scheduled maturities with higher average costs.

**Provision for Loan Losses.** During fiscal 2012, the Corporation recorded a provision for loan losses of \$5.8 million, slightly higher than \$5.5 million during fiscal 2011. The provision for loan losses in fiscal 2012 was primarily attributable to loan classification downgrades, partly offset by a decline in loans held for investment which resulted in a recovery of the associated loan loss allowance. The allowance for loan losses was adjusted to reflect an improved quality of loans held for investment as described below, despite persistently weak general economic conditions in the U.S. and Southern California, in particular, high unemployment rates, low gross domestic product, weak real estate markets and lower retail sales.

Non-performing assets (net of the collectively evaluated allowance and individually evaluated allowance), with underlying collateral primarily located in Southern California, decreased to \$40.0 million, or 3.17% of total assets, at June 30, 2012, compared to \$45.5 million, or 3.46% of total assets, at June 30, 2011. The non-performing assets at June 30, 2012 were primarily comprised of 87 single-family loans (\$29.1 million); six commercial real estate loans (\$3.2 million); four multi-family loans (\$1.5 million); one other mortgage loan (\$522,000); six commercial business loans (\$172,000); and real estate owned comprised of 18 single-family properties (\$4.7 million), four undeveloped lots (\$385,000), one multi-family property (\$366,000) and one commercial real estate property (\$0, fully reserved) acquired in the settlement of loans. As of June 30, 2012, 49%, or \$17.1 million of non-performing loans have a current payment status. Net charge-offs in fiscal 2012 were \$14.8 million or 1.38% of average loans receivable, compared to \$18.5 million or 1.67% of average loans receivable in fiscal 2011.

Classified assets at June 30, 2012 were \$58.5 million, comprised of \$4.9 million in the special mention category, \$48.1 million in the substandard category and \$5.5 million in real estate owned. Classified assets at June 30, 2011 were \$66.6 million, comprised of \$12.9 million in the special mention category, \$45.4 million in the substandard category and \$8.3 million in real estate owned. Classified assets decreased at June 30, 2012 from the June 30, 2011 level primarily as a result of slight improvements in credit quality and some stabilization of the real estate market. For additional information, see Item 1, "Business - Delinquencies and Classified Assets" in this Form 10-K.

In fiscal 2012, 24 loans for \$10.1 million were modified from their original terms, were re-underwritten and were identified in the Corporation's asset quality reports as restructured loans. As of June 30, 2012, the outstanding balance of restructured loans was \$25.1 million: 12 loans were classified as pass, were not included in the classified asset totals described earlier and remained on accrual status (\$5.5 million); three loans were classified as special mention and remained on accrual status (\$4.0 million); and 41 loans were classified as substandard (\$15.6 million, all are on non-accrual status). As of June 30, 2012, 74%, or \$18.5 million of the restructured loans have a current payment status.

The allowance for loan losses was \$21.5 million at June 30, 2012, or 2.63% of gross loans held for investment, compared to \$30.5 million, or 3.34% of gross loans held for investment at June 30, 2011. The allowance for loan losses at June 30, 2012 includes \$771,000 of individually evaluated allowances, compared to \$14.1 million of individually evaluated allowances at June 30, 2011. The decline in the individually evaluated allowance was primarily attributable to the change in the Bank's charge-off policy. Management believes that, based on currently available information, the allowance for loan losses is sufficient to absorb potential losses inherent in loans held for investment. For additional information, see Item 1, "Business - Delinquencies and Classified Assets - Allowance for Loan Losses" in this Form 10-K.

The allowance for loan losses is maintained at a level sufficient to provide for estimated losses based on evaluating known and inherent risks in the loans held for investment portfolio and upon management's continuing analysis of the factors underlying the quality of the loans held for investment. These factors include changes in the size and composition of the loans held for investment, actual loan loss experience, current economic conditions, detailed analysis of individual loans for which full collectibility may not be assured, and determination of the realizable value of the collateral securing the loans. Provisions for loan losses are charged against operations on a quarterly basis, as necessary, to maintain the allowance at appropriate levels. Management believes that the amount maintained in the allowance will be adequate to absorb probable losses inherent in the loans held for investment. Although management believes it uses the best information available to make such determinations, there can be no assurance that regulators, in reviewing the Bank's loans held for investment, will not request the Bank to significantly increase its allowance for loan losses. Future adjustments to the allowance for loan losses may be necessary and results of operations could be significantly and adversely affected as a result of economic, operating, regulatory and other conditions beyond the control of the Bank.

**Non-Interest Income.** Total non-interest income increased \$6.8 million, or 19%, to \$43.2 million in fiscal 2012 from \$36.4 million in fiscal 2011. The increase was primarily attributable to an increase in the gain on sale of loans and a smaller net loss on the sale and operations of real estate owned acquired in the settlement of loans, partly offset by a \$1.1 million net gain on sale of the retail banking facility in Temecula, California in fiscal 2011, not replicated in fiscal 2012.

The gain on sale of loans increased \$6.8 million, or 22%, to \$38.0 million for fiscal 2012 from \$31.2 million in fiscal 2011. The increase was a result of a higher volume of loans originated for sale. Total loan sale volume, which includes the net change in commitments to extend credit on loans to be held for sale, was \$2.63 billion in fiscal 2012 as compared to \$2.11 billion in fiscal 2011, up \$524.2 million or 25%. The increase in the loan sale volume in fiscal 2012 was attributable to relatively low mortgage interest rates and more stable real estate markets. The average loan sale margin for PBM during fiscal 2012 was 1.49%, unchanged from fiscal 2011. The gain on sale of loans includes a favorable fair-value adjustment on loans held for sale and derivative financial instruments (commitments to extend credit, commitments to sell loans, TBA MBS trades and option contracts) that amounted to a net gain of \$5.7 million in fiscal 2012, as compared to a favorable fair-value adjustment that amounted to a net gain of \$590,000 in fiscal 2011. The gain on sale of loans in fiscal 2012 also includes a \$2.8 million recourse reserve provision on loans sold that are subject to repurchase, compared to a \$125,000 recourse reserve recovery in fiscal 2011. The higher recourse reserve provision on loans sold was due primarily to an increase in investor claims and a higher recourse reserve on loans sold to the FHLB - San Francisco under the MFP program. The mortgage banking environment has shown improvement as a result of relatively low mortgage interest rates but remains volatile.

The sale and operations of real estate owned acquired in the settlement of loans reflected a net loss of \$120,000 in fiscal 2012, as compared to a net loss of \$1.4 million in fiscal 2011. The net loss in fiscal 2012 was comprised of a \$287,000 net loss on the sale of 98 real estate owned properties and net operating expenses of \$835,000, partly offset by a \$1.0 million recovery from the loss reserve on real estate owned. The net loss in fiscal 2011 was comprised of net operating expenses of \$1.7 million, partly offset

by a \$185,000 net gain on the sale of 136 real estate owned properties and a \$166,000 recovery from the loss reserve on real estate owned.

**Non-Interest Expense.** Total non-interest expense in fiscal 2012 was \$55.4 million, an increase of \$10.0 million, or 22%, as compared to \$45.4 million in fiscal 2011. The increase in non-interest expense was primarily the result of increases in incentive compensation and other operating expenses.

Salaries and employee benefits increased \$9.3 million, or 31%, to \$39.3 million in fiscal 2012 from \$30.0 million in fiscal 2011. The increase in salaries and employee benefits was primarily due to higher PBM incentive compensation resulting from higher loan originations in fiscal 2012. PBM loan originations were \$2.52 billion in fiscal 2012 as compared to \$2.15 billion in fiscal 2011, up \$373.9 million, or 17%. See Note 17 of the Notes to Consolidated Financial Statements contained in Item 8 of this Form 10-K, for further details on PBM salary and compensation benefits.

Deposit insurance premiums and regulatory assessments decreased \$1.3 million, or 50%, to \$1.3 million in fiscal 2012 from \$2.6 million in fiscal 2011. The decrease was primarily attributable to lower deposit insurance premiums resulting from an improvement in the Bank's risk category rating and the change in the FDIC's methodology for calculating the premium.

Other operating expenses increased \$785,000, or 14%, to \$6.4 million in fiscal 2012 from \$5.7 million in fiscal 2011. The increase in other operating expenses was due primarily to higher PBM loan production related costs.

**Income Taxes.** The provision for income taxes was \$7.9 million for fiscal 2012, representing an effective tax rate of 42.3%, as compared to \$10.0 million in fiscal 2011, representing an effective tax rate of 43.2%. The Corporation determined that the above tax rates meet its estimated income tax obligations (see Note 9, "Income Taxes," of the Notes to Consolidated Financial Statements, "Income Taxes" contained in Item 8 of this Form 10-K).

#### **Average Balances, Interest and Average Yields/Costs**

The following table sets forth certain information for the periods regarding average balances of assets and liabilities as well as the total dollar amounts of interest income from average interest-earning assets and interest expense on average interest-bearing liabilities and average yields and costs thereof. Such yields and costs for the periods indicated are derived by dividing income or expense by the average monthly balance of assets or liabilities, respectively, for the periods presented.

**Year Ended June 30,**

(Dollars In Thousands)	2013			2012			2011		
	Average Balance	Interest	Yield/ Cost	Average Balance	Interest	Yield/ Cost	Average Balance	Interest	Yield/ Cost
Interest-earning assets:									
Loans receivable, net <sup>(1)</sup>	\$ 994,494	\$ 42,905	4.31%	\$ 1,074,487	\$ 50,505	4.70%	\$ 1,108,087	\$ 57,442	5.18%
Investment securities	21,346	428	2.01%	24,402	528	2.16%	30,364	798	2.63%
FHLB – San Francisco stock	19,271	438	2.27%	24,683	99	0.39%	29,480	110	0.37%
Interest-earning deposits	155,243	390	0.25%	120,187	303	0.25%	134,953	339	0.25%
<b>Total interest-earning assets</b>	<b>1,190,354</b>	<b>44,161</b>	<b>3.71%</b>	<b>1,243,759</b>	<b>51,435</b>	<b>4.14%</b>	<b>1,302,884</b>	<b>58,689</b>	<b>4.50%</b>
Non interest-earning assets	46,723			46,479			59,002		
<b>Total assets</b>	<b>\$ 1,237,077</b>			<b>\$ 1,290,238</b>			<b>\$ 1,361,886</b>		
Interest-bearing liabilities:									
Checking and money market accounts <sup>(2)</sup>	\$ 287,234	400	0.14%	\$ 278,930	637	0.23%	\$ 261,392	1,019	0.39%
Savings accounts	228,165	578	0.25%	216,971	763	0.35%	206,402	1,142	0.55%
Time deposits	425,452	5,607	1.32%	462,106	7,015	1.52%	471,399	8,099	1.72%
<b>Total deposits</b>	<b>940,851</b>	<b>6,585</b>	<b>0.70%</b>	<b>958,007</b>	<b>8,415</b>	<b>0.88%</b>	<b>939,193</b>	<b>10,260</b>	<b>1.09%</b>
Borrowings	117,641	4,219	3.59%	167,299	6,290	3.76%	263,772	10,680	4.05%
<b>Total interest-bearing liabilities</b>	<b>1,058,492</b>	<b>10,804</b>	<b>1.02%</b>	<b>1,125,306</b>	<b>14,705</b>	<b>1.31%</b>	<b>1,202,965</b>	<b>20,940</b>	<b>1.74%</b>
Non interest-bearing liabilities	25,044			22,325			24,035		
<b>Total liabilities</b>	<b>1,083,536</b>			<b>1,147,631</b>			<b>1,227,000</b>		
Stockholders' equity	153,541			142,607			134,886		
<b>Total liabilities and stockholders' equity</b>	<b>\$ 1,237,077</b>			<b>\$ 1,290,238</b>			<b>\$ 1,361,886</b>		
<b>Net interest income</b>		<b>\$ 33,357</b>			<b>\$ 36,730</b>			<b>\$ 37,749</b>	
Interest rate spread <sup>(3)</sup>			2.69%			2.83%			2.76%
Net interest margin <sup>(4)</sup>			2.80%			2.95%			2.90%
Ratio of average interest-earning assets to average interest-bearing liabilities			112.46%			110.53%			108.31%

<sup>(1)</sup> Includes loans held for sale and non-performing loans, as well as net deferred loan costs of \$665, \$508 and \$543 for the years ended June 30, 2013, 2012 and 2011, respectively.

<sup>(2)</sup> Includes the average balance of non interest-bearing checking accounts of \$53.6 million, \$49.4 million and \$45.7 million in fiscal 2013, 2012 and 2011, respectively.

<sup>(3)</sup> Represents the difference between the weighted-average yield on all interest-earning assets and the weighted-average rate on all interest-bearing liabilities.

<sup>(4)</sup> Represents net interest income as a percentage of average interest-earning assets.

### Rate/Volume Variance

The following tables set forth the effects of changing rates and volumes on interest income and expense of the Corporation for the period presented. Information is provided with respect to the effects attributable to changes in volume (changes in volume multiplied



by prior rate), the effects attributable to changes in rate (changes in rate multiplied by prior volume) and the effects attributable to changes that cannot be allocated between rate and volume.

**Year Ended June 30, 2013 Compared  
To Year Ended June 30, 2012  
Increase (Decrease) Due to**

(In Thousands)	Rate	Volume	Rate/ Volume	Net
<b>Interest-earning assets:</b>				
Loans receivable <sup>(1)</sup>	\$ (4,152)	\$ (3,760)	\$ 312	\$ (7,600)
Investment securities	(39)	(66)	5	(100)
FHLB – San Francisco stock	462	(21)	(102)	339
Interest-bearing deposits	—	87	—	87
<b>Total net change in income on interest-earning assets</b>	<b>(3,729)</b>	<b>(3,760)</b>	<b>215</b>	<b>(7,274)</b>
<b>Interest-bearing liabilities:</b>				
Checking and money market accounts	(249)	19	(7)	(237)
Savings accounts	(213)	39	(11)	(185)
Time deposits	(924)	(557)	73	(1,408)
Borrowings	(288)	(1,867)	84	(2,071)
<b>Total net change in expense on interest-bearing liabilities</b>	<b>(1,674)</b>	<b>(2,366)</b>	<b>139</b>	<b>(3,901)</b>
<b>Net (decrease) increase in net interest income</b>	<b>\$ (2,055)</b>	<b>\$ (1,394)</b>	<b>\$ 76</b>	<b>\$ (3,373)</b>

<sup>(1)</sup> Includes loans held for sale and non-performing loans. For purposes of calculating volume, rate and rate/volume variances, non-performing loans were included in the weighted-average balance outstanding.

**Year Ended June 30, 2012 Compared  
To Year Ended June 30, 2011  
Increase (Decrease) Due to**

(In Thousands)	Rate	Volume	Rate/ Volume	Net
<b>Interest-earning assets:</b>				
Loans receivable <sup>(1)</sup>	\$ (5,358)	\$ (1,740)	\$ 161	\$ (6,937)
Investment securities	(141)	(157)	28	(270)
FHLB – San Francisco stock	8	(18)	(1)	(11)
Interest-bearing deposits	—	(36)	—	(36)
<b>Total net change in income on interest-earning assets</b>	<b>(5,491)</b>	<b>(1,951)</b>	<b>188</b>	<b>(7,254)</b>
<b>Interest-bearing liabilities:</b>				
Checking and money market accounts	(422)	68	(28)	(382)
Savings accounts	(416)	58	(21)	(379)
Time deposits	(943)	(160)	19	(1,084)
Borrowings	(763)	(3,907)	280	(4,390)
<b>Total net change in expense on interest-bearing liabilities</b>	<b>(2,544)</b>	<b>(3,941)</b>	<b>250</b>	<b>(6,235)</b>
<b>Net (decrease) increase in net interest income</b>	<b>\$ (2,947)</b>	<b>\$ 1,990</b>	<b>\$ (62)</b>	<b>\$ (1,019)</b>

<sup>(1)</sup> Includes loans held for sale and non-performing loans. For purposes of calculating volume, rate and rate/volume variances, non-performing loans were included in the weighted-average balance outstanding.

## **Liquidity and Capital Resources**

The Corporation's primary sources of funds are deposits, proceeds from the sale of loans originated and purchased for sale, proceeds from principal and interest payments on loans, proceeds from the maturity and sale of investment securities, proceeds from FHLB - San Francisco advances, and access to the discount window facility at the Federal Reserve Bank of San Francisco. While maturities and scheduled amortization of loans and investment securities are a relatively predictable source of funds, deposit flows, mortgage prepayments and loan sales are greatly influenced by general interest rates, economic conditions and competition.

The primary investing activity of the Bank has been the origination and purchase of loans held for investment and loans held for sale. During the fiscal years ended June 30, 2013, 2012 and 2011, the Bank originated loans in the amounts of \$3.58 billion, \$2.57 billion and \$2.15 billion, respectively, the vast majority of which were sold, as noted below. In addition, the Bank purchased loans for investment from other financial institutions in fiscal 2013, 2012 and 2011 in the amounts of \$12.8 million, \$8.2 million and \$7.1 million, respectively. Total loans sold in fiscal 2013, 2012 and 2011 were \$3.52 billion, \$2.47 billion and \$2.12 billion, respectively. At June 30, 2013, 2012 and 2011, the Bank had loan origination commitments totaling \$262.5 million, \$222.1 million and \$107.7 million, respectively, with undisbursed loan funds of \$292,000, \$0 and \$0, respectively. The Bank anticipates that it will have sufficient funds available to meet its current loan origination commitments.

The Bank's primary financing activity is gathering deposits. During the fiscal years ended June 30, 2013, 2012 and 2011, the net (decrease) increase in deposits was \$(38.4) million, \$15.6 million and \$12.9 million, respectively. On June 30, 2013, time deposits that are scheduled to mature in one year or less were \$255.6 million. Historically, the Bank has been able to retain a significant percentage of its time deposits as they mature by adjusting deposit rates to the current interest rate environment.

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. The Bank generally maintains sufficient cash and cash equivalents to meet short-term liquidity needs. At June 30, 2013, total cash and cash equivalents were \$193.8 million, or 16.0% of total assets. Depending on market conditions and the pricing of deposit products and FHLB - San Francisco advances, the Bank may continue to rely on FHLB - San Francisco advances for part of its liquidity needs. As of June 30, 2013, the remaining financing availability at FHLB - San Francisco was \$310.9 million and the remaining unused collateral was \$369.4 million. In addition, the Bank has secured a \$17.2 million discount window facility at the Federal Reserve Bank of San Francisco, collateralized by investment securities with a fair market value of \$18.1 million. As of June 30, 2013, there was no outstanding borrowing under the discount window facility.

The Bank's average liquidity ratio (defined as the ratio of average qualifying liquid assets to average deposits and borrowings) for the quarter ended June 30, 2013 increased to 41.1% from 38.4% during the same quarter ended June 30, 2012. The increase in the liquidity ratio was due primarily to management's decision to maintain relatively high liquidity as a result of recent market uncertainty and the timing difference between PBM loan originations and loan sale settlements. The increase in liquidity resulted in a lower net interest margin and lower net interest income because liquid assets generally yield lower rates of return than less liquid assets. The Bank augments its liquidity by maintaining sufficient borrowing capacity at the FHLB - San Francisco.

The Bank is required to maintain specific amounts of capital pursuant to OCC requirements. Under the OCC prompt corrective action provisions, minimum ratios of 5.0% for Tier 1 Leverage Capital, 10.0% for Total Risk-Based Capital and 6.0% for Tier 1 Risk-Based Capital is required to be deemed "well capitalized." As of June 30, 2013, the Bank exceeded the well capitalized requirements with Tier 1 Leverage Capital, Total Risk-Based Capital and Tier 1 Risk-Based Capital ratios of 13.1%, 22.6% and 21.4%, respectively.

## **Impact of Inflation and Changing Prices**

The Corporation's consolidated financial statements are prepared in accordance with generally accepted accounting principles, which require the measurement of financial position and operating results in terms of historical dollars without considering the changes in the relative purchasing power of money over time as a result of inflation. The impact of inflation is reflected in the increasing cost of the Corporation's operations. Unlike most industrial companies, nearly all assets and liabilities of the Corporation are monetary. As a result, interest rates have a greater impact on the Corporation's performance than do the effects of general levels of inflation. In addition, interest rates do not necessarily move in the direction, or to the same extent, as the prices of goods and services.

## **Impact of New Accounting Pronouncements**

Various elements of the Corporation's accounting policies, by their nature, are inherently subject to estimation techniques, valuation assumptions and other subjective assessments. In particular, management has identified several accounting policies that, as a result of the judgments, estimates and assumptions inherent in those policies, are important to an understanding of the financial statements of the Corporation. These policies relate to the methodology for the recognition of interest income, determination of the provision and allowance for loan losses, the estimated fair value of derivative financial instruments and the valuation of mortgage servicing rights and real estate owned. These policies and judgments, estimates and assumptions are described in greater detail in this Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and in the section entitled "Organization and Summary of Significant Accounting Policies" contained in Note 1 of the Notes to the Consolidated Financial Statements included in Item 8 of this Form 10-K. Management believes that judgments, estimates and assumptions used in the preparation of the financial statements are appropriate based on the factual circumstances at the time. However, because of the sensitivity of the financial statements to these critical accounting policies, changes to the judgments, estimates and assumptions used could result in material differences in the results of operations or financial condition.

## **Item 7A. Quantitative and Qualitative Disclosures about Market Risk**

**Quantitative Aspects of Market Risk.** The Corporation does not maintain a trading account for any class of financial instrument nor does it purchase high-risk derivative financial instruments. Furthermore, the Corporation is not subject to foreign currency exchange rate risk or commodity price risk. The primary market risk that the Corporation faces is interest rate risk. For information regarding the sensitivity to interest rate risk of the Corporation's interest-earning assets and interest-bearing liabilities, see "Interest Rate Risk" below and Item 1, "Business - Lending Activities - Maturity of Loans Held for Investment," "- Investment Securities Activities," and "- Deposit Activities and Other Sources of Funds - Time Deposits by Maturities" in this Form 10-K.

**Qualitative Aspects of Market Risk.** The Corporation's principal financial objective is to achieve long-term profitability while reducing its exposure to fluctuating interest rates. The Corporation has sought to reduce the exposure of its earnings to changes in interest rates by attempting to manage the repricing mismatch between interest-earning assets and interest-bearing liabilities. The principal element in achieving this objective is to increase the interest-rate sensitivity of the Corporation's interest-earning assets by retaining for its portfolio new loan originations with interest rates subject to periodic adjustment to market conditions and by selling fixed-rate, single-family mortgage loans. In addition, the Corporation maintains an investment portfolio, which is largely comprised of U.S. government agency MBS and U.S. government sponsored enterprise MBS with contractual maturities of up to 30 years that reprice frequently. The Corporation relies on retail deposits as its primary source of funds while utilizing FHLB - San Francisco advances as a secondary source of funding. Management believes retail deposits, unlike brokered deposits, reduce the effects of interest rate fluctuations because they generally represent a more stable source of funds. As part of its interest rate risk management strategy, the Corporation promotes transaction accounts and time deposits with terms up to five years. For additional information, see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Form 10-K.

**Interest Rate Risk.** The principal financial objective of the Corporation's interest rate risk management function is to achieve long-term profitability while limiting its exposure to the fluctuation of interest rates. The Corporation, through the Corporation's Asset-Liability Committee, has sought to reduce the exposure of its earnings to changes in interest rates by managing the repricing mismatch between interest-earning assets and interest-bearing liabilities. The principal element in achieving this objective is to manage the interest-rate sensitivity of the Corporation's assets by retaining loans with interest rates subject to periodic market adjustments. In addition, the Corporation maintains a liquid investment portfolio primarily comprised of U.S. government agency MBS and government sponsored enterprise MBS that reprice frequently. The Corporation relies on retail deposits as its primary source of funding while utilizing FHLB - San Francisco advances as a secondary source of funding which can be structured with favorable interest rate risk characteristics. As part of its interest rate risk management strategy, the Corporation promotes transaction accounts.

The Corporation produces an internal interest rate risk model that measures interest rate risk by modeling the change in Net Portfolio Value ("NPV") over a variety of interest rate scenarios. NPV is defined as the net present value of expected future cash flows from assets, liabilities and off-balance sheet contracts. The calculation is intended to illustrate the change in NPV that would occur in the event of an immediate change in interest rates of -100, +100, +200, +300 and +400 basis points with no effect given to any steps that management might take to counter the effect of the interest rate change.

The following table sets forth as of June 30, 2013 the estimated changes in NPV based on the indicated interest rate environment (dollars in thousands).

