BofI Holding, Inc.
Form 10-K
September 04, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K
x ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended June 30, 2013
¨ TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission file number: 000-51201

BofI HOLDING, INC.
(Exact name of registrant as specified in its charter)

Delaware	33-0867444
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
4350 La Jolla Village Drive, Suite 140, San Diego, CA	92122
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (858) 350-6200

Securities registered under Section 12(b) of the Exchange Act:

Title of each class	Name of each exchange on which registered
Common stock, $.01 par value	NASDAQ Global Select Market

Securities registered under Section 12(g) of the Exchange Act:
None

Indicated by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes ¨ No x
Indicated 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 Exchange Act 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 every Interactive Data file required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 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 if 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 Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filed, or a non-accelerated filer. See definition of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.
Large accelerated file ¨ Accelerated filer x Non-accelerated filer ¨ Smaller reporting company o
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ¨ No x

The aggregate market value of the voting and non-voting stock held by non-affiliates of the Registrant, based upon the closing sales price of the common stock on the NASDAQ National Global Select Market of $27.81 on December 31, 2012 was $310,756,226.
The number of shares of the Registrant’s common stock outstanding as of August 28, 2013 was 13,785,062.

DOCUMENTS INCORPORATED BY REFERENCE
Portions of the Registrant’s definitive Proxy Statement for the period ended June 30, 2013 are incorporated by reference into Part III.

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FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K may contain various forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, Section 21E of the Securities Exchange Act of 1934, and the Private Securities Litigation Reform Act of 1995. Forward-looking statements include projections, statements of the plans, goals and objectives of management for future operations, statements of future economic performance, assumptions underlying these statements, and other statements that are not statements of historical facts. Words such as “anticipates,” “expects,” “intends,” “plans,” “predicts,” “potential,” “believes,” “seeks,” “estimates,” “should,” “may,” “will” and variations o or similar expressions are intended to identify forward-looking statements. Forward-looking statements also include the assumptions underlying or relating to any of the foregoing statements.

Forward-looking statements are subject to significant business, economic and competitive risks, uncertainties and contingencies, many of which are difficult to predict and beyond the control of BofI Holding, Inc. ("BofI"). Our actual results may differ materially from the results expressed or implied in any forward-looking statements for the reasons, among others, discussed in Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, under the heading “Factors that May Affect Our Performance.” Such factors include, but are not limited to, the following:

- Competitive practices in the financial services industries;
- Operational and systems risks;
- General economic and capital market conditions, including fluctuations in interest rates;
- Economic conditions in certain geographic areas; and
- The impact of current and future laws, governmental regulations, accounting and other rulings and guidelines affecting the financial services industry in general and BofI operations particularly.

The forward-looking statements contained in this Annual Report are made on the basis of the views and assumptions of management regarding future events and business performance as of the date this Annual Report is filed with the Securities and Exchange Commission. We do not undertake any obligation to update these statements to reflect events or circumstances occurring after the date this report is filed.

References in this report to the “Company,” “us,” “we,” “our,” “BofI Holding,” or “BofI” are all to BofI Holding, Inc. on a consolidated basis. References in this report to “Bank of Internet,” the “Bank,” or “our bank” are to BofI Federal Bank, our consolidated subsidiary.

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PART I

ITEM 1. BUSINESS

Overview

Our company, BofI Holding, Inc., is the holding company for BofI Federal Bank, a diversified financial services company with approximately $3.1 billion in assets that provides consumer and business banking products through its branchless, low-cost distribution channels and affinity partners. The Bank has deposit and loan customers nationwide including consumer and business checking, savings and time deposit accounts and financing for single family and multifamily residential properties, small-to-medium size businesses in target sectors, and selected specialty finance receivables. The Bank generates fee income from consumer and business products including fees from loans originated for sale and transaction fees earned from processing payment activity. BofI Holding, Inc.'s common stock is listed on the NASDAQ Global Select Market and is a component of the Russell 3000 Index.

At June 30, 2013, we had total assets of $3,090.8 million, loans of $2,333.9 million, mortgage-backed and other investment securities of $468.4 million, total deposits of $2,092.0 million and borrowings of $705.6 million. Because we do not incur the significantly higher fixed operating costs inherent in a branch-based distribution system, we are able to rapidly grow our deposits and assets by providing a better value to our customers and by expanding our low-cost distribution channels.

We distribute our deposit products through a wide range of retail distributions channels, and our deposits consist of demand, savings and time deposits accounts. We distribute our loan products through our retail, correspondent and wholesale channels, and the loans we retain are primarily first mortgages secured by single family real property and by multifamily real property. Our mortgage-backed securities consist primarily of mortgage pass-through securities issued by government-sponsored entities and non-agency collateralized mortgage obligations and pass-through mortgage-backed securities issued by private sponsors. We believe our flexibility to adjust our asset generation channels has been a competitive advantage allowing us to avoid markets and products where credit fundamentals are poor.

Our retail distribution channels for our deposit and lending products include:

- Multiple national online banking brands with tailored products targeted to specific consumer segments;
- Affinity groups where we gain access to the affinity group's members, and our exclusive relationships with financial advisory firms;
- A business banking division focused on providing deposit products and loans to specific nationwide industry verticals (e.g., Homeowners Associations) and small and medium size businesses;
- A commission-based lending sales force that operates from home offices focusing primarily on the origination of single family and multifamily mortgage loans;
- A commission-based lending sales force that operates from the corporate office focusing on commercial and industrial loans to businesses; and
- A call center that closes loans from self-generated internet leads, third-party purchase leads, and from our retention and cross-sell of our existing customer base.

Our business strategy is to grow our loan originations and our deposits to achieve increased economies of scale and reduce the cost of products and services to our customers by leveraging our distributions channels and technology. We have designed our branchless banking platform and our workflow processes to handle traditional banking functions

with reduced paperwork and human intervention. Our charter allows us to operate in all 50 states, and our online presence allows us increased flexibility to target a large number of loan and deposit customers based on demographics, geography and price. Our low-cost distribution channels provide opportunities to increase our core deposits and increase our loan originations by attracting new customers and developing new and innovative products and services.

Our current business plan includes the following principal objectives:

- Maintain an annualized return on average common stockholder's equity of 15.0% or better;
- Annually increase average interest-earning assets by 15% or more; and
- Reduce annualized efficiency ratio to a level 35% or lower.

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ASSET ORIGINATION AND FEE INCOME BUSINESSES

We have built diverse loan origination and fee income businesses that generate attractive financial returns through our branchless distribution channels. We believe the diversity of our businesses and our branchless distribution channels provide us with increased flexibility to manage through changing market and operating environments.

Single Family Mortgage Secured Lending

We generate earning assets and fee income from our mortgage lending activities, which consist of originating and servicing mortgages secured primarily by first liens on single family residential properties for consumers and for lender-finance businesses. We divide our single family mortgage originations between loans we retain and loans we sell. Our mortgage banking business generates fee income and gains from sales of those consumer single family mortgage loans we sell. Our loan portfolio generates interest income and fees from loans we retain. We also provide home equity loans for consumers secured by second liens on single family mortgages. Our lender-finance loans are secured by our first lien on single family mortgages and include warehouse lines for third-party mortgage companies.

We originate fixed and adjustable rate prime residential mortgage loans using a paperless loan origination system and centralized underwriting and closing process. We warehouse our mortgage banking loans and sell to investors prime conforming and jumbo residential mortgage loans. Our mortgage servicing business includes collecting loan payments, applying principal and interest payments to the loan balance, managing escrow funds for the payment of mortgage-related expenses, such as taxes and insurance, responding to customer inquiries, counseling delinquent mortgagors and supervising foreclosures.

We originate single family mortgage loans for consumers through multiple channels on a retail, wholesale and correspondent basis.

- Retail. We originate single family mortgage loans directly through i) our multiple national online banking brand websites, where our customers can view interest rates and loan terms, enter their loan applications and lock in interest rates directly over the internet, ii) our relationships with large affinity groups and iii) our call center which uses self-generated internet leads, third-party purchased leads, and cross-selling to existing customer base.
- Wholesale. We have developed relationships with independent mortgage companies, cooperatives and individual loan brokers and we manage these relationships and our wholesale loan pipeline through our originations systems and websites. Through our secure website, our approved brokers can compare programs, terms and pricing on a real time basis and communicate with our staff.
- Correspondent. We acquire closed loans from third-party mortgage companies that originate single family loans in accordance with our portfolio specifications or the specifications of our investors. We may purchase pools of seasoned, single-family loans originated by others during economic cycles when those loans have more attractive risk-adjusted returns than those we may originate.

We originate lender-finance loans to businesses secured by first liens on single family mortgage loans from cross selling, retail direct and through third-parties. Our warehouse customers are primarily generated through cross selling to our network of third-party mortgage companies approved to wholesale our consumer mortgage loans. Other lender-finance customers are generated by our commissions-based sales force dedicated to commercial & industrial lending who contact businesses directly or through individual loan brokers.

Multifamily Mortgage Secured Lending

We originate adjustable rate multifamily residential mortgage loans with interest rates that adjust based on U.S. Treasury security yields and LIBOR. Many of our loans have initial fixed rate periods (three, five or seven years)

before starting a regular adjustment period (annually, semi-annually or monthly) as well as prepayment protection clauses, interest rate floors, ceilings and rate change caps.

We divide our multifamily residential mortgage originations between the loans we retain and the loans we sell. Our mortgage banking business generates gains from those multifamily mortgage loans we sell. Our loan portfolio generates interest income and fees from the loans we retain.

We originate multifamily mortgage loans using a commission-based commercial lending sales force that operates from home offices across the United States or from our headquarter location. Customers are targeted through origination techniques such as direct mail marketing, personal sales efforts, email marketing, online marketing and print advertising. Loan applications are submitted electronically to centralized employee teams who underwrite, process and close loans. The sales force team members operate regionally both as retail originators for apartment owners and wholesale representatives to other mortgage brokers.

Commercial Real Estate Secured and Commercial Lending

Our commercial lending is generally divided between mortgages secured by first liens on commercial real estate and commercial and industrial (C&I) lending based upon business cash flow and asset-backed financing. Historically, we have limited our exposure to commercial real estate and have primarily purchased seasoned mortgages on small commercial properties when they were offered as a part of a residential mortgage loan pool.

We began our C&I lending in 2010 with a focus on fixed and floating rate financing of businesses engaged in the origination of niche mortgage products secured by residential or commercial real estate. Our senior commercial lending group has expanded our corporate finance lending to include other select business types, including leverage lending for selected industries and healthcare receivables-backed financing.

Specialty Finance Factoring

Our Specialty Finance Division engages in the wholesale and retail purchase of state lottery prize and structured settlement annuity payments. These payments are high credit quality deferred payment receivables having a state lottery commission or highly-rated insurance company payor. Purchases of state lottery prize or structured settlement annuity payments are governed by specific state statutes requiring judicial approval of each transaction. No transaction is funded before an order approving such transaction has been entered by a court of competent jurisdiction, and a written acknowledgment of such order, or stipulation agreeing to entry thereof, has been received from the related state lottery commission or insurance company payor. Our commission-based sales force originates contracts for the retail purchase of such payments from leads generated by our dedicated research department through the use of proprietary research techniques. The Specialty Finance Division also utilizes direct mail and online marketing to generate leads. Since 2013, pools of structured settlement receivables have been aggregated and held for periodic disposition upon favorable terms.

Auto and RV and Other Consumer Lending

Our consumer lending has consisted of prime loans to purchase new and used recreational vehicles ("RV") and autos, and deposit-related overdraft lines of credit. In 2008, we elected to significantly decrease RV and auto lending. We hold all of the RV loans that we originated and perform the loan servicing functions for these loans. We may increase auto lending in the future as the economy recovers.

We currently provide overdraft lines of credit for our qualifying deposit customers with checking accounts.

Portfolio Management

Our investment analysis capabilities are a core competency of our organization. We decide whether to hold originated assets for investment or to sell them in the capital markets based on our assessment of the yield and risk characteristics of these assets as compared to other available opportunities to deploy our capital. Because risk-adjusted returns available on acquisitions may exceed returns available through retaining assets from our origination channels, we have elected to purchase loans and securities (see discussion below) from time to time. Some of our loans and security acquisitions were purchased at discounts to par value, which enhance our effective yield through accretion into income in subsequent periods. Our flexibility to increase risk-adjusted returns by retaining originated assets or acquiring assets differentiates us from our competitors with regional lending constraints.

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Loan Portfolio Composition. The following table sets forth the composition of our loan portfolio in amounts and percentages by type of loan at the end of each fiscal year-end for the last five years:

	At June 30, 2013		2012		2011		2010		2009	
(Dollars in thousands)	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Perce
Single family real estate secured:										
Mortgage	$1,070,668	46.5 %	$808,710	46.5 %	$517,637	38.7 %	$259,790	32.9 %	$165,405	26.3
Home equity	22,537	1.0 %	29,167	1.7 %	36,424	2.7 %	22,575	2.9 %	32,345	5.1
Warehouse and other	204,878	8.9 %	61,106	3.5 %	3,015	0.2 %	—	— %	—	—
Multifamily real estate secured	768,023	33.4 %	687,661	39.5 %	647,381	48.4 %	370,469	46.9 %	326,938	52.0
Commercial real estate secured	29,000	1.3 %	35,174	2.0 %	37,985	2.8 %	33,553	4.3 %	30,002	4.8
Auto and RV secured	18,530	0.8 %	24,324	1.4 %	30,406	2.4 %	39,842	5.0 %	50,056	8.0
Factoring	108,144	4.7 %	48,549	2.8 %	26,616	2.0 %	26,288	3.4 %	23,779	3.8
Commercial & Industrial	78,721	3.4 %	45,723	2.6 %	36,923	2.8 %	36,500	4.6 %	—	—
Other	419	— %	85	— %	28	— %	87	— %	93	—
Total loans held for investment	2,300,920	100.0%	1,740,499	100.0%	1,336,415	100.0%	789,104	100.0%	628,618	100.
Allowance for loan losses	(14,182)		(9,636)		(7,419)		(5,893)		(4,754)	
Unamortized premiums/discounts, net of deferred loan fees	(29,820)		(10,300)		(3,895)		(8,312)		(8,401)	
Net loans held for investment	$2,256,918		$1,720,563		$1,325,101		$774,899		$615,463	

	Term to Contractual Maturity				
(Dollars in thousands)	Less Than Three Months	Over Three Months Through One Year	Over One Year Through Five Years	Over Five Years	Total
June 30, 2013	$128,624	$15,736	$167,104	$1,989,456	$2,300,920

The following table sets forth the amount of our loans at June 30, 2013 that are due after June 30, 2014 and indicates whether they have fixed, floating or adjustable interest rate loans:

(Dollars in thousands)	Fixed	Floating or Adjustable	Total
Single family real estate secured:			
Mortgage	$60,509	$1,010,160	$1,070,669
Home equity	21,679	823	22,502
Warehouse and other	72,680	—	72,680
Multifamily real estate secured	53,457	713,506	766,963
Commercial real estate secured	4,819	24,180	28,999

Auto and RV secured	18,517	—	18,517
Factoring	105,858	—	105,858
Commercial & Industrial	32,991	37,381	70,372
Other	—	—	—
Total	$370,510	$1,786,050	$2,156,560

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Our mortgage loans are secured by properties primarily located in the western United States. The following table shows the largest states and regions ranked by location of these properties:

	At June 30, 2013				
	Percent of Loan Principal Secured by Real Estate Located in State				
		Single family			
State	Total Real Estate Loans	Mortgage	Home Equity	Multifamily real estate secured	Commercial real estate secured
California-south [1]	44.93 %	43.30 %	13.44 %	48.57 %	15.56 %
California-north [2]	13.27 %	14.31 %	13.31 %	11.72 %	15.74 %
New York	7.86 %	10.57 %	4.60 %	3.83 %	15.18 %
Florida	5.04 %	6.40 %	13.26 %	3.14 %	3.29 %
Washington	3.72 %	1.87 %	4.92 %	5.92 %	13.54 %
Texas	3.58 %	1.33 %	— %	6.57 %	8.10 %
Arizona	3.48 %	4.12 %	9.66 %	2.65 %	0.30 %
Colorado	2.12 %	2.85 %	0.73 %	0.98 %	5.65 %
Utah	1.02 %	1.68 %	2.59 %	0.13 %	— %
Oregon	0.94 %	0.83 %	0.64 %	0.85 %	7.35 %
All other states	14.04 %	12.74 %	36.85 %	15.64 %	15.29 %
	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %

[1] Consists of loans secured by real property in California with zip code ranges from 90000 to 92999.
[2] Consists of loans secured by real property in California with zip code ranges from 93000 to 96999.