Basis Points ("bp") Change in Rates	Net Portfolio Value	NPV Change <sup>(1)</sup>	Portfolio Value of Assets	NPV as Percentage of Portfolio Value Assets <sup>(2)</sup>	Sensitivity Measure <sup>(3)</sup>
+400 bp	\$ 261,376	\$ 83,185	\$ 1,293,788	20.20%	+576 bp
+300 bp	\$ 242,934	\$ 64,743	\$ 1,280,098	18.98%	+454 bp
+200 bp	\$ 228,145	\$ 49,954	\$ 1,270,566	17.96%	+352 bp
+100 bp	\$ 206,471	\$ 28,280	\$ 1,255,209	16.45%	+201 bp
- bp	\$ 178,191	\$ —	\$ 1,233,699	14.44%	- bp
-100 bp	\$ 162,473	\$ (15,718)	\$ 1,223,001	13.28%	-116 bp

<sup>(1)</sup> Represents the increase (decrease) of the NPV at the indicated interest rate change in comparison to the NPV at June 30, 2013 ("base case").

<sup>(2)</sup> Calculated as the NPV divided by the portfolio value of total assets.

<sup>(3)</sup> Calculated as the change in the NPV ratio from the base case amount assuming the indicated change in interest rates (expressed in basis points).

The Corporation's balance sheet position as of June 30, 2013 can be summarized as follows: if interest rates increase, the NPV of the Corporation is expected to increase since almost all of the Corporation's loans held for investment are adjustable rate loans. Conversely, if the interest rates decrease, the NPV of the Corporation is expected to decrease.

The following table is derived from the internal interest rate risk model and represents the change in the NPV at a -100 basis point rate shock at June 30, 2013 and 2012.

	At June 30, 2013 (-100 bp rate shock)	At June 30, 2012 (-100 bp rate shock)
Pre-Shock NPV Ratio: NPV as a % of PV Assets	14.44%	12.00%
Post-Shock NPV Ratio: NPV as a % of PV Assets	13.28%	12.08%
Sensitivity Measure: Change in NPV Ratio	116 bp	8 bp
TB 13a Level of Risk	Minimal	Minimal

As with any method of measuring interest rate risk, certain shortcomings are inherent in the method of analysis presented in the foregoing tables. 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 of assets and liabilities may lag behind changes in market interest rates. Additionally, certain assets, such as adjustable rate mortgage ("ARM") loans, have features that restrict changes in interest rates on a short-term basis and over the life of the asset. Further, in the event of a change in interest rates, expected rates of prepayments on loans and early withdrawals from time deposits could likely deviate significantly from those assumed when calculating the results described in the tables above. It is also possible that, as a result of an interest rate increase, the higher mortgage payments required from ARM borrowers could result in an increase in delinquencies and defaults. Changes in market interest rates may also affect the volume and profitability of the Corporation's mortgage banking operations. Accordingly, the data presented in the tables in this section should not be relied upon as indicative of actual results in the event of changes in interest rates. Furthermore, the NPV presented in the foregoing tables is not intended to present the fair market value of the Corporation, nor does it represent amounts that would be available for distribution to shareholders in the event of the liquidation of the Corporation.

The Corporation also models the sensitivity of net interest income for the 12-month period subsequent to any given month-end assuming a dynamic balance sheet (accounting for the Corporation's current balance sheet, 12-month business plan, embedded options, rate floors, periodic caps, lifetime caps, and loan, investment, deposit and borrowing cash flows, among others), and

immediate, permanent and parallel movements in interest rates of plus 400, 300, 200 and 100 and minus 100 basis points. The following table describes the results of the analysis at June 30, 2013 and 2012.

At June 30, 2013		At June 30, 2012	
Basis Point (bp) Change in Rates	Change in Net Interest Income	Basis Point (bp) Change in Rates	Change in Net Interest Income
+400 bp	16.40%	+400 bp	29.57%
+300 bp	19.68%	+300 bp	30.42%
+200 bp	14.30%	+200 bp	23.10%
+100 bp	10.14%	+100 bp	18.09%
-100 bp	(16.81)%	-100 bp	(4.69)%

At both June 30, 2013 and 2012, the Corporation was asset sensitive as its interest-earning assets are expected to reprice more quickly than its interest-bearing liabilities during the subsequent 12-month period. Therefore, in a rising interest rate environment, the model projects an increase in net interest income over the subsequent 12-month period. In a falling interest rate environment, the results project a decrease in net interest income over the subsequent 12-month period.

Management believes that the assumptions used to complete the analysis described in the table above are reasonable. However, past experience has shown that immediate, permanent and parallel movements in interest rates will not necessarily occur. Additionally, while the analysis provides a tool to evaluate the projected net interest income to changes in interest rates, actual results may be substantially different if actual experience differs from the assumptions used to complete the analysis, particularly with respect to the 12-month business plan when asset growth is forecast. Therefore, the model results that the Corporation discloses should be thought of as a risk management tool to compare the trends of the Corporation's current disclosure to previous disclosures, over time, within the context of the actual performance of the treasury yield curve.

#### **Item 8. Financial Statements and Supplementary Data**

Please refer to the Consolidated Financial Statements and Notes to Consolidated Financial Statements in this Form 10-K and incorporated into this Item 8 by reference.

#### **Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure**

None.

#### **Item 9A. Controls and Procedures**

- a) An evaluation of the Corporation's disclosure controls and procedures (as defined in Section 13a-15(e) or 15d-15(e) of the Securities Exchange Act of 1934 (the "Act")) was carried out under the supervision and with the participation of the Corporation's Chief Executive Officer, Chief Financial Officer and the Corporation's Disclosure Committee as of the end of the period covered by this quarterly report. In designing and evaluating the Corporation's disclosure controls and procedures, management recognizes that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Also, because of the inherent limitations in all control procedures, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Corporation have been detected. Additionally, in designing disclosure controls and procedures, management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any disclosure controls and procedures is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Based on their evaluation, the Corporation's Chief Executive Officer and Chief Financial Officer concluded that the Corporation's disclosure controls and procedures as of June 30, 2013 are effective, at the reasonable assurance level, in ensuring that the information required to be disclosed by the Corporation in the reports it files or submits under the Act is (i) accumulated and communicated to the Corporation's management (including the Chief Executive Officer

and Chief Financial Officer) in a timely manner, and (ii) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

- b) There have been no changes in the Corporation's internal control over financial reporting (as defined in Rule 13a-15(f) of the Act) that occurred during the quarter ended June 30, 2013, that has materially affected, or is reasonably likely to materially affect, the Corporation's internal control over financial reporting. The Corporation does not expect that its internal control over financial reporting will prevent all error and all fraud. A control procedure, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control procedure are met. Because of the inherent limitations in all control procedures, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Corporation have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any control procedure is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control procedure, misstatements due to error or fraud may occur and not be detected.

### **Management Report on Internal Control Over Financial Reporting**

Management of Provident Financial Holdings, Inc. and subsidiary (the "Corporation") is responsible for establishing and maintaining adequate internal control over financial reporting. The Corporation's internal control over financial reporting was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

To comply with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002, the Corporation designed and implemented a structured and comprehensive assessment process to evaluate its internal control over financial reporting across the enterprise. The assessment of the effectiveness of the Corporation's internal control over financial reporting was based on criteria established in *Internal Control-Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management's assessment of the Corporation's internal control over financial reporting was also conducted to meet the reporting requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA), which include controls over the preparation of the schedules equivalent to the basic financial statements in accordance with the Office of the Comptroller of the Currency Instructions for Call Reports for Balance Sheet (Schedule RC), Income Statement (Schedule RI) and Changes in Bank Equity Capital (Schedule RI-A).

Because of its inherent limitations, including the possibility of human error and the circumvention of overriding controls, a system of internal control over financial reporting can provide only reasonable assurance and may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Based on its assessment, management has concluded that the Corporation's internal control over financial reporting was effective as of June 30, 2013.

The effectiveness of internal control over financial reporting as of June 30, 2013, has been audited by Deloitte & Touche LLP, the independent registered public accounting firm who also audited the Corporation's consolidated financial statements. Deloitte & Touche LLP's attestation report on the Corporation's internal control over financial reporting follows.

The management of the Corporation has assessed the Corporation's compliance with the Federal laws and regulations pertaining to insider loans and the Federal and, if applicable, State laws and regulations pertaining to dividend restrictions during the fiscal year that ended on June 30, 2013. Management has concluded that the Corporation complied with the Federal laws and regulations pertaining to insider loans and the Federal and, if applicable, State laws and regulations pertaining to dividend restrictions during the fiscal year that ended on June 30, 2013.

Date: September 13, 2013

/s/ Craig G. Blunden  
Craig G. Blunden  
Chairman and Chief Executive Officer

/s/ Donavon P. Ternes  
Donavon P. Ternes  
President, Chief Operating Officer and  
Chief Financial Officer

## **Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Stockholders of  
Provident Financial Holdings, Inc.  
Riverside, California

We have audited the internal control over financial reporting of Provident Financial Holdings, Inc. and subsidiary (the "Corporation") as of June 30, 2013, based on criteria established in *Internal Control - Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Because management's assessment and our audit were conducted to meet the reporting requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA), management's assessment and our audit of the Corporation's internal control over financial reporting included controls over the preparation of the schedules equivalent to the basic financial statements in accordance with the instructions for the Office of the Comptroller of the Currency Instructions for Call Reports for Balance Sheet on schedule RC, Income Statement on schedule RI, and Changes in Bank Equity Capital on schedule RI-A. The Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Corporation's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Corporation maintained, in all material respects, effective internal control over financial reporting as of June 30, 2013, based on the criteria established in *Internal Control - Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have not examined and, accordingly, we do not express an opinion or any other form of assurance on management's statement referring to compliance with laws and regulations.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended June 30, 2013 of the Corporation and our report dated September 13, 2013 expressed an unqualified opinion on those consolidated financial statements.

/s/ Deloitte & Touche LLP  
Los Angeles, California  
September 13, 2013

### **Item 9B. Other Information**

Not applicable.

## **PART III**

### **Item 10. Directors, Executive Officers and Corporate Governance**

The information required by this item regarding the Corporation's Board of Directors is incorporated herein by reference from the section captioned "Proposal I – Election of Directors" in the Corporation's Proxy Statement, a copy of which will be filed with the Securities and Exchange Commission no later than 120 days after the Corporation's fiscal year end.

The executive officers of the Corporation and the Bank are elected annually and hold office until their respective successors have been elected and qualified or until death, resignation or removal by the Board of Directors. For information regarding the Corporation's executive officers, see Item 1, "Business - Executive Officers" in this Form 10-K.

#### **Compliance with Section 16(a) of the Exchange Act**

The information required by this item is incorporated herein by reference from the section captioned "Compliance with Section 16(a) of the Exchange Act" in the Corporation's Proxy Statement, a copy of which will be filed with the Securities and Exchange Commission no later than 120 days after the Corporation's fiscal year end.

#### **Code of Ethics for Senior Financial Officers**

The Corporation has adopted a Code of Ethics, which applies to all directors, officers, and employees of the Corporation. The Code of Ethics is publicly available as Exhibit 14 to the Corporation's Annual Report on Form 10-K for the fiscal year June 30, 2007, and is available on the Corporation's website, [www.myprovident.com](http://www.myprovident.com). If the Corporation makes any substantial amendments to the Code of Ethics or grants any waiver, including any implicit waiver, from a provision of the Code to the Corporation's Chief Executive Officer, Chief Financial Officer or Controller, the Corporation will disclose the nature of such amendment or waiver on the Corporation's website and in a report on Form 8-K.

#### **Audit Committee and Audit Committee Financial Expert**

The Corporation has a separately-designated standing audit committee established in accordance with section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended. The audit committee consists of three independent directors of the Corporation: Joseph P. Barr, Judy A. Carpenter and Debbi H. Guthrie. The Corporation has designated Joseph P. Barr, Audit Committee Chairman, as its audit committee financial expert. Mr. Barr is independent, as independence for audit committee members is defined under the listing standards of the NASDAQ Stock Market, a Certified Public Accountant in California and Ohio and has been practicing public accounting for over 40 years.

#### **Nominating Procedures**

There have been no material changes to the procedures by which shareholders may recommend nominees to our Board of Directors since last disclosed to shareholders.



### **Item 11. Executive Compensation**

The information required by this item is incorporated herein by reference from the sections captioned “Executive Compensation” and “Directors’ Compensation” in the Proxy Statement, a copy of which will be filed with the Securities and Exchange Commission no later than 120 days after the Corporation’s fiscal year end.

### **Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

#### (a) Security Ownership of Certain Beneficial Owners.

The information required by this item is incorporated herein by reference from the section captioned “Security Ownership of Certain Beneficial Owners and Management” in the Corporation’s Proxy Statement, a copy of which will be filed with the Securities and Exchange Commission no later than 120 days after the Corporation’s fiscal year end.

#### (b) Security Ownership of Management.

The information required by this item is incorporated herein by reference from the sections captioned “Security Ownership of Certain Beneficial Owners and Management” and “Proposal I - Election of Directors” in the Corporation’s Proxy Statement, a copy of which will be filed with the Securities and Exchange Commission no later than 120 days after the Corporation’s fiscal year end.

#### (c) Changes In Control.

The Corporation is not aware of any arrangements, including any pledge by any person of securities of the Corporation, the operation of which may at a subsequent date result in a change in control of the Corporation.

#### (d) Equity Compensation Plan Information.

The information required by this item is incorporated herein by reference from the section captioned “Executive Compensation – Equity Compensation Plan Information” in the Corporation’s Proxy Statement, a copy of which will be filed with the Securities and Exchange Commission no later than 120 days after the Corporation’s fiscal year end.

### **Item 13. Certain Relationships and Related Transactions, and Director Independence**

The information required by this item is incorporated herein by reference from the section captioned “Transactions with Management” in the Corporation’s Proxy Statement, a copy of which will be filed with the Securities and Exchange Commission no later than 120 days after the Corporation’s fiscal year end.

### **Item 14. Principal Accountant Fees and Services**

The information required by this item is incorporated herein by reference from the section captioned “Proposal II - Approval of Appointment of Independent Auditors” in the Corporation’s Proxy Statement, a copy of which will be filed with the Securities and Exchange Commission no later than 120 days after the Corporation’s fiscal year end.

## **PART IV**

### **Item 15. Exhibits, Financial Statement Schedules.**

#### (a) 1. Financial Statements

See Exhibit 13 to Consolidated Financial Statements beginning on this Form 10-K.

#### 2. Financial Statement Schedules

Schedules to the Consolidated Financial Statements have been omitted as the required information is inapplicable.

(b) Exhibits

Exhibits are available from the Corporation by written request

- 3.1 (a) Certificate of Incorporation of Provident Financial Holdings, Inc. (incorporated by reference to Exhibit 3.1 to the Corporation's Registration Statement on Form S-1 (File No. 333-2230))
- 3.1 (b) Certificate of Amendment to Certificate of Incorporation of Provident Financial Holdings, Inc. as filed with the Delaware Secretary of State on November 24, 2009
- 3.1 (c) Bylaws of Provident Financial Holdings, Inc. (incorporated by reference to Exhibit 3.1 to the Corporation's Current Report on Form 8-K filed on August 5, 2013)
- 10.1 Employment Agreement with Craig G. Blunden (incorporated by reference to Exhibit 10.1 to the Corporation's Form 8-K dated December 19, 2005)
- 10.2 Post-Retirement Compensation Agreement with Craig G. Blunden (incorporated by reference to Exhibit 10.2 to the Corporation's Form 8-K dated December 19, 2005)
- 10.3 1996 Stock Option Plan (incorporated by reference to Exhibit A to the Corporation's proxy statement dated December 12, 1996)
- 10.4 1996 Management Recognition Plan (incorporated by reference to Exhibit B to the Corporation's proxy statement dated December 12, 1996)
- 10.5 Form of Severance Agreement with Richard L. Gale, Kathryn R. Gonzales, Lilian Salter, Donavon P. Ternes and David S. Weiant (incorporated by reference to Exhibit 10.1 and 10.2 in the Corporation's Form 8-K dated February 24, 2012)
- 10.6 2003 Stock Option Plan (incorporated by reference to Exhibit A to the Corporation's proxy statement dated October 21, 2003)
- 10.7 Form of Incentive Stock Option Agreement for options granted under the 2003 Stock Option Plan (incorporated by reference to Exhibit 10.13 to the Corporation's Annual Report on Form 10-K for the fiscal year June 30, 2005).
- 10.8 Form of Non-Qualified Stock Option Agreement for options granted under the 2003 Stock Option Plan (incorporated by reference to Exhibit 10.14 to the Corporation's Annual Report on Form 10-K for the fiscal year June 30, 2005).
- 10.9 2006 Equity Incentive Plan (incorporated by reference to Exhibit A to the Corporation's proxy statement dated October 12, 2006)
- 10.1 Form of Incentive Stock Option Agreement for options granted under the 2006 Equity Incentive Plan (incorporated by reference to Exhibit 10.10 in the Corporation's Form 10-Q for the quarter ended December 31, 2006)
- 10.1 Form of Non-Qualified Stock Option Agreement for options granted under the 2006 Equity Incentive Plan (incorporated by reference to Exhibit 10.11 in the Corporation's Form 10-Q for the quarter ended December 31, 2006)
- 10.1 Form of Restricted Stock Agreement for restricted shares awarded under the 2006 Equity Incentive Plan (incorporated by reference to Exhibit 10.12 in the Corporation's Form 10-Q for the quarter ended December 31, 2006)

- 10.1 2010 Equity Incentive Plan (incorporated by reference to Exhibit A to the Corporation's proxy statement dated October 28, 2010)
- 10.1 Form of Incentive Stock Option Agreement for options granted under the 2010 Equity Incentive Plan (incorporated by reference to Exhibit 10.1 in the Corporation's Form 8-K dated November 30, 2010)
- 10.2 Form of Non-Qualified Stock Option Agreement for options granted under the 2010 Equity Incentive Plan (incorporated by reference to Exhibit 10.2 in the Corporation's Form 8-K dated November 30, 2010)
- 10.2 Form of Restricted Stock Agreement for restricted shares awarded under the 2010 Equity Incentive Plan (incorporated by reference to Exhibit 10.3 in the Corporation's Form 8-K dated November 30, 2010)
- 10.2 Post-Retirement Compensation Agreement with Donavon P. Ternes (incorporated by reference to Exhibit 10.13 to the Corporation's Form 8-K dated July 7, 2009)
- 14.0 Code of Ethics for the Corporation's directors, officers and employees (incorporated by reference to Exhibit 14 in the Corporation's Annual Report on Form 10-K dated September 12, 2007)
- 31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 101 The following materials from the Corporation's Annual Report on Form 10-K for the fiscal year ended June 30, 2013, formatted in Extensible Business Reporting Language (XBRL): (1) Consolidated Statements of Financial Condition; (2) Consolidated Statements of Operations; (3) Consolidated Statements of Comprehensive Income; (4) Consolidated Statements of Stockholders' Equity; (5) Consolidated Statements of Cash Flows; and (6) Selected Notes to Consolidated Financial Statements.\*

(\*) Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: September 13, 2013

Provident Financial Holdings, Inc.

/s/ Craig G. Blunden  
Craig G. Blunden  
Chairman and Chief Executive Officer

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

<u>SIGNATURES</u>	<u>TITLE</u>	<u>DATE</u>
<u>/s/ Craig G. Blunden</u> Craig G. Blunden	Chairman and Chief Executive Officer (Principal Executive Officer)	September 13, 2013
<u>/s/ Donavon P. Ternes</u> Donavon P. Ternes	President, Chief Operating Officer and Chief Financial Officer (Principal Financial and Accounting Officer)	September 13, 2013
<u>/s/ Joseph P. Barr</u> Joseph P. Barr	Director	September 13, 2013
<u>/s/ Bruce W. Bennett</u> Bruce W. Bennett	Director	September 13, 2013
<u>/s/ Judy A. Carpenter</u> Judy A. Carpenter	Director	September 13, 2013
<u>/s/ Debbi H. Guthrie</u> Debbi H. Guthrie	Director	September 13, 2013
<u>/s/ Roy H. Taylor</u> Roy H. Taylor	Director	September 13, 2013
<u>/s/ William E. Thomas</u> William E. Thomas	Director	September 13, 2013

**Provident Financial Holdings, Inc.**  
**Consolidated Financial Statements**

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## Report of Independent Registered Public Accounting Firm

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To the Board of Directors and Stockholders of  
Provident Financial Holdings, Inc.  
Riverside, California

We have audited the accompanying consolidated statements of financial condition of Provident Financial Holdings, Inc. and subsidiary (the "Corporation") as of June 30, 2013 and 2012, and the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended June 30, 2013. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Provident Financial Holdings, Inc. and subsidiary as of June 30, 2013 and 2012, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2013, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Corporation's internal control over financial reporting as of June 30, 2013, based on the criteria established in *Internal Control - Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated September 13, 2013, expressed an unqualified opinion on the Corporation's internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP

Los Angeles, California  
September 13, 2013

**PROVIDENT FINANCIAL HOLDINGS, INC.**  
**Consolidated Statements of Financial Condition**

(In Thousands, Except Share Information)	June 30, 2013	June 30, 2012
<b>Assets</b>		
Cash and cash equivalents	\$ 193,839	\$ 145,136
Investment securities – available for sale, at fair value	19,510	22,898
Loans held for investment, net of allowance for loan losses of \$14,935 and \$21,483, respectively	748,397	796,836
Loans held for sale, at fair value	188,050	231,639
Accrued interest receivable	2,992	3,277
Real estate owned, net	2,296	5,489
Federal Home Loan Bank (“FHLB”) – San Francisco stock	15,273	22,255
Premises and equipment, net	6,691	6,600
Prepaid expenses and other assets	33,993	26,787
<b>Total assets</b>	<b>\$ 1,211,041</b>	<b>\$ 1,260,917</b>
<b>Liabilities and Stockholders’ Equity</b>		
<b>Liabilities:</b>		
Non interest-bearing deposits	\$ 57,835	\$ 55,688
Interest-bearing deposits	865,175	905,723
<b>Total deposits</b>	<b>923,010</b>	<b>961,411</b>
Borrowings	106,491	126,546
Accounts payable, accrued interest and other liabilities	21,566	28,183
<b>Total liabilities</b>	<b>1,051,067</b>	<b>1,116,140</b>
Commitments and Contingencies (Note 14)		
<b>Stockholders’ equity:</b>		
Preferred stock, \$.01 par value (2,000,000 shares authorized; none issued and outstanding)	—	—
Common stock, \$.01 par value (40,000,000 shares authorized; 17,661,865 and 17,619,865 shares issued; 10,386,399 and 10,856,027 shares outstanding, respectively)	177	176
Additional paid-in capital	87,742	86,758
Retained earnings	179,816	156,560
Treasury stock at cost (7,275,466 and 6,763,838 shares, respectively)	(108,315)	(99,343)
Accumulated other comprehensive income, net of tax	554	626
<b>Total stockholders’ equity</b>	<b>159,974</b>	<b>144,777</b>
<b>Total liabilities and stockholders’ equity</b>	<b>\$ 1,211,041</b>	<b>\$ 1,260,917</b>

The accompanying notes are an integral part of these consolidated financial statements.

**PROVIDENT FINANCIAL HOLDINGS, INC.**  
**Consolidated Statements of Operations**

(In Thousands, Except Per Share Information)	Year Ended June 30,		
	2013	2012	2011
<b>Interest income:</b>			
Loans receivable, net	\$ 42,905	\$ 50,505	\$ 57,442
Investment securities	428	528	798
FHLB – San Francisco stock	438	99	110
Interest-earning deposits	390	303	339
<b>Total interest income</b>	<b>44,161</b>	<b>51,435</b>	<b>58,689</b>
<b>Interest expense:</b>			
Deposits	6,585	8,415	10,260
Borrowings	4,219	6,290	10,680
<b>Total interest expense</b>	<b>10,804</b>	<b>14,705</b>	<b>20,940</b>
<b>Net interest income</b>	<b>33,357</b>	<b>36,730</b>	<b>37,749</b>
(Recovery) provision for loan losses	(1,499)	5,777	5,465
<b>Net interest income, after (recovery) provision for loan losses</b>	<b>34,856</b>	<b>30,953</b>	<b>32,284</b>
<b>Non-interest income:</b>			
Loan servicing and other fees	1,093	733	892
Gain on sale of loans, net	68,493	38,017	31,194
Deposit account fees	2,449	2,438	2,504
Gain (loss) on sale and operations of real estate owned acquired in the settlement of loans, net	916	(120)	(1,351)
Gain on sale of premises and equipment	—	—	1,089
Card and processing fees	1,292	1,282	1,274
Other	957	800	755
<b>Total non-interest income</b>	<b>75,200</b>	<b>43,150</b>	<b>36,357</b>
<b>Non-interest expense:</b>			
Salaries and employee benefits	50,450	39,283	29,966
Premises and occupancy	4,432	3,763	3,270
Equipment expense	1,830	1,488	1,526
Professional expense	1,858	1,904	1,669
Sales and marketing expense	1,859	1,187	672
Deposit insurance premium and regulatory assessments	1,066	1,296	2,610
Other	5,848	6,444	5,659
<b>Total non-interest expense</b>	<b>67,343</b>	<b>55,365</b>	<b>45,372</b>
<b>Income before income taxes</b>	<b>42,713</b>	<b>18,738</b>	<b>23,269</b>
Provision for income taxes	16,916	7,928	10,049
<b>Net income</b>	<b>\$ 25,797</b>	<b>\$ 10,810</b>	<b>\$ 13,220</b>
<b>Basic earnings per share</b>	<b>\$ 2.43</b>	<b>\$ 0.96</b>	<b>\$ 1.16</b>
<b>Diluted earnings per share</b>	<b>\$ 2.38</b>	<b>\$ 0.96</b>	<b>\$ 1.16</b>
<b>Cash dividends per share</b>	<b>\$ 0.24</b>	<b>\$ 0.14</b>	<b>\$ 0.04</b>

The accompanying notes are an integral part of these consolidated financial statements.