The ratio of the loan amount to the value of the property securing the loan is called the loan-to-value ratio ("LTV"). The following table shows the LTVs of our loan portfolio on weighted-average and median bases at June 30, 2013. The LTVs were calculated by dividing (a) the loan principal balance less principal repayments by (b) the appraisal value of the property securing the loan at the time of the funding or, for certain purchased seasoned loans, an adjusted appraised value based upon an independent review at the time of the purchase.

		Single family			
	Total Real Estate Loans	Mortgage	Home Equity[1]	Multifamily real estate secured	Commercial real estate secured
Weighted Average LTV	54.68 %	54.69 %	55.93 %	54.89 %	48.23 %
Median LTV	54.01 %	54.16 %	59.20 %	53.66 %	43.49 %

[1] Amounts represent combined LTV calculated by adding the current balances of both the 1st and 2nd liens of the borrower and dividing that sum by an independent estimated value of the property at the time of origination.

We believe our weighted-average LTV of 54.68% at origination has resulted and will continue to result in the future, in relatively low average loan defaults and favorable write-off experience.

Loan Underwriting Process and Criteria. We individually underwrite the loans that we originate and all loans that we purchase. Our loan underwriting policies and procedures are written and adopted by our board of directors and our loan committee. Each loan, regardless of how it is originated, must meet underwriting criteria set forth in our lending policies and the requirements of applicable lending regulations of our federal regulators.

In the underwriting process we consider the borrower’s credit score, credit history, documented income, existing and new debt obligations, the value of the collateral, and other internal and external factors. For all multifamily and commercial loans, we rely primarily on the cash flow from the underlying property as the expected source of repayment, but we also endeavor to obtain personal guarantees from all borrowers or substantial principals of the

borrower. In evaluating multifamily and commercial loans, we review the value and condition of the underlying property, as well as the financial condition, credit history and qualifications of the borrower. In evaluating the borrower's qualifications, we consider primarily the borrower's other financial resources, experience in owning or managing similar properties and payment history with us or other financial institutions. In evaluating the underlying property, we consider primarily the net operating income of the property before debt service and depreciation, the ratio of net operating income to debt service and the ratio of the loan amount to the appraised value.

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Lending Limits. As a savings association, we are generally subject to the same lending limit rules applicable to national banks. With limited exceptions, the maximum amount that we may lend to any borrower, including related entities of the borrower, at any one time may not exceed 15% of our unimpaired capital and surplus, plus an additional 10% of unimpaired capital and surplus for loans fully secured by readily marketable collateral. We are additionally authorized to make loans to one borrower in an amount not to exceed the lesser of $30.0 million or 30% of our unimpaired capital and surplus for the purpose of developing residential housing, if certain specified conditions are met. See “Regulation of BofI Federal Bank.”

At June 30, 2013, the Bank’s loans-to-one-borrower limit was $40.2 million, based upon the 15% of unimpaired capital and surplus measurement. At June 30, 2013, no single loan was larger than a $25.0 million line of credit, with an outstanding balance of $17.0 million drawn on the line, and our largest single lending relationship had an outstanding balance of $19.7 million.

Loan Quality and Credit Risk. Historically, our level of non-performing mortgage loans as a percentage of our loan portfolio has been relatively low compared to the overall residential lending market. The economy and the mortgage and consumer credit markets have shown signs of stabilizing, but unemployment remains high. Additionally, we have recently increased our efforts to make loans to businesses through lending programs that are not as seasoned as our mortgage lending. Therefore, we anticipate that our rate of non-performing loans may increase in the future, and we have provided an allowance for estimated loan losses.

Non-performing assets are defined as non-performing loans and real estate acquired by foreclosure or deed-in-lieu thereof. Generally, non-performing loans are defined as nonaccrual loans and loans 90 days or more overdue. Troubled debt restructurings ("TDRs") are defined as loans that we have agreed to modify by accepting below market terms either by granting interest rate concessions or by deferring principal or interest payments. Our policy with respect to non-performing assets is to place such assets on nonaccrual status when, in the judgment of management, the probability of collection of interest is deemed to be insufficient to warrant further accrual. When a loan is placed on nonaccrual status, previously accrued but unpaid interest will be deducted from interest income. Our general policy is to not accrue interest on loans past due 90 days or more, unless the individual borrower circumstances dictate otherwise.

See Management’s Discussion and Analysis — “Asset Quality and Allowance for Loan Loss” for a history of non-performing assets and allowance for loan loss.

Investment Securities Portfolio. We classify each investment security according to our intent to hold the security to maturity, trade the security at fair value or make the security available-for-sale. We invest available funds in government and high-grade non-agency securities. Because risk-adjusted returns available on investment securities may exceed returns available through our origination channels, we may elect to purchase more securities from time to time. Our investment policy, as established by our board of directors, is designed to maintain liquidity and generate a favorable return on investment without incurring undue interest rate risk, credit risk or portfolio asset concentration risk. Under our investment policy, we are currently authorized to invest in agency mortgage-backed obligations issued or fully guaranteed by the United States government, non-agency mortgage-backed obligations, specific federal agency obligations, specific time deposits, negotiable certificates of deposit issued by commercial banks and other insured financial institutions, investment grade corporate debt securities and other specified investments. We also buy and sell securities to facilitate liquidity and to help manage our interest rate risk.

The following table sets forth the dollar amount of our securities portfolio by intent at the end of each of the last five fiscal years:

(Dollars in thousands)	Available-for-Sale Fair Value	Held-to-maturity Carrying Amount	Trading Fair Value	Total

Fiscal year end				
June 30, 2013	$ 185,607	$275,691	$7,111	$468,409
June 30, 2012	164,159	313,032	5,838	483,029
June 30, 2011	145,671	370,626	5,053	521,350
June 30, 2010	242,430	320,807	4,402	567,639
June 30, 2009	265,807	350,898	5,445	622,150

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The following table sets forth the expected maturity distribution of our mortgage-backed securities and the contractual maturity distribution of our other debt securities and the weighted-average yield for each range of maturities:

	For the Fiscal Year Ended June 30, 2013									
	Total Amount		Due Within One Year		Due After One but within Five Years		Due After Five but within Ten Years		Due After Ten Years	
(Dollars in thousands)	Amount	Yield[1]	Amount	Yield[1]	Amount	Yield[1]	Amount	Yield[1]	Amount	Yield[1]
Available-for-sale										
Mortgage-backed securities:										
U.S. Agency[2]	$70,517	2.38%	$2,462	2.20%	$10,136	2.20%	$13,074	2.20 %	$44,845	2.49 %
Non-Agency[3]	45,271	9.62%	11,920	9.02%	18,741	8.93%	8,060	10.22%	6,550	11.95%
Total Mortgage-Backed Securities	$115,788	5.21%	$14,382	7.85%	$28,877	6.57%	$21,134	5.26 %	$51,395	3.69 %
Other Debt Securities										
U.S. agencies	$25,049	0.28%	$25,049	0.28%	$—	— %	$—	— %	$—	— %
Municipal	11,062	3.13%	2,182	2.22%	3,355	2.22%	—	— %	5,525	4.04 %
Non-agency	29,646	2.40%	5,001	0.74%	22,992	2.66%	1,653	3.86 %	—	— %
Total Other Debt Securities	$65,757	1.72%	$32,232	0.48%	$26,347	2.60%	$1,653	3.86 %	$5,525	4.04 %
Available-for-sale—Amortized Cost	$181,545	3.95%	$46,614	2.76%	$55,224	4.68%	$22,787	5.16 %	$56,920	3.73 %
Available-for-sale—Fair Value	$185,607	3.95%	$47,189	2.76%	$57,038	4.68%	$23,890	5.16 %	$57,490	3.73 %
Held-to-maturity										
Mortgage-backed securities:										
U.S. Agency[2]	$54,825	3.72%	$1,666	3.04%	$6,619	3.06%	$8,007	3.11 %	$38,533	3.99 %
Non-Agency[3]	184,742	5.97%	27,770	7.22%	64,433	6.30%	37,063	5.55 %	55,476	5.24 %
Total Mortgage-Backed Securities	$239,567	5.45%	$29,436	6.98%	$71,052	6.00%	$45,070	5.12 %	$94,009	4.73 %
Other Debt Securities:										
U.S. agencies	$—	— %	$—	— %	$—	— %	$—	— %	$—	— %
Municipal	36,124	5.83%	—	— %	—	— %	—	— %	36,124	5.83 %
Non-agency	—	— %	—	— %	—	— %	—	— %	—	— %
Total Other Debt Securities	$36,124	5.83%	$—	— %	$—	— %	$—	— %	$36,124	5.83 %
Held-to-Maturity—Carrying Value	$275,691	5.50%	$29,436	6.98%	$71,052	6.00%	$45,070	5.12 %	$130,133	5.03 %
Held-to-Maturity—Fair Value	$271,854	5.50%	$29,279	6.98%	$69,882	6.00%	$43,276	5.12 %	$129,417	5.03 %
Trading										
Non-Agency—Fair Value[4]	$7,111	4.40%	$—	— %	$—	— %	$—	— %	$7,111	4.40 %
Total securities	$468,409	4.87%	$76,625	4.38%	$128,090	5.41%	$68,960	5.03 %	$194,734	4.62 %

[1] Weighted-average yield is based on amortized cost of the securities. Residential mortgage-backed security yields and maturities include impact of expected prepayments and other timing factors such as interest rate forward curve.
[2] U.S. government-backed or government sponsored enterprises including Fannie Mae, Freddie Mac and Ginnie Mae.
[3] Private sponsors of securities collateralized primarily by pools of 1-4 family residential first mortgages. Primarily super senior securities and secured by prime, Alt-A or pay-option ARM mortgages.
[4] Collateralized debt obligations secured by pools of bank trust preferred.

Our securities portfolio of $468.4 million at June 30, 2013 is composed of approximately 32.0% U.S. agency residential mortgage-backed securities ("RMBS") and other debt securities issued by GSEs, primarily Freddie Mac and Fannie Mae; 2.0% Prime private-issue super senior, first-lien RMBS; 9.7% Alt-A, private-issue super senior, first-lien RMBS; 32.3% Pay-Option ARM, private-issue super senior first-lien RMBS; 10.1% Municipal securities and 14.0% other residential mortgage-backed, asset-backed and bank pooled trust preferred securities. We had no commercial mortgage-backed securities ("CMBS") or Sub-prime RMBS at June 30, 2013.

We manage the credit risk of our non-agency RMBS by purchasing those securities which we believe have the most favorable blend of historic credit performance and remaining credit enhancements including subordination, over collateralization, excess spread and purchase discounts. Substantially all of our non-agency RMBS are super senior tranches protected against realized

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loss by subordinated tranches. The amount of structural subordination available to protect each of our securities (expressed as a percent of the current face value) is known as credit enhancement. At June 30, 2013, the weighted-average credit enhancement in our entire non-agency RMBS portfolio was 31.0%. The credit enhancement levels for our Alt-A and Pay-option ARM portions of the portfolio were 61.7% and 18.7%, respectively. The credit enhancement percent and the rating agency grade (e.g., “AA”) do not consider the additional credit protection available to the Bank, if needed, from its purchase price discounts. We have experienced RMBS personnel monitor the performance and measure the securities for impairment. The rating agency grade does not completely reflect the probability of impairment. The credit enhancement level when considering the remaining purchase discount at June 30, 2013 equals 31.6% for approximately 57.0% of our securities that have been downgraded from their respective AAA ratings at acquisition to below investment grade. See Management’s Discussion and Analysis—“Critical Accounting Policies—Securities.”

DEPOSIT GENERATION

We offer a full line of deposit products we source through our branchless distribution channels using an operating platform and marketing strategies that emphasize low operating costs and are flexible and scalable for our business. Our full featured products, customer service and our affinity relationships result in customer accounts with strong retention characteristics. We continuously collect customer feedback and improve our processes to satisfy customer needs.

At June 30, 2013, we had $2,092.0 million in deposits of which $1,034.6 million, or 49.5% were demand and savings accounts and $1,057.4 million, or 50.5% were time deposits. We generate deposit customer relationships through our retail distribution channels including websites, online advertising, print and digital advertising, financial advisory firms, affinity partnerships and lending businesses which generate escrow deposits and other operating funds. Our retail distribution channels include:

- Multiple national online banking brands with tailored products targeted to specific consumer segments. For example, our Bank of Internet brand, America's Oldest and Most Trusted Internet Bank is designed for customers who are looking for full-featured demand accounts and very competitive fees and interest rates. Bank X brand targets primarily tech-savvy, Generation X and Generation Y customers that are seeking a low-fee cost structure and a high-yield Savings account.
- Financial advisory firms who introduce their clients to our deposit products;
- Relationship with affinity groups where we gain access to the affinity group's members;
- BofI Federal's business banking division, which focuses on providing deposit products nationwide to industry verticals (e.g., Homeowners Associations and CPAs) through a dedicated sales team;
- A call center that opens accounts through self-generated internet leads, third-party purchased leads, affinity relationships, and our retention and cross-sell efforts to our existing customer base.

Our online accounts are full-featured requiring only one sign-in with quick and secure access to activity, statements and other features including:

Purchase Rewards. Customers can earn cash back by using their VISA® Debit Card at select merchants.

Mobile Banking. Customers can review account balances, transfer funds, deposit checks and pay bills from the convenience of their mobile phone.

Mobile Deposit. Customers can instantly deposit checks from their smart phones using our Mobile App.

FinanceWorks™. Customers can easily manage their finances and create budgets using this secure financial management solution.

Online Bill Payment Service. Customers can automatically pay their bills online from their account.

Popmoney. Customers can securely send money via email or text messaging through this service.

My Deposit. Customers can scan checks with this remote deposit solution from their home computers. Scanned images will be electronically transmitted for deposit directly to their account.

Text Message Banking. Customers can view their account balances, transaction history, and transfer funds between their accounts via these text message commands from their mobile phones.

Unlimited ATM reimbursements. With certain checking accounts, Customers are reimbursed for any fees incurred using an ATM (excludes international ATM transactions). This gives them access to any ATM in the nation, for free.

Secure Email. Customers can send and receive secure emails from our customer service department without concern for the security of their information.

InterBank Transfer. Customers can transfer money to their accounts at other financial institutions from their online banking platform.

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ATM Cards or VISA® Debit Cards. Customers may choose to receive either a free ATM card or VISA® Debit card upon account opening. Customers can access their accounts worldwide at ATMs and any other locations that accept VISA® Debit cards.

Overdraft Protection. Eligible customers can enroll in one of our overdraft protection programs. Our programs include Courtesy Overdraft Protection, Overdraft Line of Credit, and Overdraft Protection By Linked Accounts.

Our deposit operations are conducted through a centralized, scalable operating platform which supports all of our distribution channels. The integrated nature of our systems and our ability to efficiently scale our operations create competitive advantages that support our value proposition to customers. Additionally, the features described above such as online account opening and online bill-pay promote self-service and further reduce our operating expenses. We believe our deposit franchise will continue to provide lower all-in funding costs (interest expense plus operating costs) with greater scalability than branch-intensive banking models because the traditional branch model with high fixed operating costs will experience continued declines in consumer traffic due to the decline in paper check deposits and due to growing consumer preferences to bank online.