**PROVIDENT FINANCIAL HOLDINGS, INC.**  
**Consolidated Statements of Comprehensive Income**

(In Thousands)	Year Ended June 30,		
	2013	2012	2011
Net income	\$ 25,797	\$ 10,810	\$ 13,220
Change in unrealized holding losses on securities available for sale and interest-only strips	(124)	(21)	(50)
Reclassification of (gains) losses to net income	—	—	—
Other comprehensive loss, before income tax benefit	(124)	(21)	(50)
Income tax benefit	52	9	21
Other comprehensive loss	(72)	(12)	(29)
Total comprehensive income	\$ 25,725	\$ 10,798	\$ 13,191

The accompanying notes are an integral part of these consolidated financial statements.

**PROVIDENT FINANCIAL HOLDINGS, INC.**  
**Consolidated Statements of Stockholders' Equity**

(In Thousands, Except Share Information)	Common Stock		Additional Paid-In Capital	Retained Earnings	Treasury Stock	Unearned Stock Compensation	Accumulated Other Compre- hensive Income (Loss), Net of Tax	Total
	Shares	Amount						
Balance at June 30, 2010	11,406,654	\$ 176	\$ 85,663	\$ 134,558	\$ (93,942)	\$ (203)	\$ 667	\$ 126,919
Net income				13,220				13,220
Other comprehensive loss							(29)	(29)
Distribution of restricted stock	12,000							—
Amortization of restricted stock			477					477
Award of restricted stock			(1,292)		1,292			—
Stock options expense			481					481
Allocation of contribution to ESOP			103			203		306
Cash dividends				(456)				(456)
Balance at June 30, 2011	11,418,654	176	85,432	147,322	(92,650)	—	638	140,918
Net income				10,810				10,810
Other comprehensive loss							(12)	(12)
Purchase of treasury stock <sup>(1)</sup>	(683,127)				(6,693)			(6,693)
Distribution of restricted stock	111,500							—
Amortization of restricted stock			609					609
Exercise of stock options	9,000		72					72
Stock options expense			645					645
Cash dividends				(1,572)				(1,572)
Balance at June 30, 2012	10,856,027	176	86,758	156,560	(99,343)	—	626	144,777
Net income				25,797				25,797
Other comprehensive loss							(72)	(72)
Purchase of treasury stock <sup>(1)</sup>	(584,678)				(8,959)			(8,959)
Forfeiture of restricted stock			13		(13)			—
Distribution of restricted stock	73,050							—
Amortization of restricted stock			310					310
Exercise of stock options	42,000	1	295					296
Stock options expense			458					458
Tax effect from stock-based compensation			(92)					(92)
Cash dividends				(2,541)				(2,541)
Balance at June 30, 2013	10,386,399	\$ 177	\$ 87,742	\$ 179,816	\$ (108,315)	\$ —	\$ 554	\$ 159,974

<sup>(1)</sup> Includes the repurchase of 12,779 shares in fiscal 2012 and 13,591 shares in fiscal 2013 of distributed restricted stock.

The accompanying notes are an integral part of these consolidated financial statements.

**PROVIDENT FINANCIAL HOLDINGS, INC.**  
**Consolidated Statements of Cash Flows**

(In Thousands)	Year Ended June 30,		
	2013	2012	2011
<b>Cash flows from operating activities:</b>			
Net income	\$ 25,797	\$ 10,810	\$ 13,220
Adjustments to reconcile net income to net cash provided by (used for) operating activities:			
Depreciation and amortization	1,746	1,357	1,417
(Recovery) provision for loan losses	(1,499)	5,777	5,465
Recovery of losses on real estate owned	(98)	(1,002)	(166)
Gain on sale of loans, net	(68,493)	(38,017)	(31,194)
(Gain) loss on sale of real estate owned, net	(1,213)	287	(185)
Gain on sale of premises and equipment, net	—	—	(1,080)
Stock-based compensation	768	1,254	958
ESOP expense	—	—	304
Provision for deferred income taxes	4,275	1,282	3,922
Tax effect from stock-based compensation	92	—	—
Increase (decrease) in accounts payable, accrued interest and other liabilities	1,051	2,372	(1,731)
Decrease in prepaid expenses and other assets	2,589	2,688	1,471
Loans originated for sale	(3,496,531)	(2,516,637)	(2,143,543)
Proceeds from sale of loans	3,586,581	2,517,505	2,148,728
Net cash provided by (used for) operating activities	55,065	(12,324)	(2,414)
<b>Cash flows from investing activities:</b>			
Decrease in loans held for investment, net	40,816	62,149	85,769
Maturity and calls of investment securities	—	—	3,250
Principal payments from investment securities	3,295	3,341	5,534
Redemption of FHLB – San Francisco stock	6,982	4,721	4,819
Proceeds from sale of real estate owned	13,408	19,895	38,750
Proceeds from the sale of premises and equipment	—	—	2,189
Purchase of premises and equipment	(1,111)	(2,595)	(879)
Net cash provided by investing activities	63,390	87,511	139,432

(Continued)

The accompanying notes are an integral part of these consolidated financial statements.

**PROVIDENT FINANCIAL HOLDINGS, INC.**  
**Consolidated Statements of Cash Flows**

(In Thousands)	Year Ended June 30,		
	2013	2012	2011
<b>Cash flows from financing activities:</b>			
(Decrease) increase in deposits, net	(38,401)	15,644	12,834
Proceeds from long-term borrowings	—	10,000	30,000
Repayments of long-term borrowings	(20,055)	(90,052)	(133,049)
ESOP loan payment	—	—	2
Treasury stock purchases	(8,959)	(6,693)	—
Exercise of stock options	296	72	—
Tax effect from stock-based compensation	(92)	—	—
Cash dividends	(2,541)	(1,572)	(456)
Net cash used for financing activities	(69,752)	(72,601)	(90,669)
Net increase in cash and cash equivalents	48,703	2,586	46,349
Cash and cash equivalents at beginning of year	145,136	142,550	96,201
Cash and cash equivalents at end of year	\$ 193,839	\$ 145,136	\$ 142,550
<b>Supplemental information:</b>			
Cash paid for interest	\$ 10,935	\$ 15,249	\$ 21,582
Cash paid for income taxes	\$ 15,195	\$ 5,110	\$ 8,380
Transfer of loans held for sale to held for investment	\$ 4,601	\$ 2,567	\$ 283
Real estate acquired in the settlement of loans	\$ 10,976	\$ 24,113	\$ 47,316

The accompanying notes are an integral part of these consolidated financial statements.

**Provident Financial Holdings, Inc.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2013**

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**Note 1: Organization and Summary of Significant Accounting Policies**

**Basis of presentation**

The consolidated financial statements include the accounts of Provident Financial Holdings, Inc., and its wholly owned subsidiary, Provident Savings Bank, F.S.B. (collectively, the “Corporation”). All inter-company balances and transactions have been eliminated.

Provident Savings Bank, F.S.B. (the “Bank”) converted from a federally chartered mutual savings bank to a federally chartered stock savings bank effective June 27, 1996. Provident Financial Holdings, Inc., a Delaware corporation organized by the Bank, acquired all of the capital stock of the Bank issued in the conversion; the transaction was recorded on a book value basis.

The Corporation operates in two business segments: community banking through the Bank and mortgage banking through Provident Bank Mortgage (“PBM”), a division of Provident Bank. The Bank’s activities include attracting deposits, offering banking services and originating multi-family, commercial real estate, commercial business and, to a lesser extent, construction and consumer loans. Deposits are collected primarily from 15 banking locations located in Riverside and San Bernardino counties in California. PBM’s activities include originating single-family loans, primarily first mortgages for sale to investors and to a lesser extent, for investment by the Bank. Loans are primarily originated in Southern California and Northern California by loan agents employed by the Bank, from its banking locations and freestanding lending offices. PBM operates wholesale loan production offices in Pleasanton and Rancho Cucamonga, California and retail loan production offices in City of Industry, Escondido, Fairfield, Glendora, Hermosa Beach, Pleasanton, Rancho Cucamonga (2), Riverside (4), Roseville, San Diego, San Rafael, Santa Barbara, Stockton and Westlake Village, California.

**Use of estimates**

The accounting and reporting policies of the Corporation conform to generally accepted accounting principles in the United States of America (“GAAP”). The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the valuation of deferred tax assets, the valuation of loan servicing assets, the valuation of real estate owned, the determination of the loan repurchase reserve, the valuation of derivative financial instruments and deferred compensation costs.

The following accounting policies, together with those disclosed elsewhere in the consolidated financial statements, represent the significant accounting policies of Provident Financial Holdings, Inc. and the Bank.

**Cash and cash equivalents**

Cash and cash equivalents include cash on hand and due from banks, as well as overnight deposits placed at correspondent banks.

**Investment securities**

The Corporation classifies its qualifying investments as available for sale or held to maturity. The Corporation’s policy of classifying investments as held to maturity is based upon its ability and management’s positive intent to hold such securities to maturity. Securities expected to be held to maturity are carried at amortized historical cost. All other securities are classified as available for sale and are carried at fair value. Fair value is determined based upon quoted market prices. Changes in net unrealized gains (losses) on securities available for sale are included in accumulated other comprehensive income, net of tax. Gains and losses on dispositions of investment securities are included in non-interest income and are determined using the specific identification method. Purchase premiums and discounts are amortized over the expected average life of the securities using the effective interest method.

Investment securities are reviewed annually for possible other-than-temporary impairment (“OTTI”). For debt securities, an OTTI is evident if the Corporation intends to sell the debt security or will more likely than not be required to sell the debt security before full recovery of the entire amortized cost basis is realized. However, even if the Corporation does not intend to sell the debt security and will not likely be required to sell the debt security before recovery of its entire amortized cost basis, the Corporation must evaluate expected cash flows to be received and determine if a credit loss has occurred. In the event of a credit loss, the credit component of the impairment is recognized within non-interest income and the non-credit component is recognized through accumulated other comprehensive income, net of tax. For equity securities, management evaluates the securities in an unrealized

**Provident Financial Holdings, Inc.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2013**

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loss position in the available-for-sale portfolio for OTTI on the basis of the duration of the decline in value of the security and severity of that decline as well as the Corporation's intent and ability to hold these securities for a period of time sufficient to allow for any anticipated recovery in the market value. If it is determined that the impairment on an equity security is other than temporary, an impairment loss equal to the difference between the carrying value of the security and its fair value is recognized within non-interest income.

**PBM activities**

Mortgage loans are originated for both investment and sale to the secondary market. Since the Corporation is primarily a single-family adjustable-rate mortgage ("ARM") lender for its own portfolio, a high percentage of fixed-rate loans are originated for sale to institutional investors.

Accounting Standards Codification ("ASC") No. 825, "Financial Instruments," allows for the option to report certain financial assets and liabilities at fair value initially and at subsequent measurement dates with changes in fair value included in earnings. The option may be applied instrument by instrument, but it is irrevocable. The Corporation has elected the fair value option on PBM loans held for sale. Fair value is generally determined by measuring the value of outstanding loan sale commitments in comparison to investors' current yield requirements as calculated on the aggregate loan basis. Loans are generally sold without recourse, other than standard representations and warranties, except those loans that were sold to the FHLB – San Francisco under the Mortgage Partnership Finance ("MPF") program which has a specific recourse provision, which is described below. A high percentage of loans are sold on a servicing released basis. In some transactions, primarily loans sold under the MPF program, the Corporation may retain the servicing rights in order to generate servicing income. Where the Corporation continues to service loans after sale, investors are paid their share of the principal collections together with interest at an agreed-upon rate, which generally differs from the loan's contractual interest rate.

Loans sold to the FHLB – San Francisco under the MPF program have a recourse liability. The FHLB – San Francisco absorbs the first four basis points of loss by establishing a first loss account and a credit scoring process is used to calculate the maximum recourse amount for the Bank. All losses above the Bank's maximum recourse are the responsibility of the FHLB – San Francisco. The FHLB – San Francisco pays the Bank a credit enhancement fee on a monthly basis to compensate the Bank for accepting the recourse obligation. On October 6, 2006, the FHLB – San Francisco announced that it would no longer offer new commitments to purchase mortgage loans from its members, but it would retain its existing portfolio of mortgage loans. As of June 30, 2013, the Bank serviced \$52.1 million of loans under this program and has established a recourse liability of \$746,000 as compared to \$68.0 million of loans serviced and a recourse liability of \$734,000 at June 30, 2012. A net realized loss of \$194,000, \$439,000 and \$9,000 was recognized in fiscal 2013, 2012 and 2011, respectively, under this program. The increases in the recourse liability and recognized losses in fiscal 2013 and 2012 were primarily due to the cumulative loan losses which have largely extinguished the first loss account established by the FHLB – San Francisco.

Occasionally, the Bank is required to repurchase loans sold to Freddie Mac, Fannie Mae or other investors if it is determined that such loans do not meet the credit requirements of the investor, or if one of the parties involved in the loan misrepresented pertinent facts, committed fraud, or if such loans were 90-days past due within 120 days of the loan funding date. During the years ended June 30, 2013, 2012 and 2011, the Bank repurchased \$1.4 million, \$1.6 million and \$0 of single-family loans, respectively. Other repurchase requests were settled for \$5.6 million, \$439,000 and \$2.0 million in fiscal 2013, 2012 and 2011, respectively, which did not result in the repurchase of the loan itself. In addition to the specific recourse liability for the MPF program, the Bank has established a recourse liability of \$1.3 million and \$5.4 million for loans sold to other investors as of June 30, 2013 and 2012, respectively.

In December 2012, the Bank entered into a global settlement with the Bank's largest legacy loan investor, which eliminated all past, current and future repurchase claims from this particular investor. The settlement agreement was executed and paid in February 2013. The settlement required the accrual of an additional recourse provision of \$1.5 million during the second quarter of fiscal 2013 which fully funded the settlement amount in addition to the recourse reserve that had already been provided in prior periods for this investor. This investor purchased approximately 39% of the Corporation's total loan sale volume from January 1, 2005 through December 31, 2011 and accounted for approximately 64% of all recourse claims paid prior to the settlement.

**Provident Financial Holdings, Inc.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2013**

Activity in the recourse liability for the years ended June 30, 2013 and 2012 was as follows:

(In Thousands)	2013	2012
Balance, beginning of year	\$ 6,183	\$ 4,216
Recourse provision	1,739	2,825
Net settlements in lieu of loan repurchases	(5,811)	(858)
Balance, end of the year	\$ 2,111	\$ 6,183

The Bank is obligated to refund loan sale premiums to investors when a loan pays off within a specific time period following the loan sale; the time period ranges from three to six months, depending upon the loan sale agreement. Total loan sale premium refunds in fiscal 2013, 2012 and 2011 were \$299,000, \$131,000 and \$252,000, respectively. As of June 30, 2013 and 2012, the Bank's recourse liability was \$89,000 and \$88,000, respectively, for future loan sale premium refunds.

Gains or losses on the sale of loans, including fees received or paid, are recognized at the time of sale and are determined by the difference between the net sales proceeds and the allocated book value of the loans sold. When loans are sold with servicing retained, the carrying value of the loans is allocated between the portion sold and the portion retained (i.e., mortgage servicing assets and interest-only strips), based on estimates of their respective fair values.

Mortgage servicing assets ("MSA") are amortized in proportion to and over the period of the estimated net servicing income and are carried at the lower of cost or fair value. The fair value of MSA is based on the present value of estimated net future cash flows related to contractually specified servicing fees. The Bank periodically evaluates MSA for impairment, which is measured as the excess of cost over fair value. This review is performed on a disaggregated basis, based on loan type and interest rate. MSA at June 30, 2013 had a carrying value of \$334,000 and a fair value of \$395,000, compared to a carrying value of \$327,000 and a fair value of \$398,000 at June 30, 2012 (see Note 4 of the Notes to Consolidated Financial Statements, "Mortgage Loan Servicing and Loans Originated for Sale").

Rights to future income from serviced loans that exceed contractually specified servicing fees are recorded as interest-only strips. Interest-only strips are carried at fair value, utilizing the same assumptions that are used to value the related servicing assets, with any unrealized gain or loss, net of tax, recorded as a component of accumulated other comprehensive income. Interest-only strips are included in prepaid expenses and other assets in the accompanying Consolidated Statements of Financial Condition. As of June 30, 2013 and 2012, the fair value of the interest-only strips was \$98,000 and \$130,000, respectively, and the net unrealized gain after statutory taxes of the interest-only strips was \$56,000 and \$74,000, respectively.

**Loans held for sale**

Loans held for sale consist primarily of long-term fixed-rate loans secured by first trust deeds on single-family residences, the majority of which are Federal Housing Administration ("FHA"), United States Department of Veterans Affairs ("VA"), Fannie Mae and Freddie Mac loan products. The loans are generally offered to customers located in Southern California, primarily in Riverside and San Bernardino counties, commonly known as the Inland Empire, and to a lesser extent in Orange, Los Angeles, San Diego and other counties, including Alameda, Marin, Placer and Solano counties and surrounding counties in Northern California. The loans have been hedged with loan sale commitments, To-be-Announced ("TBA") Mortgage-Backed-Securities ("MBS") trades and option contracts. The loan sale settlement period is generally between 20 to 30 days from the date of the loan funding. The Corporation adopted ASC 820, "Fair Value Measurements and Disclosures," and elected the fair value option (ASC 825, "Financial Instruments") on loans held for sale.

**Loans held for investment**

Loans held for investment consist primarily of long-term loans secured by first trust deeds on single-family residences, other residential property, commercial property and land. Also, loans held for investment are primarily comprised of adjustable rate mortgages. Additionally, multi-family and commercial real estate loans are becoming a substantial part of loans held for investment. These loans are generally offered to customers and businesses located in Southern California, primarily in the Inland Empire, and to a lesser extent in Orange, Los Angeles, San Diego and other counties, including Alameda County and surrounding counties in Northern California.

Loan origination fees and certain direct origination expenses are deferred and amortized to interest income over the contractual life of the loan using the effective interest method. Amortization is discontinued for non-performing loans. Interest receivable represents, for the most part, the current month's interest, which will be included as a part of the borrower's next monthly loan

**Provident Financial Holdings, Inc.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2013**

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payment. Interest receivable is accrued only if deemed collectible. Loans are placed on non-performing status when they become 90 days past due or if the loan is deemed impaired. When a loan is placed on non-performing status, interest accrued but not received is reversed against interest income. Interest income on non-performing loans is subsequently recognized only to the extent that cash is received and the loans' principal balance is deemed collectible. If the principal balance is not deemed collectible, the entire payment received (principal and interest) is applied to the outstanding loan balance. Non-performing loans that become current as to both principal and interest are returned to accrual status after demonstrating satisfactory payment history and when future payments are expected to be collected.

**Allowance for loan losses**

The allowance for loan losses involves significant judgment and assumptions by management, which has a material impact on the carrying value of net loans. Management considers the accounting estimate related to the allowance for loan losses a critical accounting estimate because it is highly susceptible to changes from period to period, requiring management to make assumptions about probable incurred losses inherent in the loan portfolio at the balance sheet date. The impact of a sudden large loss could deplete the allowance and require increased provisions to replenish the allowance, which would negatively affect earnings.

The allowance is based on two principles of accounting: (i) ASC 450, "Contingencies," which requires that losses be accrued when they are probable of occurring and can be estimated; and (ii) ASC 310, "Receivables," which requires that losses be accrued for non-performing loans that may be determined on an individually evaluated basis or based on an aggregated pooling method where the allowance is developed primarily by using historical charge-off statistics. The allowance has two components: collectively evaluated allowances and individually evaluated allowances. Each of these components is based upon estimates that can change over time. The allowance is based on historical experience and as a result can differ from actual losses incurred in the future. Additionally, differences may result from qualitative factors such as unemployment data, gross domestic product, interest rates, retail sales, the value of real estate and real estate market conditions. The historical data is reviewed at least quarterly and adjustments are made as needed. Various techniques are used to arrive at an individually evaluated allowance, including discounted cash flows and the fair market value of collateral. The use of these techniques is inherently subjective and the actual losses could be greater or less than the estimates. Management considers, based on currently available information, the allowance for loan losses sufficient to absorb probable losses inherent in loans held for investment.

**Allowance for unfunded loan commitments**

The Corporation maintains the allowance for unfunded loan commitments at a level that is adequate to absorb estimated probable losses related to these unfunded credit facilities. The Corporation determines the adequacy of the allowance based on periodic evaluations of the unfunded credit facilities, including an assessment of the probability of commitment usage, credit risk factors for loans outstanding to these same customers, and the terms and expiration dates of the unfunded credit facilities. The allowance for unfunded loan commitments is recorded in other liabilities on the Consolidated Statements of Financial Condition. Net adjustments to the allowance for unfunded loan commitments are included in other non-interest expense on the Consolidated Statements of Operations.

**Troubled debt restructuring ("restructured loans")**

A restructured loan is a loan which the Corporation, for reasons related to a borrower's financial difficulties, grants a concession to the borrower that the Corporation would not otherwise consider.

The loan terms which have been modified or restructured due to a borrower's financial difficulty, include but are not limited to:

- a) A reduction in the stated interest rate.
- b) An extension of the maturity at an interest rate below market.
- c) A reduction in the accrued interest.
- d) Extensions, deferrals, renewals and rewrites.

To qualify for restructuring, a borrower must provide evidence of their creditworthiness such as, current financial statements, their most recent income tax returns, current paystubs, current W-2s, and most recent bank statements, among other documents, which are then verified by the Corporation. The Corporation re-underwrites the loan with the borrower's updated financial information, new credit report, current loan balance, new interest rate, remaining loan term, updated property value and modified payment schedule, among other considerations, to determine if the borrower qualifies.

The Corporation measures the allowance for loan losses of restructured loans based on the difference between the original loan's carrying amount and the present value of expected future cash flows discounted at the original effective yield of the loan. Based



**Provident Financial Holdings, Inc.**  
**Notes to Consolidated Financial Statements**  
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on published guidance with respect to restructured loans from certain banking regulators and to conform to general practices within the banking industry, the Corporation maintains certain restructured loans on accrual status, provided there is reasonable assurance of repayment and performance, consistent with the modified terms based upon a current, well-documented credit evaluation.

Other restructured loans are classified as “Substandard” and placed on non-performing status. The loans may be upgraded and placed on accrual status once there is a sustained period of payment performance (usually six months or longer) and there is a reasonable assurance that the payments will continue; and if the borrower has demonstrated satisfactory contractual payments beyond 12 consecutive months, the loan is no longer categorized as a restructured loan. In addition to the payment history described above; multi-family, commercial real estate, construction and commercial business loans must also demonstrate a combination of corroborating characteristics to be upgraded, such as: satisfactory cash flow, satisfactory guarantor support, and additional collateral support, among others.

To qualify for restructuring, a borrower must provide evidence of their creditworthiness such as, current financial statements, their most recent income tax returns, current paystubs, current W-2s, and most recent bank statements, among other documents, which are then verified by the Bank. The Bank re-underwrites the loan with the borrower’s updated financial information, new credit report, current loan balance, new interest rate, remaining loan term, updated property value and modified payment schedule, among other considerations, to determine if the borrower qualifies.

**Non-performing loans**

The Corporation assesses loans individually and classifies loans when the accrual of interest has been discontinued, loans have been restructured or management has serious doubts about the future collectibility of principal and interest, even though the loans may currently be performing. Factors considered in determining classification include, but are not limited to, expected future cash flows, the financial condition of the borrower and current economic conditions. The Corporation measures each non-performing loan based on ASC 310, establishes a collectively evaluated or individually evaluated allowance and charges off those loans or portions of loans deemed uncollectible.

**Real estate owned**

Real estate acquired through foreclosure is initially recorded at the lesser of the loan balance at the time of foreclosure or the fair value of the real estate acquired, less estimated selling costs. Subsequent to foreclosure, the Corporation charges current earnings for estimated losses if the carrying value of the property exceeds its fair value. Gains or losses on the sale of real estate are recognized upon disposition of the property. Costs relating to improvement, maintenance and repairs of the property are expensed as incurred under gain (loss) on sale and operations of real estate owned acquired in the settlement of loans within the consolidated statements of operations.

**Impairment of long-lived assets**

The Corporation reviews its long-lived assets for impairment annually or when events or circumstances indicate that the carrying amount of these assets may not be recoverable. Long-lived assets include buildings, land, fixtures, furniture and equipment. An asset is considered impaired when the expected discounted cash flows over the remaining useful life are less than the net book value. When impairment is indicated for an asset, the amount of impairment loss is the excess of the net book value over its fair value.

**Premises and equipment**

Premises and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation is computed primarily on a straight-line basis over the estimated useful lives as follows:

Buildings	10 to 40 years
Furniture and fixtures	3 to 10 years
Automobiles	3 years
Computer equipment	3 to 5 years

Leasehold improvements are amortized over the lesser of their respective lease terms or the useful life of the improvement, which ranges from one to 10 years. Maintenance and repair costs are charged to operations as incurred.

**Provident Financial Holdings, Inc.**  
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**Income taxes**

The Corporation accounts for income taxes in accordance with ASC 740, "Income Taxes." ASC 740 requires the affirmative evaluation that it is more likely than not, based on the technical merits of a tax position, that an enterprise is entitled to economic benefits resulting from positions taken in income tax returns. If a tax position does not meet the more-likely-than-not recognition threshold, the benefit of that position is not recognized in the financial statements.

ASC 740 requires that when determining the need for a valuation allowance against a deferred tax asset, management must assess both positive and negative evidence with regard to the realizability of the tax losses represented by that asset. To the extent available sources of taxable income are insufficient to absorb tax losses, a valuation allowance is necessary. Sources of taxable income for this analysis include prior years' tax returns, the expected reversals of taxable temporary differences between book and tax income, prudent and feasible tax-planning strategies, and future taxable income. The deferred tax asset related to the allowance will be realized when actual charge-offs are made against the allowance. Based on the availability of loss carry-backs and projected taxable income during the periods for which loss carry-forwards are available, management believes it is more likely than not the Corporation will realize the deferred tax asset. The Corporation continues to monitor the deferred tax asset on a quarterly basis for a valuation allowance. The future realization of these tax benefits primarily hinges on adequate future earnings to utilize the tax benefit. Prospective earnings or losses, tax law changes or capital changes could prompt the Corporation to reevaluate the assumptions which may be used to establish a valuation allowance. As of June 30, 2013, the estimated deferred tax asset was \$4.4 million, a \$4.2 million or 49 percent decrease, from \$8.6 million at June 30, 2012. The Corporation maintains net deferred income tax assets for deductible temporary tax differences, such as loss reserves, deferred compensation, non-accrued interest and unrealized gains, the increase in the deferred tax asset resulted primarily from items related to non-accruing loans, fair value adjustments, loss reserve adjustments and FHLB stock dividend redemptions. The Corporation did not have any liabilities for uncertain tax positions or any known unrecognized tax benefit at June 30, 2013 or 2012, other than the \$825,000 tax liability at June 30, 2012 related to the prior period adjustment for fiscal 2009 established as a result of the Corporation's overstatement of certain income items for tax reporting purposes from 2006 through 2007, resulting in an overpayment of taxes and an understatement of the deferred tax liability.

**Bank owned life insurance ("BOLI")**

ASC 715-60-35, "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements," requires an employer to recognize obligations associated with endorsement split-dollar life insurance arrangements that extend into the participant's post-employment benefit cost for the continuing life insurance or based on the future death benefit depending on the contractual terms of the underlying agreement. The Corporation adopted ASC 715-60-35 using the latter option, i.e., based on the future death benefit. The Bank purchases BOLI policies on the lives of certain executive officers while they are employed by the Bank and is the owner and beneficiary of the policies. The Bank invests in BOLI to provide an efficient form of funding for long-term retirement and other employee benefits costs. The Bank records these BOLI policies within prepaid expenses and other assets in the Consolidated Statements of Financial Condition at each policy's respective cash surrender value, with changes recorded in other non-interest income in the Consolidated Statements of Operations.

**Cash dividend**

A declaration or payment of dividends is at the discretion of the Corporation's Board of Directors, who take into account the Corporation's financial condition, results of operations, tax considerations, capital requirements, industry standards, economic conditions and other factors, including the regulatory restrictions which affect the payment of dividends by the Bank to the Corporation. Under Delaware law, dividends may be paid either out of surplus or, if there is no surplus, out of net profits for the current fiscal year and/or the preceding fiscal year in which the dividend is declared. See Note 21 of the Notes to Consolidated Financial Statements regarding the subsequent event related to the cash dividend.

**Stock repurchases**

The Corporation repurchases its common stock consistent with Board-approved stock repurchase plans. During fiscal 2013, the Corporation repurchased 571,087 shares under the April 2012 and March 2013 stock repurchase plans with an average cost of \$15.32 per share. The April 2012 plan was completed in March 2013. During fiscal 2013, the Corporation also repurchased 13,591 shares of restricted stock in lieu of distribution to employees (to satisfy the minimum income tax required to be withheld from employees) at an average cost of \$15.65 per share. As of June 30, 2013, a total of 122,731 shares, or 23%, of the shares authorized in the March 2013 stock repurchase plan have been repurchased (at an average cost of \$15.78 per share), leaving 399,792 shares available for future purchases.

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**Earnings per common share (“EPS”)**

Basic EPS represents net income (loss) divided by the weighted average common shares outstanding during the period excluding any potential dilutive effects. Diluted EPS gives effect to any potential issuance of common stock that would have caused basic EPS to be lower as if the issuance had already occurred. Accordingly, diluted EPS reflects an increase in the weighted average shares outstanding as a result of the assumed exercise of stock options and the vesting of restricted stock. The computation of diluted EPS does not assume exercise of stock options and vesting of restricted stock that would have an anti-dilutive effect on EPS.

**Stock-based compensation**

ASC 718, “Compensation – Stock Compensation,” requires companies to recognize in the statement of operations the grant-date fair value of stock options and other equity-based compensation issued to employees and directors. The adoption of ASC 718 resulted in stock-based compensation expense related to issued and unvested stock option grants. The stock-based compensation expense, inclusive of restricted stock expense, for the years ended June 30, 2013, 2012 and 2011 was \$768,000, \$1.3 million and \$958,000, respectively. During fiscal 2013, total cash provided by (used for) operating activities or financing activities related to the tax effect from stock-based compensation was \$92,000. There was no cash provided by (used for) operating activities or financing activities, related to the tax effect from stock-based compensation in fiscal 2012 and 2011.

**Employee Stock Ownership Plan (“ESOP”)**

Up to March 31, 2011, the Corporation recognized compensation expense when shares were committed to be released to employees in an amount equal to the fair value of the shares committed. The difference between the amount of compensation expense and the cost of the shares released was recorded as additional paid-in capital. Subsequent to March 31, 2011, the Corporation recognizes compensation expense when the Bank contributes funds to the ESOP for the purchase of the Corporation’s common stock to be allocated to the ESOP participants. Since the contributions are discretionary, the benefits payable under the ESOP cannot be estimated.

**Restricted stock**

The Corporation recognizes compensation expense over the vesting period of the shares awarded, equal to the fair value of the shares at the award date.

**Post retirement benefits**

The estimated obligation for post retirement health care and life insurance benefits is determined based on an actuarial computation of the cost of current and future benefits for the eligible (grandfathered) retirees and employees. The post retirement benefit liability is included in accounts payable, accrued interest and other liabilities in the accompanying consolidated financial statements. Effective July 1, 2003, the Corporation discontinued the post retirement health care and life insurance benefits to any employee not previously qualified (grandfathered) for these benefits. At June 30, 2013 and 2012, the accrued liability for post retirement benefits was \$253,000 and \$292,000, respectively, which was fully funded consistent with actuarially determined estimates of the future obligation.

**Comprehensive income (loss)**

ASC 220, “Comprehensive Income,” requires that realized revenue, expenses, gains and losses be included in net income (loss). Unrealized gains (losses) on available for sale securities, are reported as a separate component of the stockholders’ equity section of the Consolidated Statements of Financial Condition and the change in the unrealized gains (losses) are reported on the Consolidated Statements of Comprehensive Income.

**Accounting standard updates (“ASU”)**

ASU 2011-11:

In December 2011, the Financial Accounting Standards Board (“FASB”) issued ASU 2011-11, “Balance Sheet (Topic 210) - Disclosures about Offsetting Assets and Liabilities.” The amendments in this ASU enhances disclosures required by GAAP by requiring improved information about financial instruments and derivative instruments that are either (1) offset in accordance with either Section 210-20-45 or Section 815-10-45 or (2) subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset in accordance with either Section 210-20-45 or Section 815-10-45. This information enables users of an entity’s financial statements to evaluate the effect or potential effect of netting arrangements on an entity’s financial position, including the effect or potential effect of rights of set off associated with certain financial instruments and derivative instruments in the scope of this ASU. An entity is required to apply the amendments for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. An entity should provide the disclosures required by

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those amendments retrospectively for all comparative periods presented. The adoption of this ASU is not expected to have a material impact on the Corporation's consolidated financial statements; however, there will be a significant impact related to the footnotes to the financial statements upon adoption.

ASU 2013-01:

In January 2013, the FASB issued ASU 2013-01, "Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities." This ASU amends ASU 2011-11 to clarify that the scope applies to derivatives, repurchase and reverse repurchase agreements, and securities borrowing and lending transactions that are either offset in accordance with Section 210-20-45 or Section 815-10-45 or subject to master netting or similar arrangements. Other types of financial assets and liabilities subject to master netting or similar arrangements are not subject to the disclosure requirements in ASU 2011-11. The amendments were effective for fiscal years beginning on or after January 1, 2013, and interim periods within those annual periods. The adoption of this ASU is not expected to have a material impact on the Corporation's consolidated financial statements; however, there will be a significant impact related to the footnotes to the financial statements upon adoption.

ASU 2013-02:

In February 2013, the FASB issued ASU 2013-02, "Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income." This ASU requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. The amendments were effective prospectively for reporting periods beginning after December 15, 2012. The Corporation's adoption of this ASU did not have a material impact on its consolidated financial statements and the required disclosures are included in Note 20.

**Note 2: Investment Securities**

The amortized cost and estimated fair value of investment securities as of June 30, 2013 and 2012 were as follows:

<b>June 30, 2013</b>	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized (Losses)</b>	<b>Estimated Fair Value</b>	<b>Carrying Value</b>
<b>(In Thousands)</b>					
<b>Available for sale</b>					
U.S. government agency MBS	\$ 10,361	\$ 455	\$ —	\$ 10,816	\$ 10,816
U.S. government sponsored enterprise MBS	7,255	420	—	7,675	7,675
Private issue CMO <sup>(1)</sup>	1,036	1	(18)	1,019	1,019
<b>Total investment securities</b>	<b>\$ 18,652</b>	<b>\$ 876</b>	<b>\$ (18)</b>	<b>\$ 19,510</b>	<b>\$ 19,510</b>

<sup>(1)</sup> Collateralized Mortgage Obligations ("CMO").

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<b>June 30, 2012</b>	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized (Losses)</b>	<b>Estimated Fair Value</b>	<b>Carrying Value</b>
<b>(In Thousands)</b>					
<b>Available for sale</b>					
U.S. government agency MBS	\$ 11,854	\$ 460	\$ —	\$ 12,314	\$ 12,314
U.S. government sponsored enterprise MBS	8,850	492	—	9,342	9,342
Private issue CMO	1,243	4	(5)	1,242	1,242
<b>Total investment securities</b>	<b>\$ 21,947</b>	<b>\$ 956</b>	<b>\$ (5)</b>	<b>\$ 22,898</b>	<b>\$ 22,898</b>

In fiscal 2013 and 2012, the Corporation received MBS principal payments of \$3.3 million and \$3.3 million, respectively, and did not purchase or sell investment securities; while in fiscal 2011, the Corporation received MBS principal payments of \$5.5 million, and a \$3.3 million of investment securities was called by the issuer.

As of June 30, 2013 and 2012, the Corporation held investments with an unrealized loss position totaling \$18,000 and \$5,000, respectively, consisting of the following:

<b>As of June 30, 2013</b>	<b>Unrealized Holding Losses</b>		<b>Unrealized Holding Losses</b>		<b>Unrealized Holding Losses</b>	
	<b>Less Than 12 Months</b>		<b>12 Months or More</b>		<b>Total</b>	
	<b>Fair Value</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>	<b>Unrealized Losses</b>
<b>Description of Securities</b>						
Private issue CMO	\$ 848	\$ 18	\$ —	\$ —	\$ 848	\$ 18
<b>Total</b>	<b>\$ 848</b>	<b>\$ 18</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 848</b>	<b>\$ 18</b>

<b>As of June 30, 2012</b>	<b>Unrealized Holding Losses</b>		<b>Unrealized Holding Losses</b>		<b>Unrealized Holding Losses</b>	
	<b>Less Than 12 Months</b>		<b>12 Months or More</b>		<b>Total</b>	
	<b>Fair Value</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>	<b>Unrealized Losses</b>
<b>Description of Securities</b>						
Private issue CMO	\$ —	\$ —	\$ 183	\$ 5	\$ 183	\$ 5
<b>Total</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 183</b>	<b>\$ 5</b>	<b>\$ 183</b>	<b>\$ 5</b>

As of June 30, 2013, the unrealized holding losses relate to one adjustable rate private issue CMO which has been in an unrealized loss position for less than 12 months. This compares to the unrealized holding losses of the another adjustable rate private issue CMO which was in an unrealized loss position for more than 12 months at June 30, 2012. The unrealized holding losses were primarily the result of market interest rate movement, perceived credit and liquidity concerns on privately issued CMO investment securities. Based on the nature of the investments, management concluded that such unrealized losses were not other than temporary as of June 30, 2013 and 2012. The Corporation does not believe that there are any other-than-temporary impairments at June 30, 2013 and 2012; therefore, no impairment losses have been recorded for fiscal 2013, 2012 and 2011. The Corporation intends and has the ability to hold the debt securities until maturity and will not likely be required to sell the debt securities before realizing a full recovery.

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Contractual maturities of investment securities as of June 30, 2013 and 2012 were as follows:

(In Thousands)	June 30, 2013		June 30, 2012	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
<b>Available for sale</b>				
Due in one year or less	\$ —	\$ —	\$ —	\$ —
Due after one through five years	—	—	—	—
Due after five through ten years	—	—	—	—
Due after ten years	18,652	19,510	21,947	22,898
<b>Total investment securities</b>	<b>\$ 18,652</b>	<b>\$ 19,510</b>	<b>\$ 21,947</b>	<b>\$ 22,898</b>

**Note 3: Loans Held for Investment**

Loans held for investment consisted of the following:

(In Thousands)	June 30, 2013	June 30, 2012
<b>Mortgage loans:</b>		
Single-family	\$ 404,341	\$ 439,024
Multi-family	262,316	278,057
Commercial real estate	92,488	95,302
Construction	292	—
Other	—	755
Commercial business loans	1,687	2,580
Consumer loans	437	506
<b>Total loans held for investment, gross</b>	<b>761,561</b>	<b>816,224</b>
Undisbursed loan funds	(292)	—
Deferred loan costs, net	2,063	2,095
Allowance for loan losses	(14,935)	(21,483)
<b>Total loans held for investment, net</b>	<b>\$ 748,397</b>	<b>\$ 796,836</b>

As of June 30, 2013, the Corporation had \$33.3 million in mortgage loans that were subject to negative amortization, consisting of \$24.4 million in multi-family loans, \$5.1 million in single-family loans and \$3.8 million in commercial real estate loans. This compares to \$40.2 million of negative amortization mortgage loans at June 30, 2012, consisting of \$26.7 million in multi-family loans, \$6.5 million in single-family loans and \$7.0 million in commercial real estate loans. During fiscal 2013, no loan interest income was added to the negative amortization loan balance, as compared to \$13,000 of loan interest income in the comparable period of fiscal 2012. Negative amortization involves a greater risk to the Corporation because the loan principal balance may increase by a range of 110% to 115% of the original loan amount during the period of negative amortization and because the loan payment may increase beyond the means of the borrower when loan principal amortization is required. Also, the Corporation has originated interest-only ARM loans, which typically have a fixed interest rate for the first two to five years coupled with an interest only payment, followed by a periodic adjustable rate and a fully amortizing loan payment. As of June 30, 2013 and 2012, the interest-only ARM loans were \$188.5 million and \$214.2 million, or 24.7% and 26.2% of gross loans held for investment, respectively.

The following table sets forth information at June 30, 2013 regarding the dollar amount of loans held for investment that are contractually repricing during the periods indicated, segregated between adjustable rate loans and fixed rate loans. Fixed-rate

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loans comprised 5% of loans held for investment at June 30, 2013, unchanged from June 30, 2012. Adjustable rate loans having no stated repricing dates that reprice when the index they are tied to reprices (e.g. prime rate index) and checking account overdrafts are reported as repricing within one year. The table does not include any estimate of prepayments which may cause the Corporation's actual repricing experience to differ materially from that shown.

(In Thousands)	Adjustable Rate				Fixed Rate	Total
	Within One Year	After One Year Through 3 Years	After 3 Years Through 5 Years	After 5 Years Through 10 Years		
<b>Mortgage loans:</b>						
Single-family	\$ 371,167	\$ 11,749	\$ 4,838	\$ 2,237	\$ 14,350	\$ 404,341
Multi-family	141,664	8,249	91,265	10,378	10,760	262,316
Commercial real estate	44,573	2,313	30,967	688	13,947	92,488
Construction	292	—	—	—	—	292
Commercial business loans	793	—	—	—	894	1,687
Consumer loans	420	—	—	—	17	437
Total loans held for investment, gross	\$ 558,909	\$ 22,311	\$ 127,070	\$ 13,303	\$ 39,968	\$ 761,561

The allowance for loan losses is maintained at a level sufficient to provide for estimated losses based on evaluating known and inherent risks in the loans held for investment and upon management's continuing analysis of the factors underlying the quality of the loans held for investment. These factors include changes in the size and composition of the loans held for investment, actual loan loss experience, current economic conditions, detailed analysis of individual loans for which full collectability may not be assured, and determination of the realizable value of the collateral securing the loans. Provisions for loan losses are charged against operations on a quarterly basis, as necessary, to maintain the allowance at appropriate levels. Although management believes it uses the best information available to make such determinations, there can be no assurance that regulators, in reviewing the Corporation's loans held for investment, will not request the Corporation to significantly increase its allowance for loan losses. Future adjustments to the allowance for loan losses may be necessary and results of operations could be significantly and adversely affected as a result of economic, operating, regulatory, and other conditions beyond the Corporation's control.

In compliance with the regulatory reporting requirements of the Office of the Comptroller of the Currency ("OCC"), the Bank's primary federal regulator, non-performing loans are charged-off to their fair market values in the period the loans, or portion thereof, are deemed uncollectible, generally after the loan becomes 150 days delinquent for real estate secured first trust deed loans and 120 days delinquent for commercial business or real estate secured second trust deed loans. For restructured loans, the charge-off occurs when the loan becomes 90 days delinquent; and where borrowers file bankruptcy, the charge-off occurs when the loan becomes 60 days delinquent. The amount of the charge-off is determined by comparing the loan balance to the estimated fair value of the underlying collateral, less disposition costs, with the loan balance in excess of the estimated fair value charged-off against the allowance for loan losses. Subsequent recoveries, if any, are credited to the allowance. Recoveries may include payments from the cost recovery method, mortgage insurance payments or other cash receipts. The allowance for loan losses for non-performing loans is determined by applying ASC 310, "Receivables,". For restructured loans that are less than 90 days delinquent, the allowance for loan losses are segregated into (a) individually evaluated allowances for those loans with applicable discounted cash flow calculations or (b) collectively evaluated allowances based on the aggregated pooling method. For non-performing loans less than 60 days delinquent where the borrower has filed bankruptcy, the collectively evaluated allowances are assigned based on the aggregated pooling method. For non-performing commercial real estate loans, individually evaluated allowances are calculated based on their fair values and if their fair values are higher than their loan balances, no allowances are required.

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The following tables summarize the Corporation's allowance for loan losses at June 30, 2013 and 2012:

(In Thousands)	June 30, 2013	June 30, 2012
<b>Collectively evaluated for impairment:</b>		
Mortgage loans:		
Single-family	\$ 8,949	\$ 15,189
Multi-family	4,689	3,524
Commercial real estate	1,053	1,810
Other	—	7
Commercial business loans	78	169
Consumer loans	12	13
<b>Total collectively evaluated allowance</b>	<b>14,781</b>	<b>20,712</b>
<b>Individually evaluated for impairment:</b>		
Mortgage loans:		
Single-family	113	744
Multi-family	—	27
Commercial business loans	41	—
<b>Total individually evaluated allowance</b>	<b>154</b>	<b>771</b>
<b>Total loan loss allowance</b>	<b>\$ 14,935</b>	<b>\$ 21,483</b>

The following summarizes the components of the net change in the allowance for loan losses for the periods indicated:

(In Thousands)	Year Ended June 30,		
	2013	2012	2011
Balance, beginning of year	\$ 21,483	\$ 30,482	\$ 43,501
(Recovery) provision for loan losses	(1,499)	5,777	5,465
Recoveries	762	375	27
Charge-offs	(5,811)	(15,151)	(18,511)
<b>Balance, end of year</b>	<b>\$ 14,935</b>	<b>\$ 21,483</b>	<b>\$ 30,482</b>



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The following tables identify the Corporation's total recorded investment in non-performing loans by type, net of allowance for loan losses or charge-offs at June 30, 2013 and 2012:

(In Thousands)	June 30, 2013		
	Recorded Investment	Allowance for Loan Losses <sup>(1)</sup>	Net Investment
<b>Mortgage loans:</b>			
Single-family:			
With a related allowance	\$ 9,908	\$ (2,350)	\$ 7,558
Without a related allowance <sup>(2)</sup>	5,665	—	5,665
Total single-family loans	15,573	(2,350)	13,223
Multi-family:			
With a related allowance	4,519	(1,320)	3,199
Without a related allowance <sup>(2)</sup>	558	—	558
Total multi-family loans	5,077	(1,320)	3,757
Commercial real estate:			
Without a related allowance <sup>(2)</sup>	4,572	—	4,572
Total commercial real estate loans	4,572	—	4,572
Commercial business loans:			
With a related allowance	189	(59)	130
Total commercial business loans	189	(59)	130
<b>Total non-performing loans</b>	<b>\$ 25,411</b>	<b>\$ (3,729)</b>	<b>\$ 21,682</b>

<sup>(1)</sup> Consists of collectively and individually evaluated allowances, specifically assigned to the individual loan.

<sup>(2)</sup> There was no related allowance for loan losses because the loans have been charged-off to their fair value or the fair value of the collateral is higher than the loan balance.

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(In Thousands)	June 30, 2012		
	Recorded Investment	Allowance for Loan Losses <sup>(1)</sup>	Net Investment
<b>Mortgage loans:</b>			
Single-family:			
With a related allowance	\$ 26,214	\$ (5,476)	\$ 20,738
Without a related allowance <sup>(2)</sup>	8,352	—	8,352
Total single-family loans	34,566	(5,476)	29,090
Multi-family:			
With a related allowance	1,806	(349)	1,457
Total multi-family loans	1,806	(349)	1,457
Commercial real estate:			
With a related allowance	3,820	(573)	3,247
Total commercial real estate loans	3,820	(573)	3,247
Other:			
Without a related allowance <sup>(2)</sup>	522	—	522
Total other loans	522	—	522
Commercial business loans:			
With a related allowance	246	(74)	172
Total commercial business loans	246	(74)	172
<b>Total non-performing loans</b>	<b>\$ 40,960</b>	<b>\$ (6,472)</b>	<b>\$ 34,488</b>

<sup>(1)</sup> Consists of collectively and individually evaluated allowances, specifically assigned to the individual loan.

<sup>(2)</sup> There was no related allowance for loan losses because the loans have been charged-off to their fair value or the fair value of the collateral is higher than the loan balance.

At June 30, 2013 and 2012, there were no commitments to lend additional funds to those borrowers whose loans were classified as non-performing.