The number of deposit accounts at the end of each of the last five fiscal years is set forth below:

	At June 30,				
	2013	2012	2011	2010	2009
Checking and savings accounts	23,567	19,931	16,105	17,192	10,685
Time deposits	11,103	12,341	16,793	10,554	12,757
Total number of deposit accounts	34,670	32,272	32,898	27,746	23,442

Deposit Composition. The following table sets forth the dollar amount of deposits by type and weighted average interest rates at the end of each of the last five fiscal years:

	At June 30,									
	2013		2012		2011		2010		2009	
(Dollars in thousands)	Amount	Rate[1]	Amount	Rate[1]	Amount	Rate[1]	Amount	Rate[1]	Amount	Rate[1]
Non-interest-bearing	$81,524	—	$12,439	—	$7,369	—	$5,441	—	$3,509	—
Interest-bearing:										
Demand	311,539	0.50%	94,888	0.52%	76,793	0.75%	63,962	0.85%	59,151	1.22%
Savings	641,534	0.67%	583,955	0.72%	268,384	0.93%	358,293	0.91%	192,781	1.94%
Total demand and savings	953,073	0.61%	678,843	0.69%	345,177	0.89%	422,255	0.90%	251,932	1.77%
Time deposits:										
Under $100	183,754	1.36%	224,140	1.85%	337,937	2.24%	200,859	3.23%	191,021	4.39%
$100 or more	873,648	1.52%	699,666	1.75%	649,842	2.15%	339,625	2.95%	202,062	3.85%
Total time deposits	1,057,402	1.50%	923,806	1.78%	987,779	2.18%	540,484	3.05%	393,083	4.11%
Total interest-bearing	2,010,475	1.08%	1,602,649	1.32%	1,332,956	1.85%	962,739	2.11%	645,015	3.20%
Total deposits	$2,091,999	1.04%	$1,615,088	1.31%	$1,340,325	1.84%	$968,180	2.10%	$648,524	3.18%

[1] Based on weighted-average stated interest rates at the end of the period.

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The following tables set forth the average balance, the interest expense and the average rate paid on each type of deposit at the end of each of the last five fiscal years:

(Dollars in thousands)	At June 30, 2013 Average Balance	Interest Expense	Avg. Rate Paid	2012 Average Balance	Interest Expense	Avg. Rate Paid	2011 Average Balance	Interest Expense	Avg. Rate Paid
Demand	$286,549	$1,999	0.70%	$74,044	$593	0.81%	$61,181	$488	0.80%
Savings	540,248	4,400	0.81%	430,791	3,795	0.88%	283,783	2,527	0.92%
Time deposits	1,065,669	16,469	1.55%	1,003,728	20,501	2.04%	776,638	19,261	2.48%
Total interest-bearing deposits	$1,892,466	$22,868	1.21%	$1,508,563	$24,889	1.65%	$1,121,602	$22,276	2.01%
Total deposits	$1,937,765	$22,868	1.18%	$1,522,359	$24,889	1.63%	$1,127,415	$22,276	2.00%

(Dollars in thousands)	At June 30, 2010 Average Balance	Interest Expense	Avg. Rate Paid	2009 Average Balance	Interest Expense	Avg. Rate Paid
Demand	$57,779	$595	1.03%	$70,882	$1,722	2.43%
Savings	389,526	5,779	1.48%	115,427	2,861	2.48%
Time deposits	413,999	14,880	3.59%	433,410	19,400	4.48%
Total interest-bearing deposits	$861,304	$21,254	2.47%	$619,719	$23,983	3.87%
Total deposits	$866,837	$21,254	2.45%	$623,889	$23,983	3.84%

The following table shows the maturity dates of our certificates of deposit at the end of each of the last five fiscal years:

(Dollars in thousands)	At June 30, 2013	2012	2011	2010	2009
Within 12 months	$585,309	$482,615	$568,827	$259,026	$237,920
13 to 24 months	149,720	128,149	184,029	106,733	49,796
25 to 36 months	55,664	97,238	66,541	52,174	64,743
37 to 48 months	52,025	47,388	33,500	11,922	38,559
49 months and thereafter	214,684	168,416	134,882	110,629	2,065
Total	$1,057,402	$923,806	$987,779	$540,484	$393,083

The following table shows maturities of our time deposits having principal amounts of $100,000 or more at the end of each of the last five fiscal years:

(Dollars in thousands)	Term to Maturity Within Three Months	Over Three Months to Six Months	Over Six Months to One Year	Over One Year	Total
Time deposits with balances of $100,000 or more at June 30,					
2013	$201,463	$166,042	$94,195	$411,948	$873,648
2012	144,621	93,502	90,947	370,596	699,666
2011	41,322	144,907	161,940	301,673	649,842
2010	13,213	84,823	48,624	192,965	339,625
2009	30,256	49,126	57,527	65,153	202,062

Borrowings. In addition to deposits, we have historically funded our asset growth through advances from the Federal Home Loan Bank of San Francisco ("FHLB"). Our bank can borrow up to 40% of its total assets from the FHLB, and borrowings are collateralized by mortgage loans and mortgage-backed securities pledged to the FHLB. At June 30, 2013, the Company had $625.7 million available immediately, which reflects a fully collateralized position, for

advances from the FHLB for terms up to ten years.
The Bank has federal funds lines of credit with two major banks totaling $20.0 million. At June 30, 2013, the Bank had

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no outstanding balance on either line.

The Bank can also borrow from the Federal Reserve Bank of San Francisco (FRB), and borrowings are collateralized by consumer loans and mortgage-backed securities pledged to the FRB. Based on loans and securities pledged at June 30, 2013, we had a total borrowing capacity of approximately $28.2 million, none of which was outstanding. The Bank has additional unencumbered collateral that could be pledged to the FRB Discount Window to increase borrowing liquidity.

The Company has sold securities under various agreements to repurchase for total proceeds of $110.0 million. The repurchase agreements have fixed interest rates between 3.75% and 4.75% and scheduled maturities between November 2013 and December 2017. Pursuant to these agreements, under certain conditions, the Company may be required to repay the $110.0 million and repurchase its securities before the scheduled maturity if the issuer requests repayment on scheduled quarterly call dates. As of June 30, 2013, the weighted-average remaining contractual maturity period was 1.78 years and the weighted average remaining period before such repurchase agreements could be called was 0.13 years.

On December 16, 2004, we completed a transaction in which we formed a trust and issued $5.0 million of trust-preferred securities. The net proceeds from the offering were used to purchase approximately $5.2 million of junior subordinated debentures of our company with a stated maturity date of February 23, 2035. The debentures are the sole assets of the trust. The trust preferred securities are mandatorily redeemable upon maturity, or upon earlier redemption as provided in the indenture. We have the right to redeem the debentures in whole (but not in part) on or after specific dates, at a redemption price specified in the indenture plus any accrued but unpaid interest through the redemption date. Interest accrues at the rate of three-month LIBOR plus 2.4%, which was 2.67% at June 30, 2013, and is paid quarterly.