The following table describes the aging analysis (length of time on non-performing status) of non-performing loans, net of allowance for loan losses or charge-offs, as of June 30, 2013 and 2012:

As of June 30, 2013 (In Thousands)	3 Months or Less	Over 3 to 6 Months	Over 6 to 12 Months	Over 12 Months	Total
<b>Mortgage loans:</b>					
Single-family	\$ 2,089	\$ 1,650	\$ 1,801	\$ 7,683	\$ 13,223
Multi-family	2,109	383	—	1,265	3,757
Commercial real estate	1,183	—	1,744	1,645	4,572
Commercial business loans	—	—	—	130	130
Total	\$ 5,381	\$ 2,033	\$ 3,545	\$ 10,723	\$ 21,682

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As of June 30, 2012 (In Thousands)	3 Months or Less	Over 3 to 6 Months	Over 6 to 12 Months	Over 12 Months	Total
<b>Mortgage loans:</b>					
Single-family	\$ 8,291	\$ 6,877	\$ 3,141	\$ 10,781	\$ 29,090
Multi-family	967	—	—	490	1,457
Commercial real estate	1,002	1,735	—	510	3,247
Other	—	—	—	522	522
Commercial business loans	—	131	—	41	172
<b>Total</b>	<b>\$ 10,260</b>	<b>\$ 8,743</b>	<b>\$ 3,141</b>	<b>\$ 12,344</b>	<b>\$ 34,488</b>

During the fiscal years ended June 30, 2013, 2012 and 2011, the Corporation's average investment in non-performing loans was \$24.2 million, \$34.4 million and \$50.2 million, respectively. The Corporation records payments on non-performing loans utilizing the cash basis or cost recovery method of accounting during the periods when the loans are on non-performing status. For the fiscal years ended June 30, 2013, 2012 and 2011, interest income of \$885,000, \$1.5 million and \$2.3 million, respectively, was recognized, based on cash receipts from loan payments on non-performing loans. Foregone interest income, which would have been recorded had the non-performing loans been current in accordance with their original terms, amounted to \$878,000, \$876,000 and \$1.3 million for the fiscal years ended June 30, 2013, 2012 and 2011, respectively, and was not included in the loan interest income; while \$542,000, \$0 and \$0, respectively, were collected and applied to the net loan balances.

The effect of the non-performing loans on interest income for the years ended June 30, 2013, 2012 and 2011 is presented below:

(In Thousands)	Year Ended June 30,		
	2013	2012	2011
Contractual interest due	\$ 1,763	\$ 2,432	\$ 3,605
Interest recognized	(885)	(1,556)	(2,313)
Net foregone interest	\$ 878	\$ 876	\$ 1,292

For the fiscal year ended June 30, 2013, there were no new restructured loans. This compares to 24 loans with a total balance of \$10.1 million that were restructured during the fiscal year ended June 30, 2012. During the fiscal year ended June 30, 2013, no restructured loans were in default within a 12-month period subsequent to their original restructuring. This compares to two restructured loans with a total balance of \$771,000 during the fiscal year ended June 30, 2012 that were in default within a 12-month period subsequent to their original restructuring and required an additional provision of \$200,000. Additionally, during the fiscal year ended June 30, 2013, there was one restructured loan for \$131,000 whose modification was extended beyond the initial maturity of the modification. For the fiscal year ended June 30, 2012, 10 restructured loans with a total balance of \$5.5 million had their modification extended beyond the initial maturity of the modification.

As of June 30, 2013, the net outstanding balance of the 26 restructured loans was \$9.5 million: one was classified as special mention and remains on accrual status (\$434,000); and 25 were classified as substandard (\$9.1 million, all of which are on non-accrual status). Substandard assets have one or more defined weaknesses and are characterized by the distinct possibility that the Corporation will sustain some loss if the deficiencies are not corrected. Assets that do not currently expose the Corporation to sufficient risk to warrant adverse classification but possess weaknesses are designated as special mention and are closely monitored by the Corporation. As of June 30, 2013, \$6.5 million, or 68 percent, of the restructured loans were current with respect to their payment status. As of June 30, 2012, the net outstanding balance of 56 restructured loans was \$25.1 million: 12 loans are classified as pass, are not included in the classified asset totals and remain on accrual status (\$5.5 million); three loans are classified as special mention and remain on accrual status (\$4.0 million); and 41 loans are classified as substandard (\$15.6 million, all are on non-accrual status). As of June 30, 2012, \$18.5 million, 74 percent, of the restructured loans have a current payment status.

The Corporation upgrades restructured single-family loans to the pass category if the borrower has demonstrated satisfactory contractual payments for at least six consecutive months; 12 months for those loans that were restructured more than once; and if the borrower has demonstrated satisfactory contractual payments beyond 12 consecutive months, the loan is no longer categorized as a restructured loan for the United States Securities and Exchange Commission ("SEC") reporting purposes. In addition to the

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payment history described above, multi-family, commercial real estate, construction and commercial business loans (which are sometimes referred to in this report as “preferred loans”) must also demonstrate a combination of the following characteristics to be upgraded to the pass category: satisfactory cash flow, satisfactory guarantor support, and additional collateral support, among others.

The following table summarizes at the dates indicated the restructured loan balances, net of allowance for loan losses or charge-offs, by loan type and non-accrual versus accrual status:

(In Thousands)	June 30, 2013	June 30, 2012
<b>Restructured loans on non-accrual status:</b>		
Mortgage loans:		
Single-family	\$ 5,094	\$ 11,995
Multi-family	2,521	490
Commercial real estate	1,354	2,483
Other	—	522
Commercial business loans	123	165
Total	9,092	15,655
<b>Restructured loans on accrual status:</b>		
Mortgage loans:		
Single-family	434	6,148
Multi-family	—	3,266
Commercial business loans	—	33
Total	434	9,447
Total restructured loans	\$ 9,526	\$ 25,102

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The following table shows the restructured loans by type, net of allowance for loan losses or charge-offs, at June 30, 2013 and 2012:

(In Thousands)	June 30, 2013		
	Recorded Investment	Allowance for Loan Losses <sup>(1)</sup>	Net Investment
<b>Mortgage loans:</b>			
Single-family:			
With a related allowance	\$ 3,774	\$ (795)	\$ 2,979
Without a related allowance <sup>(2)</sup>	2,549	—	2,549
Total single-family loans	6,323	(795)	5,528
Multi-family:			
With a related allowance	3,266	(1,006)	2,260
Without a related allowance <sup>(2)</sup>	261	—	261
Total multi-family loans	3,527	(1,006)	2,521
Commercial real estate:			
Without a related allowance <sup>(2)</sup>	1,354	—	1,354
Total commercial real estate loans	1,354	—	1,354
Commercial business loans:			
With a related allowance	180	(57)	123
Total commercial business loans	180	(57)	123
<b>Total restructured loans</b>	<b>\$ 11,384</b>	<b>\$ (1,858)</b>	<b>\$ 9,526</b>

<sup>(1)</sup> Consists of collectively and individually evaluated allowances, specifically assigned to the individual loan.

<sup>(2)</sup> There was no related allowance for loan losses because the loans have been charged-off to their fair value or the fair value of the collateral is higher than the loan balance.

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(In Thousands)	June 30, 2012		
	Recorded Investment	Allowance for Loan Losses <sup>(1)</sup>	Net Investment
<b>Mortgage loans:</b>			
Single-family:			
With a related allowance	\$ 9,465	\$ (486)	\$ 8,979
Without a related allowance <sup>(2)</sup>	9,164	—	9,164
Total single-family loans	18,629	(486)	18,143
Multi-family:			
With a related allowance	517	(27)	490
Without a related allowance <sup>(2)</sup>	3,266	—	3,266
Total multi-family loans	3,783	(27)	3,756
Commercial real estate:			
With a related allowance	2,921	(438)	2,483
Total commercial real estate loans	2,921	(438)	2,483
Other:			
Without a related allowance <sup>(2)</sup>	522	—	522
Total other loans	522	—	522
Commercial business loans:			
With a related allowance	236	(71)	165
Without a related allowance <sup>(2)</sup>	33	—	33
Total commercial business loans	269	(71)	198
<b>Total restructured loans</b>	<b>\$ 26,124</b>	<b>\$ (1,022)</b>	<b>\$ 25,102</b>

<sup>(1)</sup> Consists of collectively and individually evaluated allowances, specifically assigned to the individual loan.

<sup>(2)</sup> There was no related allowance for loan losses because the loans have been charged-off to their fair value or the fair value of the collateral is higher than the loan balance.

In the ordinary course of business, the Bank makes loans to its directors, officers and employees on substantially the same terms prevailing at the time of origination for comparable transactions with unaffiliated borrowers. The following is a summary of related-party loan activity:

(In Thousands)	Year Ended June 30,		
	2013	2012	2011
Balance, beginning of year	\$ 2,030	\$ 2,036	\$ 2,341
Originations	3,581	2,807	2,742
Sales and payments	(3,587)	(2,813)	(3,047)
Balance, end of year	\$ 2,024	\$ 2,030	\$ 2,036

As of June 30, 2013 and 2012, all of the related-party loans were performing in accordance with their original contractual terms.

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**Note 4: Mortgage Loan Servicing and Loans Originated for Sale**

The following summarizes the unpaid principal balance of loans serviced for others by the Corporation at the dates indicated:

(In Thousands)	As of June 30,		
	2013	2012	2011
Loans serviced for Freddie Mac	\$ 4,160	\$ 4,727	\$ 3,269
Loans serviced for Fannie Mae	34,023	24,063	16,791
Loans serviced for FHLB – San Francisco	52,096	68,013	87,022
Loans serviced for other investors	1,877	2,072	2,269
<b>Total loans serviced for others</b>	<b>\$ 92,156</b>	<b>\$ 98,875</b>	<b>\$ 109,351</b>

MSA are recorded when loans are sold to investors and the servicing of those loans is retained by the Bank. MSA are subject to interest rate risk and may become impaired when interest rates fall and the borrowers refinance or prepay their mortgage loans. The MSA are derived primarily from single-family loans.

Servicing loans for others generally consists of collecting mortgage payments, maintaining escrow accounts, disbursing payments to investors and processing foreclosures. Income from servicing loans is reported as loan servicing and other fees in the Corporation's consolidated statements of operations, and the amortization of MSA is reported as a reduction to the loan servicing income. Loan servicing income includes servicing fees from investors and certain fees collected from borrowers, such as late payment fees. As of June 30, 2013 and 2012, the Corporation held borrowers' escrow balances related to loans serviced for others of \$283,000 and \$302,000, respectively.

In estimating fair values of the MSA at June 30, 2013 and 2012, the Corporation used a weighted-average constant prepayment rate ("CPR") of 24.90% and 26.61%, respectively, and a weighted-average discount rate of 9.11% and 9.10%, respectively. The CPR was derived from an independent third party vendor and the weighted-average discount rate was derived from market data. The MSA, which is included in prepaid expenses and other assets in the Consolidated Statements of Financial Condition, had a carrying value of \$334,000 and a fair value of \$395,000 at June 30, 2013. This compares to the MSA at June 30, 2012 which had a carrying value of \$327,000 and a fair value of \$398,000. An allowance may be recorded to adjust the carrying value of each category of MSA to the lower of cost or market. As of June 30, 2013, a total allowance of \$200,000 was required for five categories of MSA, compared to a total allowance of \$164,000 from four categories of MSA as of June 30, 2012. Total additions to the MSA during the years ended June 30, 2013, 2012 and 2011 were \$104,000, \$106,000 and \$16,000, respectively. Total amortization of the MSA during the years ended June 30, 2013, 2012 and 2011 was \$61,000, \$45,000 and \$45,000, respectively.

Loans sold to the FHLB – San Francisco were completed under the MPF Program, which entitles the Bank to a credit enhancement fee collected from FHLB – San Francisco on a monthly basis as described in Note 1 under PBM activities.

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The following table summarizes the Corporation's MSA for years ended June 30, 2013 and 2012.

(Dollars In Thousands)	<b>Year Ended June 30,</b>	
	<b>2013</b>	<b>2012</b>
MSA balance, beginning of fiscal year	\$ 491	\$ 430
Additions	104	106
Amortization	(61)	(45)
MSA balance, end of fiscal year, before allowance	534	491
Allowance	(200)	(164)
MSA balance, end of fiscal year	\$ 334	\$ 327
Fair value, beginning of fiscal year	\$ 398	\$ 589
Fair value, end of fiscal year	\$ 395	\$ 398
Allowance, beginning of fiscal year	\$ 164	\$ 76
Impairment provision	36	88
Allowance, end of fiscal year	\$ 200	\$ 164
<b>Key Assumptions:</b>		
Weighted-average discount rate	9.11%	9.10%
Weighted-average prepayment speed	24.90%	26.61%

The following table summarizes the estimated future amortization of MSA for the next five years and thereafter:

<b>Year Ending June 30,</b>	<b>Amount</b> (In Thousands)
2014	\$ 130
2015	94
2016	67
2017	43
2018	23
Thereafter	177
<b>Total estimated amortization expense</b>	<b>\$ 534</b>



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The following table represents the hypothetical effect on the fair value of the Corporation's MSA using an unfavorable shock analysis of certain key valuation assumptions as of June 30, 2013 and 2012. This analysis is presented for hypothetical purposes only. As the amounts indicate, changes in fair value based on changes in assumptions generally cannot be extrapolated because the relationship of the change in assumptions to the change in fair value may not be linear.

(Dollars In Thousands)	Year Ended June 30,	
	2013	2012
MSA net carrying value	\$ 334	\$ 327
CPR assumption (weighted-average)	24.90%	26.61%
Impact on fair value with 10% adverse change in prepayment speed	\$ (18)	\$ (18)
Impact on fair value with 20% adverse change in prepayment speed	\$ (33)	\$ (34)
Discount rate assumption (weighted-average)	9.11%	9.10%
Impact on fair value with 10% adverse change in discount rate	\$ (12)	\$ (11)
Impact on fair value with 20% adverse change in discount rate	\$ (24)	\$ (21)

The Corporation has also recorded interest-only strips with a fair value of \$98,000, comprised of gross unrealized gains of \$96,000 and an unamortized cost of \$2,000 at June 30, 2013. This compares to interest-only strips at June 30, 2012 with a fair value of \$130,000, comprised of gross unrealized gains of \$127,000 and an unamortized cost of \$3,000. There were no additions to interest-only strips during fiscal 2013, 2012 or 2011. Total amortization of the interest-only strips during the years ended June 30, 2013, 2012 and 2011 were \$1,000, \$1,000 and \$1,000, respectively.

Loans sold consisted of the following for the years indicated:

(In Thousands)	Year Ended June 30,		
	2013	2012	2011
Loans sold:			
Servicing – released	\$ 3,506,027	\$ 2,460,281	\$ 2,115,845
Servicing – retained	16,331	13,121	1,999
Total loans sold	\$ 3,522,358	\$ 2,473,402	\$ 2,117,844

During the years ended June 30, 2013, 2012 and 2011, the Corporation sold 20%, 43% and 45%, respectively, of its loans originated for sale to a single investor, other than Freddie Mac or Fannie Mae. If the Corporation is unable to sell loans to its primary investor, find alternative investors, or change its loan programs to meet investor guidelines, it may have a significant negative impact on the Corporation's results of operations.

Loans held for sale, at fair value, at June 30, 2013 and 2012 consisted of the following:

(In Thousands)	June 30,	
	2013	2012
Fixed rate	\$ 183,999	\$ 228,070
Adjustable rate	4,051	3,569
Total loans held for sale, at fair value	\$ 188,050	\$ 231,639

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**Note 5: Real Estate Owned**

Real estate owned at June 30, 2013 and 2012 consisted of the following:

(In Thousands)	June 30,	
	2013	2012
Real estate owned	\$ 2,440	\$ 5,731
Allowance of estimated real estate owned losses	(144)	(242)
Total real estate owned, net	\$ 2,296	\$ 5,489

Real estate owned was primarily the result of real estate acquired in the settlement of loans. As of June 30, 2013, real estate owned was comprised of 10 properties, primarily single-family residences located in Southern California. This compares to 24 real estate owned properties at June 30, 2012, primarily single-family residences located in Southern California.

During fiscal 2013, the Corporation acquired 25 real estate owned properties in the settlement of loans and sold 39 properties for a net gain of \$1.2 million. In fiscal 2012, the Corporation acquired 68 real estate owned properties in the settlement of loans and sold 98 properties for a net loss of \$287,000.

A summary of the disposition and operations of real estate owned acquired in the settlement of loans for the years ended June 30, 2013, 2012 and 2011 consisted of the following:

(In Thousands)	Year Ended June 30,		
	2013	2012	2011
Net gains (losses) on sale	\$ 1,213	\$ (287)	\$ 185
Net operating expenses	(395)	(835)	(1,702)
Recovery for estimated losses	98	1,002	166
Gain (loss) on sale and operations of real estate owned acquired in the settlement of loans, net	\$ 916	\$ (120)	\$ (1,351)

**Note 6: Premises and Equipment**

Premises and equipment at June 30, 2013 and 2012 consisted of the following:

(In Thousands)	June 30,	
	2013	2012
Land	\$ 2,853	\$ 2,853
Buildings	8,135	7,922
Leasehold improvements	2,917	2,814
Furniture and equipment	5,542	4,960
Automobiles	140	123
	19,587	18,672
Less accumulated depreciation and amortization	(12,896)	(12,072)
Total premises and equipment, net	\$ 6,691	\$ 6,600

Depreciation and amortization expense for the years ended June 30, 2013, 2012 and 2011 amounted to \$1.0 million, \$800,000 and \$806,000, respectively.

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**Note 7: Deposits**

Deposits at June 30, 2013 and 2012 consisted of the following:

(Dollars in Thousands)	June 30, 2013		June 30, 2012	
	Interest Rate	Amount	Interest Rate	Amount
Checking deposits – non interest-bearing	—	\$ 57,835	—	\$ 55,688
Checking deposits – interest-bearing <sup>(1)</sup>	0% - 0.25%	206,784	0% - 0.30%	204,524
Savings deposits <sup>(1)</sup>	0% - 1.00%	229,779	0% - 1.00%	226,051
Money market deposits <sup>(1)</sup>	0% - 2.00%	26,399	0% - 2.00%	29,382
Time deposits <sup>(1)</sup>				
Under \$100 <sup>(2)</sup>	0.00% - 4.88%	206,039	0.00% - 4.88%	231,533
\$100 and over	0.10% - 4.88%	196,174	0.25% - 4.88%	214,233
Total deposits		\$ 923,010		\$ 961,411
Weighted-average interest rate on deposits		0.66%		0.76%

<sup>(1)</sup> Certain interest-bearing checking, savings, money market and time deposits require a minimum balance to earn interest.

<sup>(2)</sup> Includes brokered deposits of \$4.7 million and \$7.1 million at June 30, 2013 and 2012, respectively.

The aggregate annual maturities of time deposits at June 30, 2013 and 2012 were as follows:

(In Thousands)	June 30,	
	2013	2012
One year or less	\$ 255,594	\$ 223,696
Over one to two years	93,919	162,168
Over two to three years	33,193	37,158
Over three to four years	9,010	12,077
Over four to five years	8,930	9,049
Over five years	1,567	1,618
Total time deposits	\$ 402,213	\$ 445,766

Interest expense on deposits for the periods indicated is summarized as follows:

(In Thousands)	Year Ended June 30,		
	2013	2012	2011
Checking deposits – interest-bearing	\$ 283	\$ 481	\$ 807
Savings deposits	578	763	1,142
Money market deposits	117	156	212
Time deposits	5,607	7,015	8,099
Total interest expense on deposits	\$ 6,585	\$ 8,415	\$ 10,260

The Corporation is required to maintain reserve balances with the Federal Reserve Bank of San Francisco. Such reserves are calculated based on deposit balances and are offset by the cash balances maintained by the Bank. The cash balances maintained by the Bank at June 30, 2013 and 2012 were sufficient to cover the reserve requirements.

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**Note 8: Borrowings**

Advances from the FHLB – San Francisco, which mature on various dates through 2021, are collateralized by pledges of certain real estate loans with an aggregate balance at June 30, 2013 and 2012 of \$685.4 million and \$819.4 million, respectively. In addition, the Bank pledged investment securities totaling \$1.0 million at June 30, 2013 to collateralize its FHLB – San Francisco advances under the Securities-Backed Credit (“SBC”) program as compared to \$1.1 million at June 30, 2012. At June 30, 2013, the Bank’s FHLB – San Francisco borrowing capacity, which is limited to 35% of total assets reported on the Bank’s quarterly Call Report, was approximately \$427.5 million as compared to \$450.4 million at June 30, 2012 which was similarly limited. As of June 30, 2013 and 2012, the remaining/available borrowing facility was \$310.9 million and \$310.9 million, respectively, and the remaining/available collateral was \$369.4 million and \$409.0 million, respectively. As of June 30, 2013 and 2012, the Bank has also secured a \$17.2 million and \$20.2 million discount window facility, respectively, at the Federal Reserve Bank of San Francisco, collateralized by investment securities with a fair market value of \$18.1 million and \$21.2 million, respectively.

Borrowings at June 30, 2013 and 2012 consisted of the following:

(In Thousands)	June 30,	
	2013	2012
FHLB – San Francisco advances	\$ 106,491	\$ 126,546

In addition to the total borrowings described above, the Bank utilized its borrowing facility for letters of credit and MPF credit enhancement. The outstanding letters of credit at June 30, 2013 and 2012 were \$7.5 million and \$10.0 million, respectively; and the outstanding MPF credit enhancement at these dates was \$2.5 million and \$3.0 million, respectively.

As a member of the FHLB – San Francisco, the Bank is required to maintain a minimum investment in FHLB – San Francisco capital stock. The Bank held the required stock investment of \$8.7 million and excess capital stock of \$6.6 million at June 30, 2013, as compared to the required investment of \$9.4 million and excess investment of \$12.9 million at June 30, 2012.

In fiscal 2013 and 2012, the FHLB – San Francisco redeemed \$7.0 million and \$4.7 million of excess capital stock. In fiscal 2013, 2012 and 2011, the FHLB – San Francisco distributed \$438,000, \$99,000 and \$110,000 of cash dividends, respectively, to the Bank.

The following tables set forth certain information regarding borrowings by the Bank at the dates and for the years indicated:

(Dollars in Thousands)	At or For the Year Ended June 30,		
	2013	2012	2011
Balance outstanding at the end of year:			
FHLB – San Francisco advances	\$ 106,491	\$ 126,546	\$ 206,598
Weighted-average rate at the end of year:			
FHLB – San Francisco advances	3.55%	3.53%	3.77%
Maximum amount of borrowings outstanding at any month end:			
FHLB – San Francisco advances	\$ 126,542	\$ 216,577	\$ 309,643
Average short-term borrowings during the year with respect to <sup>(1)</sup> :			
FHLB – San Francisco advances	\$ 61,667	\$ 57,500	\$ 110,833
Weighted-average short-term borrowing rate during the year with respect to <sup>(1)</sup> :			
FHLB – San Francisco advances	3.87%	3.54%	4.32%

<sup>(1)</sup> Borrowings with a remaining term of 12 months or less.

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The aggregate annual contractual maturities of borrowings at June 30, 2013 and 2012 are as follows:

(Dollars in Thousands)	June 30,	
	2013	2012
Within one year	\$ 65,000	\$ 20,000
Over one to two years	—	65,000
Over two to three years	—	—
Over three to four years	—	—
Over four to five years	10,101	—
Over five years	31,390	41,546
<b>Total borrowings</b>	<b>\$ 106,491</b>	<b>\$ 126,546</b>
Weighted average interest rate	3.55%	3.53%

**Note 9: Income Taxes**

ASC 740, "Income Taxes," requires the affirmative evaluation that it is more likely than not, based on the technical merits of a tax position, that an enterprise is entitled to economic benefits resulting from positions taken in income tax returns. If a tax position does not meet the more-likely-than-not recognition threshold, the benefit of that position is not recognized in the financial statements. Management has determined that there are no unrecognized tax benefits to be reported in the Corporation's financial statements.

The Corporation utilizes the asset and liability method of accounting for income taxes whereby deferred tax assets are recognized for deductible temporary differences and tax credit carryforwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effect of changes in tax laws and rates on the date of enactment. The provision for income taxes for the periods indicated consisted of the following:

(In Thousands)	Year Ended June 30,		
	2013	2012	2011
Current:			
Federal	\$ 9,585	\$ 4,984	\$ 4,484
State	3,056	1,662	1,643
	12,641	6,646	6,127
Deferred:			
Federal	2,454	947	2,911
State	1,821	335	1,011
	4,275	1,282	3,922
<b>Provision for income taxes</b>	<b>\$ 16,916</b>	<b>\$ 7,928</b>	<b>\$ 10,049</b>

The Corporation's tax effect from non-qualified equity compensation in fiscal 2013 was \$(92,000), while there were no deferred tax benefits from non-qualified equity compensation in fiscal 2012 or 2011.

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The provision for income taxes differs from the amount of income tax determined by applying the applicable U.S. statutory federal income tax rate to net income (loss) before income taxes as a result of the following differences for the periods indicated:

(In Thousands)	Year Ended June 30,					
	2013		2012		2011	
	Amount	Tax Rate	Amount	Tax Rate	Amount	Tax Rate
Federal income tax at statutory rate	\$ 14,950	35.0 %	\$ 6,558	35.0 %	\$ 8,144	35.0 %
State income tax	3,002	7.0 %	1,300	6.9 %	1,638	7.0 %
Changes in taxes resulting from:						
Bank-owned life insurance	(64)	(0.1)%	(66)	(0.4)%	(70)	(0.3)%
Non-deductible expenses	63	0.1 %	33	0.2 %	31	0.1 %
Non-deductible stock-based compensation	82	0.2 %	110	0.6 %	172	0.8 %
Release of FIN 48 tax liabilities	(825)	(1.9)%	—	— %	—	— %
Other	(292)	(0.7)%	(7)	— %	134	0.6 %
Effective income tax	\$ 16,916	39.6 %	\$ 7,928	42.3 %	\$ 10,049	43.2 %

Deferred tax assets at June 30, 2013 and 2012 by jurisdiction were as follows:

(In Thousands)	June 30,	
	2013	2012
Deferred taxes - federal	\$ 3,465	\$ 5,873
Deferred taxes - state	960	2,775
Total net deferred tax assets	\$ 4,425	\$ 8,648

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Net deferred tax assets at June 30, 2013 and 2012 were comprised of the following:

(In Thousands)	June 30,	
	2013	2012
Loss reserves	\$ 9,341	\$ 13,858
Non-accrued interest	420	237
Deferred compensation	3,106	3,425
Accrued vacation	323	281
Depreciation	—	28
State taxes	924	181
Other	202	159
Total deferred tax assets	14,316	18,169
FHLB - San Francisco stock dividends	(2,069)	(3,015)
Unrealized gain on derivative financial instruments, at fair value	(2,916)	(1,238)
Unrealized gain on loans held for sale, at fair value	(1,422)	(2,133)
Unrealized gain on investment securities	(360)	(399)
Unrealized gain on interest-only strips	(41)	(53)
Deferred loan costs	(2,577)	(2,683)
Depreciation	(506)	—
Total deferred tax liabilities	(9,891)	(9,521)
Net deferred tax assets	\$ 4,425	\$ 8,648

The net deferred tax assets were included in prepaid expenses and other assets in the Consolidated Statements of Financial Condition. The Corporation analyzes the deferred tax assets to determine whether a valuation allowance is required based on the more likely than not criteria that such assets will be realized principally through future taxable income. This criteria takes into account the actual earnings and the estimates of profitability. The Corporation may carryback net federal tax losses to the preceding five taxable years and forward to the succeeding 20 taxable years. At June 30, 2013, the Corporation had no federal and \$4.1 million in state net tax loss carryforwards. Based on management's consideration of historical and anticipated future income before income taxes, as well as the reversal period for the items giving rise to the deferred tax assets and liabilities, a valuation allowance was not considered necessary at June 30, 2013 and 2012 and management believes it is more likely than not the Corporation will realize its deferred tax asset.

In fiscal year ended June 30, 2012, the Corporation recorded an \$825,000 tax liability against the deferred tax asset as a result of a prior period adjustment for fiscal 2009 and an \$825,000 charge against retained earnings in stockholders' equity, pursuant to ASC 740-10. The liability was established as a result of certain income items for tax reporting purposes from 2006 through 2007 resulting in an overpayment of taxes and an understatement of the deferred tax liability. The understatement was the result of the early recognition of taxable income in closed tax years that should have been recognized in open tax years. The liability has been established against the deferred tax asset created (or understated deferred tax liability) by the early recognition of taxable income, since the early recognition could be argued by the Internal Revenue Service to not relieve the Corporation of once again recognizing that same taxable income in the appropriate subsequent open tax years. The prior period adjustment was presented as a reduction in other assets and retained earnings. The Corporation was pursuing several remedies including filing a request for accounting method change with federal tax authorities to effectively recover the overpayment of taxes or eliminate any potential duplicate recognition. In August 2012, the Corporation received a notification from the tax authorities indicating the acceptance of the accounting method change attributable to the Corporation's overstatement of certain income items. As a result, the Corporation reversed the \$825,000 tax liability which was recorded in fiscal year ended June 30, 2012, decreasing the provision for income taxes for fiscal year ended June 30, 2013.

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A reconciliation of the beginning and ending amount of unrecognized tax benefits for the years ended June 30, 2013, 2012, and 2011 is as follows:

(In Thousands)	2013	2012	2011
Balance of prior fiscal year end	\$ 1,961	\$ 1,961	\$ 1,961
Additions based on tax positions related to the current year	—	—	—
Addition for tax positions of prior years	—	—	—
Reduction for tax positions of prior years	—	—	—
Settlements	—	—	—
Balance at June 30	\$ 1,961	\$ 1,961	\$ 1,961

Retained earnings at June 30, 2013 included approximately \$9.0 million (pre-1988 bad debt reserve for tax purposes) for which federal income tax of \$3.1 million had not been provided. If the amounts that qualify as deductions for federal income tax purposes are later used for purposes other than for bad debt losses, including distribution in liquidation, they will be subject to federal income tax at the then-current corporate tax rate. If those amounts are not so used, they will not be subject to tax even in the event the Bank were to convert its charter from a thrift to a bank.

The Corporation files income tax returns for the United States and state of California jurisdictions. The Internal Revenue Service has audited the Bank's income tax returns through 1996 and the California Franchise Tax Board has audited the Bank through 1990. Also, the Internal Revenue Service completed a review of the Corporation's income tax returns for fiscal 2006 and 2007; and the California Franchise Tax Board completed a review of the Corporation's income tax returns for fiscal 2007 and 2008. The Corporation is under examination by the California Franchise Tax Board for the fiscal years 2009 and 2010. Tax years subsequent to fiscal 2010 remain subject to federal examination, while the California state tax returns for years subsequent to fiscal 2009 are subject to examination by state taxing authorities. The Corporation believes that it has adequately provided or paid income tax obligations not yet resolved with federal and state tax authorities.

It is the Corporation's policy to record any penalties or interest charges arising from federal or state taxes as a component of income tax expense. For the fiscal year ended June 30, 2013, there were no tax penalties or interest charges. For fiscal 2012 and 2011, the Corporation paid \$14,000 and \$34,000 in interest charges, respectively, and paid no penalties and \$8,000 of penalties, respectively.

**Note 10: Capital**

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

Quantitative measures established by federal regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the following table) of Tier 1 Leverage Capital (as defined) to Total Assets (as defined) and of Tier 1 and Total Risk-Based Capital (as defined in the regulations) to Risk-Weighted Assets (as defined). Management believes, as of June 30, 2013 and 2012, that the Bank met all its capital adequacy requirements.

As of June 30, 2013 and 2012, the Bank was categorized as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized" the Bank must maintain minimum Tier 1 Leverage Capital (to total assets), Tier 1 Risk-Based Capital (to risk-weighted assets) and Total Risk-Based Capital (to risk-weighted assets), as set forth in the following table. Management is not aware of any conditions or events since the notification that have changed the Bank's category.



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The Bank may not declare or pay cash dividends on or repurchase any of its shares of common stock, if the effect would cause stockholders' equity to be reduced below applicable regulatory capital maintenance requirements or if such declaration and payment would otherwise violate regulatory requirements. In fiscal 2013 and 2012, the Bank declared \$10.0 million and \$8.0 million of cash dividends to its parent, the Corporation, respectively; in fiscal 2011, the Bank did not declare cash dividends to its parent.

Federal regulations require that institutions with investments in subsidiaries conducting real estate investment and joint venture activities to maintain sufficient capital over the minimum regulatory requirements. The Bank maintains capital in excess of the minimum requirements.

The Bank's actual capital amounts and ratios as of June 30, 2013 and 2012 were as follows:

(Dollars in Thousands)	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b>As of June 30, 2013</b>						
Tier 1 Leverage Capital	\$ 158,737	13.12%	\$ 48,408	≥ 4.0%	\$ 60,510	≥ 5.0%
Tier 1 Risk-Based Capital	\$ 158,737	21.36%	N/A	N/A	\$ 44,582	≥ 6.0%
Total Risk-Based Capital	\$ 168,201	22.64%	\$ 59,442	≥ 8.0%	\$ 74,303	≥ 10.0%
<b>As of June 30, 2012</b>						
Tier 1 Leverage Capital	\$ 141,831	11.26%	\$ 50,400	≥ 4.0%	\$ 63,000	≥ 5.0%
Tier 1 Risk-Based Capital	\$ 141,831	17.53%	N/A	N/A	\$ 48,555	≥ 6.0%
Total Risk-Based Capital	\$ 152,087	18.79%	\$ 64,740	≥ 8.0%	\$ 80,925	≥ 10.0%

**Note 11: Benefit Plans**

The Corporation has a 401(k) defined-contribution plan covering all employees meeting specific age and service requirements. Under the plan, employees may contribute to the plan from their pretax compensation up to the limits set by the Internal Revenue Service. The Corporation makes matching contributions up to 3% of a participants' pretax compensation. Participants vest immediately in their own contributions with 100% vesting in the Corporation's contributions occurring after six years of credited service. The Corporation's expense for the plan was approximately \$852,000, \$563,000 and \$451,000 for the years ended June 30, 2013, 2012 and 2011, respectively.

The Corporation has a multi-year employment agreement and a post-retirement compensation agreement with one executive officer and a post-retirement compensation agreement with another executive officer, which requires payments of certain benefits upon retirement. At June 30, 2013 and 2012, the accrued liability of the post-retirement compensation agreements was \$4.4 million and \$3.9 million, respectively; costs are being accrued and expensed annually. For fiscal 2013 and 2012, the accrued expense for these liabilities was \$471,000 and \$318,000, respectively. The current obligation for these post-retirement benefits was fully funded consistent with contractual requirements and actuarially determined estimates of the total future obligation. The Corporation invests in BOLI to provide sufficient funding for these post-retirement obligations. As of June 30, 2013 and 2012, the total outstanding cash surrender value of the BOLI was \$6.5 million and \$6.3 million, respectively. For fiscal 2013, 2012 and 2011, the total non-taxable income from the BOLI was \$233,000, \$236,000 and \$242,000, respectively.

**Employee Stock Ownership Plan**

A leveraged ESOP was established on June 27, 1996 for all employees who are age 21 or older and have completed one year of service with the Corporation during which they have served a minimum of 1,000 hours. The ESOP borrowed \$4.1 million from the Corporation to purchase 922,538 shares of the common stock issued in the conversion. The loan was paid off as of March 31, 2011 and all of the shares have been allocated to the eligible participants. Shares purchased with the loan proceeds were held in an unearned ESOP account and released on a pro-rata basis based on the distribution schedule and repayment of the ESOP loan. The loan was principally repaid from the Corporation's contributions to the ESOP over a period of 15 years. Contributions to the ESOP

and share releases from the unearned ESOP account were allocated among participants on the basis of compensation, as described in the plan, in the year of allocation.

Subsequent to the repayment of the ESOP loan described previously, the ESOP has become an unleveraged plan which recognizes compensation expense when the Bank contributes funds to the ESOP for the purchase of the Corporation's common stock to be allocated to the ESOP participants. During fiscal 2013, there were 60,000 shares and 44,219 shares that have been purchased in the open market to fulfill the annual discretionary allocation for calendar 2012 and 2013, respectively. Since the annual contributions are discretionary, the benefits payable under the ESOP cannot be estimated.

Benefits generally become 100% vested after six years of credited service. Vesting accelerates upon retirement, death or disability of the participant or in the event of a change in control of the Corporation. Forfeitures are reallocated among remaining participating employees in the same proportion as contributions. Benefits are payable upon death, retirement, early retirement, disability or separation from service.

The net expense related to the ESOP for the years ended June 30, 2013, 2012 and 2011 was \$1.4 million, \$375,000 and \$304,000, respectively. The ESOP shares are allocated every calendar year end and the total shares allocated at December 31, 2012, 2011 and 2010 were 60,000 shares, 60,000 shares and 60,867 shares, respectively.

## Note 12: Incentive Plans

As of June 30, 2013, the Corporation had four share-based compensation plans, which are described below. These plans are the 2010 Equity Incentive Plan ("2010 Plan"), the 2006 Equity Incentive Plan ("2006 Plan"), the 2003 Stock Option Plan and the 1996 Stock Option Plan. For the years ended June 30, 2013, 2012 and 2011, the compensation cost for these plans was \$768,000, \$1.3 million and \$958,000, respectively. Net income tax expense recognized in the Consolidated Statements of Operations for share-based compensation plans for the year ended June 30, 2013 was \$92,000; and no income tax benefit was recognized in the years ended June 30, 2012 and 2011.

**Equity Incentive Plan.** The Corporation established and the shareholders approved the 2010 Plan and the 2006 Plan for directors, advisory directors, directors emeriti, officers and employees of the Corporation and its subsidiary. The 2010 Plan authorizes 586,250 stock options and 288,750 shares of restricted stock. The 2010 Plan also provides that no person may be granted more than 117,250 stock options or 43,312 shares of restricted stock in any one year. The 2006 Plan authorizes 365,000 stock options and 185,000 shares of restricted stock. The 2006 Plan also provides that no person may be granted more than 73,000 stock options or 27,750 shares of restricted stock in any one year.

**Equity Incentive Plan - Stock Options.** Under the 2010 Plan and 2006 Plan (collectively, "the Plans"), options may not be granted at a price less than the fair market value at the date of the grant. Options typically vest over a five-year or shorter period as long as the director, advisory director, director emeritus, officer or employee remains in service to the Corporation. The options are exercisable after vesting for up to the remaining term of the original grant. The maximum term of the options granted is 10 years.

The fair value of each option grant is estimated on the date of the grant using the Black-Scholes option valuation model with the following assumptions. The expected volatility is based on implied volatility from historical common stock closing prices for the prior 84 months. The expected dividend yield is based on the most recent quarterly dividend on an annualized basis. The expected term is based on the historical experience of all fully vested stock option grants and is reviewed annually. The risk-free interest rate is based on the U.S. Treasury note rate with a term similar to the underlying stock option on the particular grant date.

	Fiscal 2013	Fiscal 2012	Fiscal 2011
Expected volatility range	55.2%	—%	55.4%
Weighted-average volatility	55.2%	—%	55.4%
Expected dividend yield	1.2%	—%	1.6%
Expected term (in years)	7.7	—	7.1
Risk-free interest rate	1.2%	—%	2.3%

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In fiscal 2013, there were 20,000 options granted under the Plans with 50% vesting after two years of service and 50% vesting after four years of service. Also in fiscal 2013, the weighted-average fair value of the options granted as of the grant date was \$8.35 per option, while 42,000 options were exercised and 24,000 options were forfeited. There was no activity under the Plans in fiscal 2012, except the exercise of 9,000 options. In fiscal 2011, there was no activity, except 412,000 options were granted under the Plans with 50% vesting after two years of service and 50% vesting after four years of service and the weighted-average fair value of the options granted as of the grant date was \$3.64 per option. As of June 30, 2013 and 2012, there were 188,450 options and 184,450 options, respectively, available for future grants under the Plans.

The following tables summarize the stock option activity in the Plans during the years ended June 30, 2013, 2012 and 2011.

Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (\$000)
Outstanding at June 30, 2010	354,800	\$ 17.45		
Granted	412,000	\$ 7.43		
Exercised	—	\$ —		
Forfeited	—	\$ —		
Outstanding at June 30, 2011	766,800	\$ 12.07	8.31	\$ 321
Vested and expected to vest at June 30, 2011	370,610	\$ 16.59	6.98	\$ 173
Exercisable at June 30, 2011	139,040	\$ 28.31	5.61	\$ —
Outstanding at June 30, 2011	766,800	\$ 12.07		
Granted	—	\$ —		
Exercised	(9,000)	\$ 7.03		
Forfeited	—	\$ —		
Outstanding at June 30, 2012	757,800	\$ 12.13	7.32	\$ 2,463
Vested and expected to vest at June 30, 2012	660,800	\$ 12.82	7.08	\$ 2,066
Exercisable at June 30, 2012	345,800	\$ 17.73	5.35	\$ 774
Outstanding at June 30, 2012	757,800	\$ 12.13		
Granted	20,000	\$ 16.47		
Exercised	(42,000)	\$ 7.03		
Forfeited	(24,000)	\$ 7.41		
Outstanding at June 30, 2013	711,800	\$ 12.71	6.43	\$ 4,429
Vested and expected to vest at June 30, 2013	668,900	\$ 12.99	6.32	\$ 4,100
Exercisable at June 30, 2013	497,300	\$ 14.62	5.71	\$ 2,785

As of June 30, 2013 and 2012, there was \$700,000 and \$1.2 million of unrecognized compensation expense, respectively, related to unvested share-based compensation arrangements with respect to stock options issued under the Plans. The expense is expected to be recognized over a weighted-average period of 2.2 years and 3.0 years, respectively. The forfeiture rate during fiscal 2013 and 2012 was 20 percent for both periods, and was calculated by using the historical forfeiture experience of all fully vested stock option grants and is reviewed annually.

**Equity Incentive Plan – Restricted Stock.** The Corporation used 288,750 shares and 185,000 shares of its treasury stock to fund the 2010 Plan and the 2006 Plan, respectively. Awarded shares typically vest over a five-year or shorter period as long as the director, advisory director, director emeriti, officer or employee remains in service to the Corporation. Once vested, a recipient of restricted stock will have all rights of a shareholder, including the power to vote and the right to receive dividends. The

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Corporation recognizes compensation expense for the restricted stock awards based on the fair value of the shares at the award date.

There was no restricted stock awarded in fiscal 2013, and the only activity consisted of the vesting and distribution of 73,050 shares and the forfeiture of 1,500 shares. In fiscal 2012, no restricted stock was awarded or forfeited, while 111,500 shares were vested and distributed. In fiscal 2011, a total of 146,000 shares of restricted stock were awarded with 50% vesting after two years of service and 50% vesting after four years of service, additionally 12,000 shares were vested and distributed and no shares were forfeited. As of June 30, 2013 and 2012, there were 169,600 and 168,100 shares, respectively, available for future awards.

The following table summarizes the restricted stock activity in the years ended June 30, 2013, 2012 and 2011.

Unvested Shares	Shares	Weighted-Average Award Date Fair Value
Unvested at June 30, 2010	124,300	\$ 10.29
Awarded	146,000	\$ 7.07
Vested	(12,000)	\$ 25.93
Forfeited	—	\$ —
Unvested at June 30, 2011	258,300	\$ 7.75
Expected to vest at June 30, 2011	193,725	\$ 7.75
Unvested at June 30, 2011	258,300	\$ 7.75
Awarded	—	\$ —
Vested	(111,500)	\$ 8.56
Forfeited	—	\$ —
Unvested at June 30, 2012	146,800	\$ 7.13
Expected to vest at June 30, 2012	117,440	\$ 7.13
Unvested at June 30, 2012	146,800	\$ 7.13
Awarded	—	\$ —
Vested	(73,050)	\$ 7.19
Forfeited	(1,500)	\$ 7.07
Unvested at June 30, 2013	72,250	\$ 7.07
Expected to vest at June 30, 2013	57,800	\$ 7.07

As of June 30, 2013 and 2012, the unrecognized compensation expense was \$505,000 and \$820,000, respectively, related to unvested share-based compensation arrangements with respect to restricted stock issued under the Plans, and reported as a reduction to stockholders' equity. This expense is expected to be recognized over a weighted-average period of 2.0 years and 3.0 years, respectively. Similar to stock options, a forfeiture rate of 20 percent has been applied to the restricted stock compensation expense calculations in fiscal 2013 and 2012. For the years ended June 30, 2013, 2012 and 2011, the fair value of shares vested and distributed was \$1.1 million, \$922,000 and \$83,000, respectively.

**Stock Option Plans.** The Corporation established the 2003 Stock Option Plan and the 1996 Stock Option Plan (collectively, the "Stock Option Plans") for key employees and eligible directors under which options to acquire up to 352,500 shares and 1.15 million shares of common stock, respectively, may be granted. Under the Stock Option Plans, stock options may not be granted at a price less than the fair market value at the date of the grant. Stock options typically vest over a five-year period on a pro-rata basis as long as the employee or director remains in service to the Corporation. The stock options are exercisable after vesting for up to the remaining term of the original grant. The maximum term of the stock options granted is 10 years.

The fair value of each stock option grant is estimated on the date of the grant using the Black-Scholes option valuation model with the following assumptions. The expected volatility is based on implied volatility from historical common stock closing prices for

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the prior 84 months. The expected dividend yield is based on the most recent quarterly dividend on an annualized basis. The expected term is based on the historical experience of all fully vested stock option grants and is reviewed annually. The risk-free interest rate is based on the U.S. Treasury note rate with a term similar to the underlying stock option on the particular grant date.

In fiscal 2013, 2012 and 2011, there was no activity under the Stock Option Plans, except forfeitures of 7,500 shares, 62,700 shares and 67,500 shares, respectively. As of June 30, 2013 and 2012, the number of stock options available for future grants under the 2003 Stock Option Plan was 14,900 stock options. No stock options remain available for future grant under the 1996 Stock Option Plan, which expired in January 2007.

The following is a summary of the activity in the Stock Option Plans for the years ended June 30, 2013, 2012 and 2011.

Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (\$000)
Outstanding at June 30, 2010	550,400	\$ 20.52		
Granted	—	\$ —		
Exercised	—	\$ —		
Forfeited	(67,500)	\$ 8.28		
Outstanding at June 30, 2011	482,900	\$ 22.23	3.06	\$ —
Vested and expected to vest at June 30, 2011	474,700	\$ 22.20	3.02	\$ —
Exercisable at June 30, 2011	450,100	\$ 22.11	2.87	\$ —
Outstanding at June 30, 2011	482,900	\$ 22.23		
Granted	—	\$ —		
Exercised	—	\$ —		
Forfeited	(62,700)	\$ 9.67		
Outstanding at June 30, 2012	420,200	\$ 24.11	2.47	\$ —
Vested and expected to vest at June 30, 2012	418,200	\$ 24.13	2.46	\$ —
Exercisable at June 30, 2012	410,200	\$ 24.21	2.41	\$ —
Outstanding at June 30, 2012	420,200	\$ 24.11		
Granted	—	\$ —		
Exercised	—	\$ —		
Forfeited	(7,500)	\$ 13.67		
Outstanding at June 30, 2013	412,700	\$ 24.30	1.51	\$ —
Vested and expected to vest at June 30, 2013	412,700	\$ 24.30	1.51	\$ —
Exercisable at June 30, 2013	412,700	\$ 24.30	1.51	\$ —

As of June 30, 2013, there was no unrecognized compensation expense. This compares to unrecognized compensation expense of \$1,000 at June 30, 2012, related to unvested share-based compensation arrangements under the Stock Option Plans, which was recognized over a weighted-average period of less than a year. The forfeiture rate during fiscal 2013 and 2012 was 20 percent, for both periods and was calculated by using the historical forfeiture experience of all fully vested stock option grants and is reviewed annually.

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**Note 13: Earnings Per Share**

Basic earnings per share (“EPS”) excludes dilution and is computed by dividing income available to common shareholders by the weighted-average number of shares outstanding for the period. Diluted EPS reflects 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 would then share in the earnings of the Corporation.

As of June 30, 2013, 2012 and 2011, there were outstanding options to purchase 1.1 million shares, 1.2 million shares and 1.2 million shares of the Corporation’s common stock, respectively, of which 606,500 shares, 594,000 shares and 656,700 shares, respectively, were excluded from the diluted EPS computation as their effect was anti-dilutive. As of June 30, 2013, 2012 and 2011, there were outstanding restricted stock awards of 72,250 shares, 146,800 shares and 258,300 shares, respectively, with 800 shares and 12,800 shares at June 30, 2012 and 2011, respectively, excluded from the diluted EPS computation as their effect was anti-dilutive.

The following table provides the basic and diluted EPS computations for the fiscal years ended June 30, 2013, 2012 and 2011, respectively.

(Dollars in Thousands, Except Share Amount)	<b>For the Year Ended June 30, 2013</b>		
	<b>Income (Numerator)</b>	<b>Shares (Denominator)</b>	<b>Per-Share Amount</b>
Basic EPS	\$ 25,797	10,601,145	\$ 2.43
Effect of dilutive shares:			
Stock options		160,861	
Restricted stock		73,194	
Diluted EPS	\$ 25,797	10,835,200	\$ 2.38

(Dollars in Thousands, Except Share Amount)	<b>For the Year Ended June 30, 2012</b>		
	<b>Income (Numerator)</b>	<b>Shares (Denominator)</b>	<b>Per-Share Amount</b>
Basic EPS	\$ 10,810	11,222,797	\$ 0.96
Effect of dilutive shares:			
Stock options		23,941	
Restricted stock		40,467	
Diluted EPS	\$ 10,810	11,287,205	\$ 0.96

(Dollars in Thousands, Except Share Amount)	<b>For the Year Ended June 30, 2011</b>		
	<b>Income (Numerator)</b>	<b>Shares (Denominator)</b>	<b>Per-Share Amount</b>
Basic EPS	\$ 13,220	11,389,106	\$ 1.16
Effect of dilutive shares:			
Stock options		554	
Restricted stock		25,881	
Diluted EPS	\$ 13,220	11,415,541	\$ 1.16

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**Note 14: Commitments and Contingencies**

The Corporation is involved in various legal matters associated with its normal operations. In the opinion of management, these matters will be resolved without material effect on the Corporation's financial position, results of operations or cash flows.