The table below sets forth the amount of our borrowings, the maximum amount of borrowings in each category during any month-end during each reported period, the approximate average amounts outstanding during each reported period and the approximate weighted average interest rate thereon at or for the last five fiscal years:

	At or For The Fiscal Years Ended June 30,				
(Dollars in thousands)	2013	2012	2011	2010	2009
Advances from the FHLB[1]:					
Average balance outstanding	$436,383	$333,866	$226,005	$199,288	$333,327
Maximum amount outstanding at any month-end during the period	590,417	422,000	309,000	225,988	392,973
Balance outstanding at end of period	590,417	422,000	305,000	182,999	262,984
Average interest rate at end of period	0.92 %	1.42 %	2.07 %	3.59 %	3.34 %
Average interest rate during period	1.36 %	1.78 %	2.77 %	3.88 %	3.42 %
Securities sold under agreements to repurchase:					
Average balance outstanding	$114,247	$125,820	$130,000	$130,000	$130,000
Maximum amount outstanding at any month-end during the period	120,000	130,000	130,000	130,000	130,000
Balance outstanding at end of period	110,000	120,000	130,000	130,000	130,000
Average interest rate at end of period	4.40 %	4.34 %	4.35 %	4.35 %	4.32 %
Average interest rate during period	4.44 %	4.41 %	4.41 %	4.40 %	4.37 %
Federal Reserve Discount Window borrowing					
Average balance outstanding	$—	$—	$—	$38,986	$38,524
Maximum amount outstanding at any month-end during the period	—	—	—	140,000	160,000
Balance outstanding at end of period	—	—	—	—	160,000
Average interest rate at end of period	— %	— %	— %	— %	0.25 %
Average interest rate during period	— %	— %	— %	0.25 %	0.36 %
Junior subordinated debentures:					
Average balance outstanding	$5,155	$5,155	$5,155	$5,155	$5,155

Maximum amount outstanding at any month-end during the period	5,155		5,155		5,155		5,155		5,155	
Balance outstanding at end of period	5,155		5,155		5,155		5,155		5,155	
Average interest rate at end of period	2.67	%	2.87	%	2.66	%	2.88	%	3.06	%
Average interest rate during period	2.93	%	2.89	%	2.85	%	2.91	%	4.60	%

[1] Advances from the FHLB have been reduced by debt issue costs of $0, $0, $1, $15 and $18 for the fiscal years ended June 30, 2013, 2012, 2011, 2010 and 2009, respectively.

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TECHNOLOGY

We have purchased, customized and developed software systems to provide products and services to our customers. Most of our key customer interfaces were designed by us specifically to address the needs of an Internet-only bank and its customers. Our website and deposit origination and servicing (DOS) software drives our customer self-service model, reducing the need for human interaction while increasing our overall operating efficiencies. Our DOS software enables us to collect customer data over our websites, which is automatically uploaded into our databases. The DOS databases drive our workflow processes by automatically linking to third-party processors and storing all customer contract and correspondence data, including emails, hard copy images and telephone notes. We intend to continue to improve our systems and implement new systems, with the goal of providing for increased transaction capacity without materially increasing personnel costs.

SECURITY

BofI Federal Bank recognizes that information is a critical asset. How information is managed, controlled and protected has a significant impact on the delivery of services. Information assets, including those held in trust, must be protected from unauthorized use, disclosure, theft, loss, destruction and alteration.
BofI Federal Bank employs an information security process to achieve its security objectives. The process is designed to identify, measure, manage and control the risks to system and data availability, integrity, and confidentiality, and to ensure accountability for system actions.

INTELLECTUAL PROPERTY AND PROPRIETARY RIGHTS

We register our various Internet URL addresses with service companies, and work actively with bank regulators to identify potential naming conflicts with competing financial institutions. Policing unauthorized use of proprietary information is difficult and litigation may be necessary to enforce our intellectual property rights. We own certain Internet domain names. Domain names in the United States and in foreign countries are regulated, and the laws and regulations governing the Internet are continually evolving. Additionally, the relationship between regulations governing domain names and laws protecting intellectual property rights is not entirely clear. As a result, in the future, we may be unable to prevent third parties from acquiring domain names that infringe or otherwise decrease the value of our trademark and other intellectual property rights.

EMPLOYEES

At June 30, 2013, we had 312 full time employees. None of our employees are represented by a labor union or is subject to a collective bargaining agreement. We have not experienced any work stoppage and consider our relations with our employees to be satisfactory.

COMPETITION

The market for banking and financial services is intensely competitive, and we expect competition to continue to intensify in the future. The Bank attracts deposits through its branchless acquisition channels. Competition for those deposits comes from a wide variety of other banks, savings institutions, and credit unions. The Bank competes for these deposits by offering superior service and a variety of deposit accounts at competitive rates.
In real estate lending, we compete against traditional real estate lenders, including large and small savings banks, commercial banks, mortgage bankers and mortgage brokers. Many of our current and potential competitors have greater brand recognition, longer operating histories, larger customer bases and significantly greater financial, marketing and other resources and are capable of providing strong price and customer service competition. In order to compete profitably, we may need to reduce the rates we offer on loans and investments and increase the rates we offer

on deposits, which may adversely affect our overall financial condition and earnings. We may not be able to compete successfully against current and future competitors.

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REGULATION

GENERAL

BofI Holding, Inc. (the “Company”) is regulated as a savings and loan holding company by the Board of Governors of the Federal Reserve System (the “Federal Reserve”). The Company is required to file reports with, and otherwise comply with the rules and regulations of, the Federal Reserve. The Bank, as a federal savings bank, is subject to regulation, examination and supervision by the Office of the Comptroller of the Currency ("OCC") as its primary regulator, and the Federal Deposit Insurance Corporation (“FDIC”) as its deposit insurer. The Bank must file reports with the OCC and the FDIC concerning its activities and financial condition. Pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”), enacted on July 21, 2010, the Office of Thrift Supervision (“OTS”) was abolished as of July 21, 2011, and its rights and duties transferred to the Federal Reserve as to savings and loan holding companies, and to the OCC as to savings banks. Therefore, as of that date (the “Transfer Date”), the Company became subject to regulation by the Federal Reserve rather than the OTS, and the Bank became subject to regulation by the OCC rather than the OTS. The Dodd-Frank Act also created a new Bureau of Consumer Financial Protection (“CFPB”) as an independent bureau of the Federal Reserve, to begin operations on the Transfer Date. The CFPB has broad authority to issue regulations implementing numerous consumer laws, and we will be subject to those regulations.

The regulation of savings and loan holding companies and savings associations is intended primarily for the protection of depositors and not for the benefit of our stockholders. The following information describes aspects of the material laws and regulations applicable to the Company and the Bank. The information below does not purport to be complete and is qualified in its entirety by reference to all applicable laws and regulations. In addition, new and amended legislation, rules and regulations governing the Company and the Bank are introduced from time to time by the U.S. government and its various agencies. Any such legislation, regulatory changes or amendments could adversely affect the Company or the Bank, and no assurance can be given as to whether, or in what form, any such changes may occur.

REGULATION OF BOFI HOLDING, INC.

General. BofI Holding, Inc. (the “Company”) is a unitary savings and loan holding company within the meaning of the Home Owner's Loan Act (“HOLA”). Accordingly, the Company is registered with the Federal Reserve and is subject to Federal Reserve's regulations, examinations, supervision and reporting requirements. In addition, the Federal Reserve has enforcement authority over the Company and its subsidiaries. Among other things, this authority permits the Federal Reserve to restrict or prohibit activities that are determined to be a serious risk to the subsidiary savings institution.

As noted above, pursuant to the Dodd-Frank Act, the Federal Reserve assumed responsibility for the primary supervision and regulation of all savings and loan holding companies, including the Company, on July 21, 2011. Given the extensive transfer of former OTS authority to multiple agencies, the Dodd-Frank Act requires the Federal Reserve to identify and publish in the Federal Register separate lists of the OTS regulations that the Federal Reserve will continue to enforce for savings and loan holding companies after the Transfer Date. In carrying out this mandate, and in connection with its assumption of responsibility for the ongoing examination, supervision, and regulation of savings and loan holding companies, the Federal Reserve has published an interim final rule, which became effective on September 13, 2011. The interim final rule provides for the corresponding transfer from the OTS to the Federal Reserve of the regulations necessary for the Federal Reserve to administer the statutes governing savings and loan holding companies, and implemented Regulation LL, which includes comprehensive new regulations governing the activities and operations of savings and loan holding companies and acquisitions of savings associations. The Federal Reserve's regulations supersede OTS regulations for purposes of Federal Reserve supervision and regulation of savings and loan holding companies.