The Corporation conducts a portion of its operations in leased facilities and has maintenance contracts under non-cancelable agreements classified as operating leases. The following is a schedule of the Corporation's operating lease obligations:

<b>Year Ending June 30,</b>	<b>Amount</b> (In Thousands)
2014	\$ 1,348
2015	1,158
2016	940
2017	771
2018	544
Thereafter	428
<b>Total minimum payments required</b>	<b>\$ 5,189</b>

Lease expense under operating leases was approximately \$2.2 million, \$1.9 million and \$1.4 million for the years ended June 30, 2013, 2012 and 2011, respectively.

The Bank sold single-family mortgage loans to unrelated third parties with standard representation and warranty provisions in the ordinary course of its mortgage banking activities. Under these provisions, the Bank is required to repurchase any previously sold loan for which the representations or warranties of the Bank prove to be inaccurate, incomplete or misleading. In the event of a borrower default or fraud, pursuant to a breeched representation or warranty, the Bank may be required to reimburse the investor for any losses suffered. As of June 30, 2013, the Bank maintained a recourse liability related to these representations and warranties of \$1.3 million, which consisted of \$600,000 in non-contingent recourse liability and \$716,000 in contingent recourse liability. This compares to a recourse liability of \$5.4 million at June 30, 2012, comprised of \$2.7 million in non-contingent recourse liability and \$2.7 million in contingent recourse liability. In addition, the Bank maintained a recourse liability of \$746,000 and \$734,000 at June 30, 2013 and 2012, respectively, for loans sold to the FHLB – San Francisco under the MPF program.

In the ordinary course of business, the Corporation enters into contracts with third parties under which the third parties provide services on behalf of the Corporation. In many of these contracts, the Corporation agrees to indemnify the third party service provider under certain circumstances. The terms of the indemnity vary from contract to contract and the amount of the indemnification liability, if any, cannot be determined. The Corporation also enters into other contracts and agreements; such as, loan sale agreements, litigation settlement agreements, confidentiality agreements, loan servicing agreements, leases and subleases, among others, in which the Corporation agrees to indemnify third parties for acts by the Corporation's agents, assignees and/or sub-lessees, and employees. Due to the nature of these indemnification provisions, the Corporation cannot calculate its aggregate potential exposure under them.

Pursuant to their bylaws, the Corporation and its subsidiaries provide indemnification to directors, officers and, in some cases, employees and agents against certain liabilities incurred as a result of their service on behalf of or at the request of the Corporation and its subsidiaries. It is not possible for the Corporation to determine the aggregate potential exposure resulting from the obligation to provide this indemnity.

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

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**Note 15: Derivative and Other Financial Instruments with Off-Balance Sheet Risks**

The Corporation is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit in the form of originating loans or providing funds under existing lines of credit, loan sale commitments to third parties and option contracts. These instruments involve, to varying degrees, elements of credit and interest-rate risk in excess of the amount recognized in the accompanying Consolidated Statements of Financial Condition. The Corporation's exposure to credit loss, in the event of non-performance by the counterparty to these financial instruments, is represented by the contractual amount of these instruments. The Corporation uses the same credit policies in entering into financial instruments with off-balance sheet risk as it does for on-balance sheet instruments. As of June 30, 2013 and 2012, the Corporation had commitments to extend credit (on loans to be held for investment and loans to be held for sale) of \$262.5 million and \$222.1 million, respectively.

The following table provides information at the dates indicated regarding undisbursed funds to borrowers on existing lines of credit with the Corporation as well as commitments to originate loans to be held for investment at the dates indicated below.

<b>Commitments</b>	<b>June 30, 2013</b>	<b>June 30, 2012</b>
<b>(Dollars In Thousands)</b>		
Undisbursed loan funds – Construction loans	\$ 292	\$ —
Undisbursed lines of credit – Mortgage loans	774	1,028
Undisbursed lines of credit – Commercial business loans	952	1,340
Undisbursed lines of credit – Consumer loans	779	863
Commitments to extend credit on loans to be held for investment	6,872	1,720
<b>Total</b>	<b>\$ 9,669</b>	<b>\$ 4,951</b>

In accordance with ASC 815, "Derivatives and Hedging," and interpretations of the Derivatives Implementation Group of the FASB, the fair value of the commitments to extend credit on loans to be held for sale, loan sale commitments, TBA MBS trades, put option contracts and call option contracts are recorded at fair value on the Consolidated Statements of Financial Condition. At June 30, 2013, \$7.4 million was included in other assets and \$1.1 million was included in other liabilities; at June 30, 2012, \$4.0 million was included in other assets and \$1.3 million was included in other liabilities. The Corporation does not apply hedge accounting to its derivative financial instruments; therefore, all changes in fair value are recorded in the consolidated statements of operations.

The following table provides information regarding the allowance for loan losses for the undisbursed funds and commitments to extend credit on loans to be held for investment for the years ended June 30, 2013 and 2012.

(In Thousands)	<b>For the Year Ended June 30,</b>	
	<b>2013</b>	<b>2012</b>
Balance, beginning of the year	\$ 66	\$ 94
Provision (recovery)	49	(28)
<b>Balance, end of the year</b>	<b>\$ 115</b>	<b>\$ 66</b>

The net impact of derivative financial instruments on the gain on sale of loans contained in the Consolidated Statements of Operations for the years ended June 30, 2013, 2012 and 2011 was as follows:



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(In Thousands) <b>Derivative Financial Instruments</b>	<b>For the Year Ended June 30,</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
Commitments to extend credit on loans to be held for sale	\$ (5,013)	\$ 3,343	\$ (2,327)
Mandatory loan sale commitments and TBA MBS trades	8,121	(1,895)	4,028
Option contracts	214	(360)	(24)
<b>Total</b>	<b>\$ 3,322</b>	<b>\$ 1,088</b>	<b>\$ 1,677</b>

The outstanding derivative financial instruments at the dates indicated were as follows:

(In Thousands) <b>Derivative Financial Instruments</b>	<b>June 30, 2013</b>		<b>June 30, 2012</b>	
	<b>Amount</b>	<b>Fair Value</b>	<b>Amount</b>	<b>Fair Value</b>
Commitments to extend credit on loans to be held for sale <sup>(1)</sup>	\$ 255,635	\$ (1,032)	\$ 220,357	\$ 3,981
Best efforts loan sale commitments	(29,847)	—	(30,498)	—
Mandatory loan sale commitments and TBA MBS trades	(410,897)	6,805	(408,636)	(1,316)
Option contracts	(10,000)	589	(15,000)	36
<b>Total</b>	<b>\$ (195,109)</b>	<b>\$ 6,362</b>	<b>\$ (233,777)</b>	<b>\$ 2,701</b>

<sup>(1)</sup> Net of 23.6% percent at June 30, 2013 and 33.8% percent at June 30, 2012 of commitments, which management has estimated may not fund.

**Note 16: Fair Value of Financial Instruments**

The Corporation adopted ASC 820, “Fair Value Measurements and Disclosures,” and elected the fair value option pursuant to ASC 825, “Financial Instruments” on loans originated for sale by PBM. ASC 820 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. ASC 825 permits entities to elect to measure many financial instruments and certain other assets and liabilities at fair value on an instrument-by-instrument basis (the “Fair Value Option”) at specified election dates. At each subsequent reporting date, an entity is required to report unrealized gains and losses on items in earnings for which the fair value option has been elected. The objective of the Fair Value Option is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions.

The following table describes the difference at the dates indicated between the aggregate fair value and the aggregate unpaid principal balance of loans held for sale at fair value.

(In Thousands)	<b>Aggregate Fair Value</b>	<b>Aggregate Unpaid Principal Balance</b>	<b>Net Unrealized (Loss) Gain</b>
<b>As of June 30, 2013:</b>			
Loans held for sale, measured at fair value	\$ 188,050	\$ 188,545	\$ (495)
<b>As of June 30, 2012:</b>			
Loans held for sale, measured at fair value	\$ 231,639	\$ 220,849	\$ 10,790

ASC 820-10-65-4, “Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly,” provides additional guidance for estimating fair value in accordance

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with ASC 820, "Fair Value Measurements," when the volume and level of activity for the asset or liability have significantly decreased.

ASC 820 establishes a three-level valuation hierarchy that prioritizes inputs to valuation techniques used in fair value calculations. The three levels of inputs are defined as follows:

- Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities that the Corporation has the ability to access at the measurement date.
- Level 2 - Observable inputs other than Level 1 such as: quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated to observable market data for substantially the full term of the asset or liability.
- Level 3 - Unobservable inputs for the asset or liability that use significant assumptions, including assumptions of risks. These unobservable assumptions reflect the Corporation's estimate of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include the use of pricing models, discounted cash flow models and similar techniques.

ASC 820 requires the Corporation to maximize the use of observable inputs and minimize the use of unobservable inputs. If a financial instrument uses inputs that fall in different levels of the hierarchy, the instrument will be categorized based upon the lowest level of input that is significant to the fair value calculation.

The Corporation's financial assets and liabilities measured at fair value on a recurring basis consist of investment securities, loans held for sale at fair value, interest-only strips and derivative financial instruments; while non-performing loans, MSA and real estate owned are measured at fair value on a nonrecurring basis.

Investment securities are primarily comprised of U.S. government agency MBS, U.S. government sponsored enterprise MBS and private issue CMO. The Corporation utilizes unadjusted quoted prices in active markets for identical securities for its fair value measurement of debt securities, quoted prices in active and less than active markets for similar securities for its fair value measurement of MBS and debt securities (Level 2), and broker price indications for similar securities in non-active markets for its fair value measurement of CMO (Level 3).

Derivative financial instruments are comprised of commitments to extend credit on loans to be held for sale, mandatory loan sale commitments, TBA MBS trades and option contracts. The fair value of TBA MBS trades is determined using quoted secondary-market prices (Level 2). The fair values of other derivative financial instruments are determined by quoted prices for a similar commitment or commitments, adjusted for the specific attributes of each commitment (Level 3).

Loans held for sale at fair value are primarily single-family loans. The fair value is determined, when possible, using quoted secondary-market prices such as mandatory loan sale commitments. If no such quoted price exists, the fair value of a loan is determined by quoted prices for a similar loan or loans, adjusted for the specific attributes of each loan (Level 2).

Non-performing loans are loans which are inadequately protected by the current net worth and paying capacity of the borrowers or of the collateral pledged. The non-performing loans are characterized by the distinct possibility that the Corporation will sustain some loss if the deficiencies are not corrected. The fair value of a non-performing loan is determined based on an observable market price or current appraised value of the underlying collateral. Appraised and reported values may be discounted based on management's historical knowledge, changes in market conditions from the time of valuation, and/or management's expertise and knowledge of the borrower. For non-performing loans which are restructured loans, the fair value is derived from discounted cash flow analysis (Level 3), except those which are in the process of foreclosure or 90 days delinquent for which the fair value is derived from the appraised value of its collateral (Level 2). For other non-performing loans which are not restructured loans, the fair value is derived from relative value analysis: historical experience and management estimates by loan type for which collectively evaluated allowances are assigned (Level 3), or the appraised value of its collateral for loans which are in the process of foreclosure or where borrowers file bankruptcy, for which the charge-off will occur when the loan becomes 60 days delinquent (Level 2). For non-performing commercial real estate loans, the fair value is derived from the appraised value of its collateral (Level 2). Non-performing loans are reviewed and evaluated on at least a quarterly basis for additional allowance and adjusted accordingly, based on the same factors identified above. This loss is not recorded directly as an adjustment to current earnings or other comprehensive income (loss), but rather as a component in determining the overall adequacy of the allowance for loan losses. These adjustments

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to the estimated fair value of non-performing loans may result in increases or decreases to the provision for loan losses recorded in current earnings.

The Corporation uses the amortization method for its MSA, which amortizes the MSA in proportion to and over the period of estimated net servicing income and assesses the MSA for impairment based on fair value at each reporting date. The fair value of MSA is calculated using the present value method; which includes a third party's prepayment projections of similar instruments, weighted-average coupon rates and the estimated average life (Level 3).

The rights to future income from serviced loans that exceed contractually specified servicing fees are recorded as interest-only strips. The fair value of interest-only strips is calculated using the same assumptions that are used to value the related MSA (Level 3).

The fair value of real estate owned is derived from the lower of the appraised value at the time of foreclosure or the listing price, net of estimated disposition costs (Level 2).

The Corporation'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 Corporation'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.

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The following fair value hierarchy table presents information at the dates indicated about the Corporation's assets measured at fair value on a recurring basis:

(In Thousands)	<b>Fair Value Measurement at June 30, 2013 Using:</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Assets:</b>				
Investment securities:				
U.S. government agency MBS	\$ —	\$ 10,816	\$ —	\$ 10,816
U.S. government sponsored enterprise MBS	—	7,675	—	7,675
Private issue CMO	—	—	1,019	1,019
Investment securities	—	18,491	1,019	19,510
Loans held for sale, at fair value	—	188,050	—	188,050
Interest-only strips	—	—	98	98
Derivative assets:				
Commitments to extend credit on loans to be held for sale	—	—	1,338	1,338
Mandatory loan sale commitments	—	—	405	405
TBA MBS trades	—	7,251	—	7,251
Option contracts	—	—	589	589
Derivative assets	—	7,251	2,332	9,583
<b>Total assets</b>	<b>\$ —</b>	<b>\$ 213,792</b>	<b>\$ 3,449</b>	<b>\$ 217,241</b>
<b>Liabilities:</b>				
Derivative liabilities:				
Commitments to extend credit on loans to be held for sale	\$ —	\$ —	\$ 2,370	\$ 2,370
Mandatory loan sale commitments	—	—	322	322
TBA MBS trades	—	529	—	529
Derivative liabilities	—	529	2,692	3,221
<b>Total liabilities</b>	<b>\$ —</b>	<b>\$ 529</b>	<b>\$ 2,692</b>	<b>\$ 3,221</b>

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(In Thousands)	Fair Value Measurement at June 30, 2012 Using:			
	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
Investment securities:				
U.S. government agency MBS	\$ —	\$ 12,314	\$ —	\$ 12,314
U.S. government sponsored enterprise MBS	—	9,342	—	9,342
Private issue CMO	—	—	1,242	1,242
Investment securities	—	21,656	1,242	22,898
Loans held for sale, at fair value				
Loans held for sale, at fair value	—	231,639	—	231,639
Interest-only strips	—	—	130	130
Derivative assets:				
Commitments to extend credit on loans to be held for sale	—	—	3,998	3,998
Mandatory loan sale commitments	—	—	38	38
TBA MBS trades	—	121	—	121
Option contracts	—	—	36	36
Derivative assets	—	121	4,072	4,193
<b>Total assets</b>	<b>\$ —</b>	<b>\$ 253,416</b>	<b>\$ 5,444</b>	<b>\$ 258,860</b>
<b>Liabilities:</b>				
Derivative liabilities:				
Commitments to extend credit on loans to be held for sale	\$ —	\$ —	\$ 17	\$ 17
Mandatory loan sale commitments	—	—	201	201
TBA MBS trades	—	1,274	—	1,274
Derivative liabilities	—	1,274	218	1,492
<b>Total liabilities</b>	<b>\$ —</b>	<b>\$ 1,274</b>	<b>\$ 218</b>	<b>\$ 1,492</b>

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The following is a reconciliation of the beginning and ending balances during the periods shown of recurring fair value measurements recognized in the Consolidated Statements of Financial Condition using Level 3 inputs:

Fair Value Measurement Using Significant Other Unobservable Inputs (Level 3)						
(In Thousands)	Private Issue CMO	Interest- Only Strips	Loan Commit- ments to originate <sup>(1)</sup>	Manda- tory Commit- ments <sup>(2)</sup>	Option Contracts	Total
Beginning balance at June 30, 2012	\$ 1,242	\$ 130	\$ 3,981	\$ (163)	\$ 36	\$ 5,226
Total gains or losses (realized/unrealized):						
Included in earnings	—	—	(68,123)	156	214	(67,753)
Included in other comprehensive loss	(16)	(31)	—	—	—	(47)
Purchases	—	—	—	83	1,084	1,167
Issuances	—	—	13,995	—	—	13,995
Settlements	(207)	(1)	49,115	7	(745)	48,169
Transfers in and/or out of Level 3	—	—	—	—	—	—
Ending balance at June 30, 2013	\$ 1,019	\$ 98	\$ (1,032)	\$ 83	\$ 589	\$ 757

<sup>(1)</sup> Consists of commitments to extend credit on loans to be held for sale.

<sup>(2)</sup> Consists of mandatory loan sale commitments.

Fair Value Measurement Using Significant Other Unobservable Inputs (Level 3)						
(In Thousands)	Private Issue CMO	Interest- Only Strips	Loan Commit- ments to originate <sup>(1)</sup>	Manda- tory Commit- ments <sup>(2)</sup>	Option Contracts	Total
Beginning balance at June 30, 2011	\$ 1,367	\$ 200	\$ 638	\$ 403	\$ 99	\$ 2,707
Total gains or losses (realized/unrealized):						
Included in earnings	—	—	39,309	(932)	(360)	38,017
Included in other comprehensive loss	29	(70)	—	—	—	(41)
Purchases	—	—	—	(163)	305	142
Issuances	—	—	(3,257)	—	—	(3,257)
Settlements	(154)	—	(32,709)	529	(8)	(32,342)
Transfers in and/or out of Level 3	—	—	—	—	—	—
Ending balance at June 30, 2012	\$ 1,242	\$ 130	\$ 3,981	\$ (163)	\$ 36	\$ 5,226

<sup>(1)</sup> Consists of commitments to extend credit on loans to be held for sale.

<sup>(2)</sup> Consists of mandatory loan sale commitments.

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The following fair value hierarchy table presents information about the Corporation's assets measured at fair value at the dates indicated on a nonrecurring basis:

(In Thousands)	<b>Fair Value Measurement at June 30, 2013 Using:</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Non-performing loans	\$ —	\$ 11,650	\$ 10,032	\$ 21,682
Mortgage servicing assets	—	—	174	174
Real estate owned, net	—	2,296	—	2,296
<b>Total</b>	<b>\$ —</b>	<b>\$ 13,946</b>	<b>\$ 10,206</b>	<b>\$ 24,152</b>

(In Thousands)	<b>Fair Value Measurement at June 30, 2012 Using:</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Non-performing loans	\$ —	\$ 10,335	\$ 25,006	\$ 35,341
Mortgage servicing assets	—	—	227	227
Real estate owned, net	—	5,976	—	5,976
<b>Total</b>	<b>\$ —</b>	<b>\$ 16,311</b>	<b>\$ 25,233</b>	<b>\$ 41,544</b>

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The following table presents additional information about valuation techniques and inputs used for assets and liabilities, including derivative financial instruments, which are measured at fair value and categorized within Level 3 as of June 30, 2013:

(Dollars In Thousands)	Fair Value As of June 30, 2013	Valuation Techniques	Unobservable Inputs	Range <sup>(1)</sup> (Weighted Average)	Impact to Valuation from an Increase in Inputs <sup>(2)</sup>
<b>Assets:</b>					
Securities available-for-sale: Private issue CMO	\$ 1,019	Discounted cash flow	Probability of default Loss severity Prepayment speed	0.6% – 1.1% (0.7%) 35.4% - 37.6% (37.3%) 4.2% – 13.5% (6.2%)	Decrease Decrease Decrease
Non-performing loans	\$ 1,237	Discounted cash flow	Default rates	0.0% - 30.0% (23.8%)	Decrease
Non-performing loans	\$ 8,795	Relative value analysis	Loss severity	15.0% - 60.0% (20.1%)	Decrease
Mortgage servicing assets	\$ 174	Discounted cash flow	Prepayment speed (CPR) Discount rate	25.2% - 60.0% (37.1%) 9.0% - 10.5% (9.2%)	Decrease Decrease
Interest-only strips	\$ 98	Discounted cash flow	Prepayment speed (CPR) Discount rate	0.0% - 36.3% (23.9%) 9.0%	Decrease Decrease
Commitments to extend credit on loans to be held for sale	\$ 1,338	Relative value analysis	TBA MBS broker quotes Fall-out ratio <sup>(3)</sup>	97.6% – 104.5% (101.5%) of par 19.7% - 23.9% (23.6%)	Decrease Decrease
Mandatory loan sale commitments	\$ 405	Relative value analysis	Investor quotes TBA MBS broker quotes Roll-forward costs <sup>(4)</sup>	97.1% of par 95.1% - 104.1% (100.2%) of par 0.0058%	Decrease Decrease Decrease
Option contracts	\$ 589	Relative value analysis	Broker quotes	97.7% of par	Increase
<b>Liabilities:</b>					
Commitments to extend credit on loans to be held for sale	\$ 2,370	Relative value analysis	TBA MBS broker quotes Fall-out ratio <sup>(3)</sup>	98.1% – 104.3% (101.3%) of par 19.7% - 23.9% (23.6%)	Decrease Decrease
Mandatory loan sale commitments	\$ 322	Relative value analysis	Investor quotes TBA MBS broker quotes Roll-forward costs <sup>(4)</sup>	99.1% of par 97.5% - 104.5% (99.3%) of par 0.0058%	Decrease Decrease Decrease

<sup>(1)</sup> The range is based on the historical estimated fair values and management estimates.

<sup>(2)</sup> Unless otherwise noted, this column represents the directional change in the fair value of the Level 3 investments that would result from an increase to the corresponding unobservable input. A decrease to the unobservable input would have the opposite effect. Significant changes in these inputs in isolation could result in significantly higher or lower fair value measurements.

<sup>(3)</sup> The percentage of commitments to extend credit on loans to be held for sale which management has estimated may not fund.

<sup>(4)</sup> An estimated cost to roll forward the mandatory loan sale commitments which management has estimated may not be delivered to the corresponding investors in a timely manner.



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The significant unobservable inputs used in the fair value measurement of the Corporation's assets and liabilities include the following: CMO offered quotes, prepayment speeds, discount rates, TBA MBS quotes, fallout ratios, investor quotes and roll-forward costs, among others. Significant increases or decreases in any of these inputs in isolation could result in significantly lower or higher fair value measurement. The various unobservable inputs used to determine valuations may have similar or diverging impacts on valuation.

The carrying amount and fair value of the Corporation's other financial instruments as of June 30, 2013 and 2012 were as follows:

(In Thousands)	June 30, 2013				
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
<b>Financial assets:</b>					
Loans held for investment, net	\$ 748,397	\$ 742,256	—	—	\$ 742,256
FHLB – San Francisco stock	\$ 15,273	\$ 15,273	—	\$ 15,273	—
<b>Financial liabilities:</b>					
Deposits	\$ 923,010	\$ 903,654	—	—	\$ 903,654
Borrowings	\$ 106,491	\$ 110,404	—	—	\$ 110,404

(In Thousands)	June 30, 2012				
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
<b>Financial assets:</b>					
Loans held for investment, net	\$ 796,836	\$ 801,081	—	—	\$ 801,081
FHLB – San Francisco stock	\$ 22,255	\$ 22,255	—	\$ 22,255	—
<b>Financial liabilities:</b>					
Deposits	\$ 961,411	\$ 948,985	—	—	\$ 948,985
Borrowings	\$ 126,546	\$ 134,936	—	—	\$ 134,936

Loans held for investment: For loans that reprice frequently at market rates, the carrying amount approximates the fair value. For fixed-rate loans, the fair value is determined by either (i) discounting the estimated future cash flows of such loans over their estimated remaining contractual maturities using a current interest rate at which such loans would be made to borrowers, or (ii) quoted market prices. The allowance for loan losses is subtracted as an estimate of the underlying credit risk.

FHLB – San Francisco stock: The carrying amount reported for FHLB – San Francisco stock approximates fair value. When redeemed, the Corporation will receive an amount equal to the par value of the stock.

Deposits: The fair value of time deposits is estimated using a discounted cash flow calculation. The discount rate is based upon rates currently offered for deposits of similar remaining maturities. The fair value of transaction accounts (checking, money market and savings accounts) is based on management estimates, consistent with current market conditions.

Borrowings: The fair value of borrowings has been estimated using a discounted cash flow calculation. The discount rate on such borrowings is based upon rates currently offered for borrowings of similar remaining maturities.