Capital. Savings and loan holding companies, such as the Company, were historically not subject to specific regulatory capital requirements. However, pursuant to the Dodd-Frank Act, savings and loan holding companies will become subject to the same capital and activity requirements as those applicable to bank holding companies. Moreover, the Dodd-Frank Act required that the Federal Reserve promulgate consolidated capital requirements for depository institution holding companies that are not less stringent, both quantitatively and in terms of components of capital, than those applicable to institutions themselves. Accordingly, such mandate eliminates the inclusion of certain instruments, such as trust preferred securities issued on or after May 19, 2010, from Tier 1 holding company capital.
In July 2013, the Company's primary federal regulator, the Federal Reserve, and the Bank's primary federal regulator, the OCC, published final rules (the "New Capital Rules") establishing a new comprehensive capital framework for U.S. banking organizations. The rules implement the Basel Committee's December 2010 capital framework known as "Basel III" for strengthening international capital standards as well as certain provisions of the Dodd-Frank Act. The New Capital Rules

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substantially revise the capital requirements applicable to depository institutions and their holding companies, including the Company and the Bank.
The New Capital Rules narrow the definition of regulatory capital and establish higher minimum risk-based capital ratios that, when fully phased in, will require banking organizations to maintain a minimum "common equity Tier 1" (or "CET1") ratio of 4.5%, a Tier 1 capital ratio of 6.0% (increased from 4.0%), a total risk-based capital ratio of 8.0%, and a minimum leverage ratio of 4.0% (calculated as Tier 1 capital to average consolidated assets). The effective date of these requirements for the Company and the Bank is January 1, 2015.
A capital conservation buffer of 2.5% above each of these levels (to be phased in over three years starting in 2016, beginning at 0.625% and increasing by that amount on each subsequent January 1, until it reaches 2.5% on January 1, 2019) will be required for banking institutions to avoid restrictions on their ability to make capital distributions, including the payment of dividends.
The final framework provides for a number of new deductions from and adjustments to CET1. These include, for example, the requirement that deferred tax assets dependent upon future taxable income and significant investments in non-consolidated financial entities be deducted from CET1 to the extent any one such category exceeds 10% of CET1 or all such categories in the aggregate exceed 15% of CET1. Implementation of the deductions and other adjustments to CET1 is to begin on January 1, 2015 and be phased in over three years for the Company and the Bank.
The implementation of certain regulations and standards relating to regulatory capital could disproportionately affect our regulatory capital position relative to that of our competitors, including those that may not be subject to the same regulatory requirements as the Company. Various aspects of Basel III will be subject to multi-year transition periods ending December 31, 2018 and Basel III generally continues to be subject to further evaluation and interpretation by the U.S. banking regulators. We believe that, as of June 30, 2013, the Company would remain well-capitalized under the currently enacted capital adequacy requirements of Basel III, including when implemented on a fully phased-in basis.

Source of Strength. The Dodd-Frank Act extends the Federal Reserve "source of strength" doctrine to savings and loan holding companies. Such policy requires holding companies to act as a source of financial strength to their subsidiary depository institutions by providing capital, liquidity and other support in times of an institution's financial distress. The regulatory agencies must issue joint regulations implementing this policy.

Change of Control. The federal banking laws require that appropriate regulatory approvals must be obtained before an individual or company may take actions to "control" a bank or savings association. The definition of control found in the HOLA is similar to that found in the BHCA for bank holding companies. Both statutes apply a similar three-prong test for determining when a company controls a bank or savings association. Specifically, a company has control over either a bank or savings association if the company:

- directly or indirectly or acting in concert with one or more persons, owns, controls, or has the power to vote 25% or more of the voting securities of a company;
- controls in any manner the election of a majority of the directors (or any individual who performs similar functions in respect of any company, including a trustee under a trust) of the board; or
- directly or indirectly exercises a controlling influence over the management or policies of the bank.

Regulation LL includes a specific definition of "control" similar to the statutory definition, with certain additional provisions. Additionally, Regulation LL modifies the regulations previously used by the OTS for purposes of determining when a company or natural person acquires control of a savings association or savings and loan holding company under the HOLA or the Change in Bank Control Act ("CBCA"). In light of the similarity between the statutes governing bank holding companies and savings and loan holding companies, the Federal Reserve has indicated that it intends to use its established rules and processes with respect to control determinations under HOLA and the CBCA to ensure consistency between equivalent statutes administered by the same agency. Overall, the indication of control used by the Federal Reserve under the BHCA to determine whether a company has a controlling influence over the management or policies of a banking organization (which for Federal Reserve purposes, will now include savings associations and savings and loan holding companies) are similar to the control factors found in the former OTS

regulations. However, the OTS rules weighed these factors somewhat differently and used a different review process designed to be more mechanical.

Furthermore, the Federal Reserve 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 state of the target savings institution specifically permit such acquisition. The states vary in the extent to which they permit interstate savings and loan holding company acquisitions.

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REGULATION OF BOFI FEDERAL BANK

General. As a federally-chartered savings and loan association whose deposit accounts are insured by the Federal Deposit Insurance Corporation ("FDIC"), BofI Federal Bank is subject to extensive regulation by the FDIC and, as of the Transfer Date, the OCC. Under the Dodd-Frank Act, the examination, regulation and supervision of savings associations, such as BofI Federal Bank, were transferred from the OTS to the OCC, the federal regulator of national banks under the National Bank Act. The following discussion summarizes some of the principal areas of regulation applicable to the Bank and its operations.

Insurance of Deposit Accounts. The FDIC administers a deposit insurance fund (the "DIF") that insures depositors in certain types of accounts up to a prescribed amount for the loss of any such depositor's respective deposits due to the failure of an FDIC member depository institution. As the administrator of the DIF, the FDIC assesses its member depository institutions and determines the appropriate DIF premiums to be paid by each such institution. The FDIC is authorized to examine its member institutions and to require that they file periodic reports of their condition and operations. The FDIC may also prohibit any member institution from engaging in any activity the FDIC determines by regulation or order to pose a serious risk to the DIF. The FDIC also has the authority to initiate enforcement actions against savings associations, after giving the primary federal regulator, now the OCC, the opportunity to take such action. The FDIC may terminate an institution's access to the DIF if it determines that the institution has engaged in unsafe or unsound practices or is in an unsafe or unsound condition. We do not know of any practice, condition or violation that might lead to termination of our access to the DIF.

BofI Federal Bank is a member depository institution of the FDIC and its deposits are insured by the DIF up to the applicable limits, which are backed by the full faith and credit of the U. S. Government. Effective with the passing of the Dodd-Frank Act, the basic deposit insurance limit was permanently raised to $250,000, instead of the $100,000 limit previously in effect.

Beginning in late 2008, the economic environment caused higher levels of bank failures, which dramatically increased FDIC resolution costs and led to a significant reduction in the DIF. As a result, the FDIC has significantly increased the initial base assessment rates paid by member institutions for access to the DIF. The base assessment rate was increased by seven basis points (seven cents for every $100 of deposits) for the first quarter of 2009. Effective April 1, 2009, initial base assessment rates were changed to range from 12 basis points to 45 basis points across all risk categories with possible adjustments to these rates based on certain debt-related components. These increases in the base assessment rate have increased our deposit insurance costs and negatively impacted our earnings. In addition, in May 2009, the FDIC imposed a special assessment on all member institutions due to recent bank and savings association failures. The emergency assessment amounted to five basis points on each institution's assets minus Tier 1 capital as of June 30, 2009, subject to a maximum equal to 10 basis points times the institution's assessment base. Management cannot predict what insurance assessment rates will be in the future.

In addition, the FDIC may impose additional emergency special assessments of up to five basis points per quarter on each institution's assets minus Tier 1 capital, if necessary, to maintain public confidence in the DIF or as a result of deterioration in the deposit DIF reserve ratio due to institution failures. Additionally, as an alternative to the special assessments, in September 2009, the FDIC adopted a rule that required member institutions to prepay its estimated quarterly risk-based assessment for the fourth quarter of 2009 and for all of 2010, 2011 and 2012. This new rule did not impact our earnings because the prepayment is being amortized over time. Any additional emergency special assessment imposed by the FDIC will negatively impact our earnings. In 2013, member institutions returned to paying its risk-based assessment on a quarterly basis.

Regulatory Capital Requirements and Prompt Corrective Action. The prompt corrective action regulation of the OCC requires mandatory actions and authorizes other discretionary actions to be taken by the OCC against a savings association that falls within undercapitalized capital categories specified in OCC regulations.