The Corporation has various processes and controls in place to ensure that fair value is reasonably estimated. The Corporation generally determines fair value of their Level 3 assets and liabilities by using internally developed models which primarily utilize discounted cash flow techniques and prices obtained from independent management services or brokers. The Corporation performs due diligence procedures over third-party pricing service providers in order to support their use in the valuation process. The fair values of investment securities, commitments to extend credit on loans held for sale, mandatory commitments and option contracts

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are determined from the independent management services or brokers; while the fair value of MSA and interest-only strips are determined using the internally developed models which are based on discounted cash flow analysis. The fair value of non-performing loans is determined by calculating discounted cash flows, relative value analysis or collateral value, less selling costs.

While the Corporation believes its valuation methods 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. During the year ended June 30, 2013, there were no significant changes to the Corporation's valuation techniques that had, or are expected to have, a material impact on its consolidated financial position or results of operations.

**Note 17. Reportable Segments**

The segment reporting is organized consistent with the Corporation's executive summary and operating strategy. The business activities of the Corporation consist primarily of the Bank and PBM, a division of the Bank. The Bank's operations primarily consist of accepting deposits from customers within the communities surrounding the Bank's full service offices and investing those funds in single-family, multi-family, commercial real estate, construction, commercial business, consumer and other mortgage loans. PBM operations primarily consist of the origination and sale of mortgage loans secured by single-family residences. The following table and discussion explain the results of the Corporation's two major reportable segments, the Bank and PBM.

The following tables illustrate the Corporation's operating segments for the years ended June 30, 2013, 2012 and 2011, respectively.

(In Thousands)	For the Year Ended June 30, 2013		
	Provident Bank	Provident Bank Mortgage	Consolidated Totals
Net interest income	\$ 27,835	\$ 5,522	\$ 33,357
Recovery for loan losses	(1,229)	(270)	(1,499)
Net interest income, after recovery for loan losses	29,064	5,792	34,856
Non-interest income:			
Loan servicing and other fees	903	190	1,093
(Loss) gain on sale of loans, net	(84)	68,577	68,493
Deposit account fees	2,449	—	2,449
Gain on sale and operations of real estate owned acquired in the settlement of loans, net	703	213	916
Card and processing fees	1,292	—	1,292
Other	957	—	957
Total non-interest income	6,220	68,980	75,200
Non-interest expense:			
Salaries and employee benefits	17,745	32,705	50,450
Premises and occupancy	2,705	1,727	4,432
Operating and administrative expenses	4,636	7,825	12,461
Total non-interest expense	25,086	42,257	67,343
Income before taxes	10,198	32,515	42,713
Provision for income taxes	3,245	13,671	16,916
Net income	\$ 6,953	\$ 18,844	\$ 25,797
Total assets, end of period	\$ 1,019,788	\$ 191,253	\$ 1,211,041

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(In Thousands)	Year Ended June 30, 2012		
	Provident Bank	Provident Bank Mortgage	Consolidated Total
Net interest income	\$ 30,514	\$ 6,216	\$ 36,730
Provision (recovery) for loan losses	5,932	(155)	5,777
Net interest income, after provision (recovery) for loan losses	24,582	6,371	30,953
<b>Non-interest income:</b>			
Loan servicing and other fees	627	106	733
(Loss) gain on sale of loans, net	(1,057)	39,074	38,017
Deposit account fees	2,438	—	2,438
(Loss) gain on sale and operations of real estate owned acquired in the settlement of loans, net	(191)	71	(120)
Card and processing fees	1,282	—	1,282
Other	800	—	800
Total non-interest income	3,899	39,251	43,150
<b>Non-interest expense:</b>			
Salaries and employee benefits	15,756	23,527	39,283
Premises and occupancy	2,449	1,314	3,763
Operating and administrative expenses	4,903	7,416	12,319
Total non-interest expenses	23,108	32,257	55,365
Income before income taxes	5,373	13,365	18,738
Provision for income taxes	2,309	5,619	7,928
Net income	\$ 3,064	\$ 7,746	\$ 10,810
Total assets, end of fiscal year	\$ 1,036,138	\$ 224,779	\$ 1,260,917

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(In Thousands)	Year Ended June 30, 2011		
	Provident Bank	Provident Bank Mortgage	Consolidated Total
Net interest income	\$ 33,512	\$ 4,237	\$ 37,749
Provision for loan losses	2,552	2,913	5,465
Net interest income, after provision for loan losses	30,960	1,324	32,284
Non-interest income:			
Loan servicing and other fees	832	60	892
(Loss) gain on sale of loans, net	(113)	31,307	31,194
Deposit account fees	2,504	—	2,504
(Loss) gain on sale and operations of real estate owned acquired in the settlement of loans, net	(1,364)	13	(1,351)
Gain on sale of premises and equipment	1,089	—	1,089
Card and processing fees	1,274	—	1,274
Other	753	2	755
Total non-interest income	4,975	31,382	36,357
Non-interest expense:			
Salaries and employee benefits	13,828	16,138	29,966
Premises and occupancy	2,289	981	3,270
Operating and administrative expenses	6,347	5,789	12,136
Total non-interest expenses	22,464	22,908	45,372
Income before income taxes	13,471	9,798	23,269
Provision for income taxes	5,929	4,120	10,049
Net income	\$ 7,542	\$ 5,678	\$ 13,220
Total assets, end of fiscal year	\$ 1,125,453	\$ 188,271	\$ 1,313,724

The information above was derived from the internal management reporting system used by management to measure performance of the segments.

The Corporation's internal transfer pricing arrangements determined by management primarily consist of the following:

1. Borrowings for PBM are indexed monthly to the higher of the three-month FHLB – San Francisco advance rate on the first Friday of the month plus 50 basis points or the Bank's cost of funds for the prior month.
2. PBM receives servicing released premiums for new loans transferred to the Bank's loans held for investment. The servicing released premiums in the years ended June 30, 2013, 2012 and 2011 were \$73,000, \$3,000 and \$14,000, respectively.
3. PBM receives a premium (gain on sale of loans) or a discount (loss on sale of loans) for the new loans transferred to the Bank's loans held for investment. The loss on sale of loans in the years ended June 30, 2013, 2012 and 2011 was \$16,000, \$2,000 and \$1,000, respectively.
4. Loan servicing costs are charged to PBM by the Bank based on the number of loans held for sale at fair value multiplied by a fixed fee which is subject to management's review. The loan servicing costs in the years ended June 30, 2013, 2012 and 2011 were \$110,000, \$81,000 and \$72,000, respectively.

**Provident Financial Holdings, Inc.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2013**

5. The Bank allocates quality assurance costs to PBM for its loan production, subject to management's review. Quality assurance costs allocated to PBM in the years ended June 30, 2013, 2012 and 2011 were \$321,000, \$240,000 and \$213,000, respectively.
6. The Bank allocates loan vault service costs to PBM for its loan production, subject to management's review. The loan vault service costs allocated to PBM in the years ended June 30, 2013, 2012 and 2011 were \$240,000, \$88,000 and \$71,000, respectively.
7. Office rents for PBM offices located in the Bank branches or offices are internally charged based on the square footage used. Office rents allocated to PBM in the years ended June 30, 2013, 2012 and 2011 were \$186,000, \$169,000 and \$146,000, respectively.
8. A management fee, which is subject to regular review, is charged to PBM for services provided by the Bank. The management fee in the years ended June 30, 2013, 2012 and 2011 was \$1.7 million, \$1.5 million and \$1.3 million, respectively.

**Note 18: Holding Company Condensed Financial Information**

This information should be read in conjunction with the other notes to the consolidated financial statements. The following is the condensed statements of financial condition for Provident Financial Holdings (Holding Company only) as of June 30, 2013 and 2012 and condensed statements of operations, comprehensive income and cash flows for the years ended June 30, 2013, 2012 and 2011.

**Condensed Statements of Financial Condition**

(In Thousands)	June 30,	
	2013	2012
<b>Assets</b>		
Cash and cash equivalents	\$ 532	\$ 1,968
Investment in subsidiary	159,622	142,758
Other assets	59	89
	\$ 160,213	\$ 144,815
<b>Liabilities and Stockholders' Equity</b>		
Other liabilities	\$ 239	\$ 38
Stockholders' equity	159,974	144,777
	\$ 160,213	\$ 144,815

**Provident Financial Holdings, Inc.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2013**

**Condensed Statements of Operations**

(In Thousands)	Year Ended June 30,		
	2013	2012	2011
Interest and other income	\$ 9	\$ 13	\$ 29
General and administrative expenses	791	750	799
Loss before equity in net earnings of the subsidiary	(782)	(737)	(770)
Equity in net earnings of the subsidiary	26,250	11,237	13,666
Income before income tax benefit	25,468	10,500	12,896
Income tax benefit	(329)	(310)	(324)
Net income	\$ 25,797	\$ 10,810	\$ 13,220

**Condensed Statements of Comprehensive Income**

(In Thousands)	Year Ended June 30,		
	2013	2012	2011
Net income	\$ 25,797	\$ 10,810	\$ 13,220
Other comprehensive income	—	—	—
Total comprehensive income	\$ 25,797	\$ 10,810	\$ 13,220

**Provident Financial Holdings, Inc.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2013**

**Condensed Statements of Cash Flows**

(In Thousands)	Year Ended June 30,		
	2013	2012	2011
<b>Cash flows from operating activities:</b>			
Net income	\$ 25,797	\$ 10,810	\$ 13,220
Adjustments to reconcile net income to net cash used for operating activities:			
Equity in net earnings of the subsidiary	(26,250)	(11,237)	(13,666)
Decrease (increase) in other assets	20	(49)	311
(Decrease) increase in other liabilities	201	(6)	7
Net cash used for operating activities	(232)	(482)	(128)
<b>Cash flow from investing activities:</b>			
Cash dividend received from the Bank	10,000	8,000	—
Net cash provided by investing activities	10,000	8,000	—
<b>Cash flow from financing activities:</b>			
ESOP loan payment	—	—	2
Exercise of stock options	296	72	—
Treasury stock purchases	(8,959)	(6,693)	—
Cash dividends	(2,541)	(1,572)	(456)
Net cash used for financing activities	(11,204)	(8,193)	(454)
Net decrease in cash and cash equivalents	(1,436)	(675)	(582)
Cash and cash equivalents at beginning of year	1,968	2,643	3,225
Cash and cash equivalents at end of year	\$ 532	\$ 1,968	\$ 2,643

**Provident Financial Holdings, Inc.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2013**

**Note 19: Quarterly Results of Operations (Unaudited)**

The following tables set forth the quarterly financial data for the years ended June 30, 2013 and 2012.

(Dollars In Thousands, Except Per Share Amount)	For Fiscal Year 2013				
	For the Year Ended June 30, 2013	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Interest income	\$ 44,161	\$ 10,085	\$ 10,612	\$ 11,617	\$ 11,847
Interest expense	10,804	2,502	2,546	2,845	2,911
Net interest income	33,357	7,583	8,066	8,772	8,936
(Recovery) provision for loan losses	(1,499)	(1,538)	(517)	23	533
Net interest income, after (recovery) provision for loan losses	34,856	9,121	8,583	8,749	8,403
Non-interest income	75,200	17,618	15,388	20,035	22,159
Non-interest expense	67,343	17,519	15,729	16,769	17,326
Income before income taxes	42,713	9,220	8,242	12,015	13,236
Provision for income taxes	16,916	3,963	3,372	5,075	4,506
Net income	\$ 25,797	\$ 5,257	\$ 4,870	\$ 6,940	\$ 8,730
Basic earnings per share	\$ 2.43	\$ 0.51	\$ 0.46	\$ 0.65	\$ 0.81
Diluted earnings per share	\$ 2.38	\$ 0.49	\$ 0.45	\$ 0.64	\$ 0.80



**Provident Financial Holdings, Inc.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2013**

(Dollars In Thousands, Except Per Share Amount)	For Fiscal Year 2012				
	For the Year Ended June 30, 2012	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Interest income	\$ 51,435	\$ 12,518	\$ 12,454	\$ 13,452	\$ 13,011
Interest expense	14,705	3,068	3,478	3,946	4,213
Net interest income	36,730	9,450	8,976	9,506	8,798
Provision for loan losses	5,777	2,051	1,622	1,132	972
Net interest income, after provision for loan losses	30,953	7,399	7,354	8,374	7,826
Non-interest income	43,150	15,980	11,309	7,313	8,548
Non-interest expense	55,365	15,991	14,597	12,474	12,303
Income before income taxes	18,738	7,388	4,066	3,213	4,071
Provision for income taxes	7,928	3,082	1,734	1,359	1,753
Net income	\$ 10,810	\$ 4,306	\$ 2,332	\$ 1,854	\$ 2,318
Basic earnings per share	\$ 0.96	\$ 0.39	\$ 0.21	\$ 0.16	\$ 0.20
Diluted earnings per share	\$ 0.96	\$ 0.39	\$ 0.21	\$ 0.16	\$ 0.20

**Provident Financial Holdings, Inc.**  
**Notes to Consolidated Financial Statements**  
**June 30, 2013**

**Note 20: Reclassification adjustment of Accumulated Other Comprehensive Income ("AOCI")**

The following table provides the changes in AOCI by component for the years ended June 30, 2013, 2012 and 2011.

(Dollars In Thousands, Net of Statutory Taxes)	Unrealized gain and losses on		Total
	Investment securities available for sale	Interest-only strips	
Beginning balance at June 30, 2010	\$ 526	\$ 141	\$ 667
Other comprehensive loss before reclassifications	(2)	(27)	(29)
Amount reclassified from accumulated other comprehensive income	—	—	—
Net other comprehensive loss	(2)	(27)	(29)
Ending balance at June 30, 2011	524	114	638
Other comprehensive income (loss) before reclassifications	28	(40)	(12)
Amount reclassified from accumulated other comprehensive income	—	—	—
Net other comprehensive income (loss)	28	(40)	(12)
Ending balance at June 30, 2012	552	74	626
Other comprehensive loss before reclassifications	(54)	(18)	(72)
Amount reclassified from accumulated other comprehensive income	—	—	—
Net other comprehensive loss	(54)	(18)	(72)
Ending balance at June 30, 2013	\$ 498	\$ 56	\$ 554

There were no significant items reclassified out of AOCI for the years ended June 30, 2013, 2012 and 2011.

**Note 21: Subsequent Event**

On July 30, 2013, the Corporation announced that the Corporation's Board of Directors declared a quarterly cash dividend of \$0.10 per share, reflecting a 43% increase from \$0.07 per share paid on June 11, 2013. Shareholders of the Corporation's common stock at the close of business on August 21, 2013 will be entitled to receive the cash dividend. The cash dividend will be payable on September 10, 2013.

On July 30, 2013, the Bank's Board of Directors declared a \$10.0 million cash dividend from the Bank to the Corporation, which was paid on August 1, 2013.

On July 30, 2013, the Corporation's Board of Directors amended the Corporation's By-Laws, effective July 30, 2013. The Board amended Article III, Section 3 of the By-Laws to provide that in general, no person shall qualify for service as a director of the Corporation if such person is a party to any compensatory, payment or other financial agreement, arrangement or understanding with any person or entity other than the Corporation in connection with candidacy or service as a director of the Corporation.

## Exhibit Index

- 13 2013 Annual Report to Stockholders
- 23.1 Consent of Independent Registered Public Accounting Firm
- 31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 101 The following materials from the Corporation's Annual Report on Form 10-K for the fiscal year ended June 30, 2013, formatted in Extensible Business Reporting Language (XBRL): (1) Consolidated Statements of Financial Condition; (2) Consolidated Statements of Operations; (3) Consolidated Statements of Comprehensive Income; (4) Consolidated Statements of Stockholders' Equity; (5) Consolidated Statements of Cash Flows; and (6) Notes to Consolidated Financial Statements.\*
- (\* Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

**EXHIBIT 13**

**2013 Annual Report to Stockholders**

## **EXHIBIT 23.1**

### **Consent of Independent Registered Public Accounting Firm**

We consent to the incorporation by reference in Registration Statement Nos. 333-30935, 333-112700, 333-140229, and 333-171344 on Form S-8 of our reports dated September 13, 2013, relating to the consolidated financial statements of Provident Financial Holdings, Inc., and subsidiary (the "Corporation") and the effectiveness of the Corporation's internal control over financial reporting, appearing in this Annual Report on Form 10-K of the Corporation for the year ended June 30, 2013.

/s/ DELOITTE & TOUCHE LLP

Los Angeles, California  
September 13, 2013

**EXHIBIT 31.1**

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER  
PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Craig G. Blunden, certify that:

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

Date: September 13, 2013

/s/ Craig G. Blunden  
Craig G. Blunden  
Chairman and Chief Executive Officer

**EXHIBIT 31.2**

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER  
PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Donavon P. Ternes, certify that:

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

Date: September 13, 2013

/s/ Donavon P. Ternes  
Donavon P. Ternes  
President, Chief Operating Officer and  
Chief Financial Officer

**EXHIBIT 32.1**

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

In connection with the accompanying Annual Report on Form 10-K of Provident Financial Holdings, Inc. (the "Corporation") for the period ended June 30, 2013 (the "Report"), I, Craig G. Blunden, in my capacity as Chairman and Chief Executive Officer of the Corporation, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation as of the dates and for the periods presented in the financial statements included in such Report.

Date: September 13, 2013

/s/ Craig G. Blunden  
Craig G. Blunden  
Chairman and Chief Executive Officer



**EXHIBIT 32.2**

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

In connection with the accompanying Annual Report on Form 10-K of Provident Financial Holdings, Inc. (the "Corporation") for the period ended June 30, 2013 (the "Report"), I, Donavon P. Ternes, in my capacity as President, Chief Operating Officer and Chief Financial Officer of the Corporation, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation as of the dates and for the periods presented in the financial statements included in such Report.

Date: September 13, 2013

/s/ Donavon P. Ternes  
Donavon P. Ternes  
President, Chief Operating Officer and  
Chief Financial Officer

# Shareholder **Information**

## **ANNUAL MEETING**

The annual meeting of shareholders will be held at the Riverside Art Museum at 3425 Mission Inn Avenue, Riverside, California on Tuesday, November 26, 2013 at 11:00 a.m. (Pacific). A formal notice of the meeting, together with a proxy statement and proxy form, will be mailed to shareholders.

## **CORPORATE OFFICE**

Provident Financial Holdings, Inc.  
3756 Central Avenue  
Riverside, CA 92506  
(951) 686-6060

## **INTERNET ADDRESS**

[www.myprovident.com](http://www.myprovident.com)

## **SPECIAL COUNSEL**

Breyer & Associates PC  
8180 Greensboro Drive, Suite 785  
McLean, VA 22102  
(703) 883-1100

## **INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Deloitte & Touche LLP  
350 South Grand Avenue, Suite 200  
Los Angeles, CA 90071-3462  
(213) 688-0800

## **TRANSFER AGENT**

Registrar and Transfer Company  
10 Commerce Drive  
Cranford, NJ 07016  
(908) 497-2300

## **MARKET INFORMATION**

Provident Financial Holdings, Inc. is traded on the NASDAQ Global Select Market under the symbol PROV.

## **FINANCIAL INFORMATION**

Requests for copies of the Form 10-K and Forms 10-Q filed with the Securities and Exchange Commission should be directed in writing to:

Donavon P. Ternes  
President, COO and CFO  
Provident Financial Holdings, Inc.  
3756 Central Avenue  
Riverside, CA 92506

## **CORPORATE PROFILE**

Provident Financial Holdings, Inc. (the "Corporation"), a Delaware corporation, was organized in January 1996 for the purpose of becoming the holding company for Provident Savings Bank, F.S.B. (the "Bank") upon the Bank's conversion from a federal mutual to a federal stock savings bank ("Conversion"). The Conversion was completed on June 27, 1996. The Corporation does not engage in any significant activity other than holding the stock of the Bank. The Bank serves the banking needs of select communities in Riverside and San Bernardino Counties and has mortgage lending operations in Southern and Northern California.

# Board of Directors and Senior Officers

## Board of Directors

Joseph P. Barr, CPA  
Principal  
Swenson Accountancy Corporation

Bruce W. Bennett  
Retired Health Care Executive  
Private Investor

Craig G. Blunden  
Chairman and Chief Executive Officer  
Provident Financial Holdings, Inc.  
Provident Bank

Judy A. Carpenter  
President and Chief Operating Officer  
Riverside Medical Clinic

Debbi H. Guthrie  
Senior Vice President  
Raincross Hospitality Corporation

Roy H. Taylor  
Chief Executive Officer  
Hub International of California  
Insurance Services, Inc.

William E. Thomas, Esq.  
Principal  
William E. Thomas, Inc.,  
A Professional Law Corporation

## Senior Officers

### Provident Financial Holdings, Inc.

Craig G. Blunden  
Chairman  
Chief Executive Officer

Donavon P. Ternes  
President  
Chief Operating Officer  
Chief Financial Officer  
Corporate Secretary

### Provident Bank

Craig G. Blunden  
Chairman  
Chief Executive Officer

Richard L. Gale  
Senior Vice President  
Provident Bank Mortgage

Kathryn R. Gonzales  
Senior Vice President  
Retail Banking

Deborah L. Hill  
Senior Vice President  
Chief Human Resources and  
Administrative Officer

Lilian Salter  
Senior Vice President  
Chief Information Officer

Donavon P. Ternes  
President  
Chief Operating Officer  
Chief Financial Officer  
Corporate Secretary

David S. Weiant  
Senior Vice President  
Chief Lending Officer

# Provident Locations



## RETAIL BANKING CENTERS

### Blythe

350 E. Hobson Way  
Blythe, CA 92225

### Canyon Crest

5225 Canyon Crest Drive, Suite 86  
Riverside, CA 92507

### Corona

487 Magnolia Avenue, Suite 101  
Corona, CA 92879

### Corporate Office

3756 Central Avenue  
Riverside CA 92506

### Downtown Business Center

4001 Main Street  
Riverside, CA 92501

### Hemet

1690 E. Florida Avenue  
Hemet, CA 92544

### Iris Plaza

16110 Perris Boulevard, Suite K  
Moreno Valley, CA 92551

### La Quinta

78752 Highway 111  
La Quinta, CA 92253

### La Sierra

3312 La Sierra Avenue, Suite 105  
Riverside, CA 92503

### Moreno Valley

12460 Heacock Street  
Moreno Valley, CA 92553

### Orangethree

19348 Van Buren Boulevard, Suite 119  
Riverside, CA 92508

### Rancho Mirage

71991 Highway 111  
Ranch Mirage, CA 92270

### Redlands

125 E. Citrus Avenue  
Redlands, CA 92373

### Sun City

27010 Sun City Boulevard  
Sun City, CA 92586

### Temecula

40705 Winchester Road, Suite 6  
Temecula, CA 92591



## WHOLESALE MORTGAGE OFFICES

### Pleasanton

5934 Gibraltar Drive, Suite 102  
Pleasanton, CA 94588

### Rancho Cucamonga

10370 Commerce Center Drive, Suite 200  
Rancho Cucamonga, CA 91730

## RETAIL MORTGAGE OFFICES

### City of Industry

18725 East Gale Avenue, Suite 100  
City of Industry, CA 91748

### Escondido

362 West Mission Avenue, Suite 200  
Escondido, CA 92025

### Fairfield

5030 Business Center Drive, Suite 330  
Fairfield, CA 94534

### Glendora

1200 E. Route 66, Suite 102  
Glendora, CA 91740

### Hermosa Beach

1601 Pacific Coast Hwy., Suite 290  
Hermosa Beach, CA 90254

### Pleasanton

5934 Gibraltar Drive, Suite 100  
Pleasanton, CA 94588

### Rancho Cucamonga, Haven Avenue

8599 Haven Avenue, Suite 210  
Rancho Cucamonga, CA 91730

### Rancho Cucamonga, Commerce Center Drive

10370 Commerce Center Drive, Suite 110  
Rancho Cucamonga, CA 91730

### Riverside, Canyon Crest Drive

5225 Canyon Crest Drive, Suite 86  
Riverside, CA 92507

### Riverside, Indiana Avenue

7111 Indiana Avenue, Suite 200  
Riverside, CA 92504

### Riverside, Market Street

2280 Market Street, Suite 230  
Riverside, CA 92501

### Riverside, Riverside Avenue

6529 Riverside Avenue, Suite 160  
Riverside, CA 92506

### Roseville

2998 Douglas Boulevard, Suite 105  
Roseville, CA 95661

### San Diego

362 W. Mission Avenue, Suite 207  
Escondido, CA 92025

### San Rafael

4040 Civic Center Drive, Suite 200  
San Rafael, CA 94903

### Santa Barbara

3710 State Street, Suite B  
Santa Barbara, CA 93105

### Stockton

3443 Dear Park, Suite C  
Stockton, CA 95219

### Westlake Village

2659 Townsgate Road, Suite 105  
Westlake Village, CA 91361



**Provident Financial Holdings, Inc.**

**Corporate Office**

3756 Central Avenue, Riverside, California 92506  
(951) 686-6060

[www.myprovident.com](http://www.myprovident.com)

**NASDAQ Global Select Market - PROV**