Under OCC regulations, an institution is "well-capitalized" if it has a total risk-based capital ratio of at least 10.0%, a Tier 1 risk-based capital ratio of at least 6.0% and a leverage ratio of at least 5.0%, with no written agreement, order, capital directive, prompt corrective action directive or other individual requirement by the OCC to maintain a specific

capital measure. An institution is adequately capitalized if it has a total risk-based capital ratio of at least 8.0%, a Tier 1 risk-based capital ratio of at least 4.0% and a leverage ratio of at least 4.0% (or 3.0% if it has a composite rating of "1" and is not experiencing or anticipating significant growth). OCC regulations also establish three categories for institutions with lower ratios: undercapitalized, significantly undercapitalized and critically undercapitalized. At June 30, 2013, BofI Federal Bank met the capital requirements of a "well-capitalized" institution under applicable OCC regulations.

In general, the prompt corrective action regulation prohibits an FDIC member institution from declaring any dividends, making any other capital distribution, or paying a management fee to a controlling person if, following the distribution or payment, the institution would be within any of the three undercapitalized categories. In addition, adequately capitalized institutions may accept brokered deposits only with a waiver from the FDIC, but are subject to restrictions on the interest rates that can be paid on such deposits. Undercapitalized institutions may not accept, renew or roll-over brokered deposits.

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If the OCC determines that an institution is in an unsafe or unsound condition, or if the institution is deemed to be engaging in an unsafe and unsound practice, the OCC may, if the institution is well-capitalized, reclassify it as adequately capitalized. If the institution is adequately capitalized, but not well-capitalized, the OCC may require it to comply with restrictions applicable to undercapitalized institutions. If the institution is undercapitalized, the OCC may require it to comply with restrictions applicable to significantly undercapitalized institutions. Finally, pursuant to an interagency agreement, the FDIC can examine any institution that has a substandard regulatory examination score or is considered undercapitalized without the express permission of the institution's primary regulator.

Capital regulations applicable to savings associations such as the Bank also require savings associations to meet three additional capital standards:

- Tangible capital equal to at least 1.5% of total adjusted assets;
- Leverage capital (core capital) equal to 4.0% of total adjusted assets; and
- Risk-based capital equal to 8.0% of total risk-weighted assets.

These capital requirements are viewed as minimum standards and most financial institutions are expected to maintain capital levels well above the minimum. In addition, OCC regulations provide that minimum capital levels greater than those provided in the regulations may be established by the OCC for individual savings associations upon a determination that the savings association's capital is or may become inadequate in view of its circumstances. BofI Federal Bank is not subject to any such individual minimum regulatory capital requirement and the Bank's regulatory capital exceeded all minimum regulatory capital requirements as of June 30, 2013. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources."

In July 2013, the OCC published the New Capital Rules, which establish a new comprehensive capital framework for U.S. banking organizations, including the Company and the Bank. The New Capital Rules require higher levels of certain types of capital compared to the existing capital standards, beginning on January 1, 2015, and are discussed in further detail above under "Regulation of BOFI Holding, Inc. - Capital".

Standards for Safety and Soundness. The federal banking regulatory agencies have prescribed, by regulation, guidelines for all insured depository institutions relating to: (i) internal controls, information systems and internal audit systems; (ii) loan documentation; (iii) credit underwriting; (iv) interest rate risk exposure; (v) asset growth; (vi) asset quality; (vii) earnings; and (viii) compensation, fees and benefits. The guidelines set forth safety and soundness standards that the federal banking regulatory agencies use to identify and address problems at FDIC member institutions before capital becomes impaired. If the OCC determines that the Bank fails to meet any standard prescribed by the guidelines, the OCC may require us to submit to it an acceptable plan to achieve compliance with the standard. OCC regulations establish deadlines for the submission and review of such safety and soundness compliance plans in response to any such determination. We are not aware of any conditions relating to these safety and soundness standards that would require us to submit a plan of compliance to the OCC.

Loans-to-One-Borrower Limitations. Savings associations generally are subject to the lending limits applicable to national banks. With limited exceptions, the maximum amount that a savings association or a national bank may lend to any borrower, including related entities of the borrower, at one time may not exceed 15% of the unimpaired capital and surplus of the institution, plus an additional 10% of unimpaired capital and surplus for loans fully secured by readily marketable collateral. Savings associations are additionally authorized to make loans to one borrower by order of its regulator, in an amount not to exceed the lesser of $30.0 million or 30% of unimpaired capital and surplus for the purpose of developing residential housing, if the following specified conditions are met:

- The purchase price of each single family dwelling in the development does not exceed $500,000;
- The savings association is in compliance with its fully phased-in capital requirements;
- The loans comply with applicable loan-to-value requirements; and
- The aggregate amount of loans made under this authority does not exceed 150% of unimpaired capital and surplus.

Qualified Thrift Lender Test. Savings associations must meet a qualified thrift lender, or "QTL," test. This test may be met either by maintaining a specified level of portfolio assets in qualified thrift investments as specified by the HOLA, or by meeting the definition of a "domestic building and loan association" under the Internal Revenue Code of 1986, as amended, or the "Code". Qualified thrift investments are primarily residential mortgage loans and related investments, including mortgage related securities. Portfolio assets generally mean total assets less specified liquid assets, goodwill

and other intangible assets and the value of property used in the conduct of the Bank's business. The required percentage of qualified thrift investments under the HOLA is 65% of "portfolio assets" (defined as total assets less: (i) specified liquid assets up to 20% of total assets; (ii) intangibles, including goodwill; and (iii) the value of property used to conduct business. An association must be in compliance with the QTL test or the definition of domestic building and loan association on a monthly basis in nine out of every 12 months. Savings associations that fail to meet the QTL test will generally be prohibited from engaging in any activity not permitted for both a national bank and a savings association. At June 30, 2013, the Bank was in compliance with its QTL requirement and met the

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definition of a domestic building and loan association.

Liquidity Standard. Savings associations are required to maintain sufficient liquidity to ensure safe and sound operations. As of June 30, 2013, BofI Federal Bank was in compliance with the applicable liquidity standard.

Transactions with Related Parties. The authority of the Bank to engage in transactions with “affiliates” (i.e., any company that controls or is under common control with it, including the Company and any non-depository institution subsidiaries) is limited by federal law. The aggregate amount of covered transactions with any individual affiliate is limited to 10% of the capital and surplus of the savings institution. The aggregate amount of covered transactions with all affiliates is limited to 20% of a savings institution’s capital and surplus. Certain transactions with affiliates are required to be secured by collateral in an amount and of a type described in federal law. The purchase of low quality assets from affiliates is generally prohibited. Transactions with affiliates must be on terms and under circumstances that are at least as favorable to the institution as those prevailing at the time for comparable transactions with non-affiliated companies. 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.

The Sarbanes-Oxley Act generally prohibits loans by public companies to their executive officers and directors. However, there is a specific exception for loans by financial institutions, such as the Bank, to its executive officers and directors that are made in compliance with federal banking laws. Under such laws, our authority to extend credit to executive officers, directors, and 10% or more shareholders (“insiders”), as well as entities such person’s control is limited. The law limits both the individual and aggregate amount of loans the Bank may make to insiders based, in part, on its capital position and requires certain board approval procedures to be followed. Such loans are required to be made on terms substantially the same as those offered to unaffiliated individuals and cannot 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.

Capital Distribution Limitations. Regulations applicable to the Bank impose limitations upon all capital distributions by savings associations, like cash dividends, payments to repurchase or otherwise acquire its shares, payments to stockholders of another institution in a cash-out merger and other distributions charged against capital. Under these regulations, a savings association may, in circumstances described in those regulations:

- Be required to file an application and await approval from the OCC before it makes a capital distribution;
- Be required to file a notice 30 days before the capital distribution; or
- Be permitted to make the capital distribution without notice or application to the OCC.

Community Reinvestment Act and the Fair Lending Laws. Savings associations have a responsibility under the Community Reinvestment Act and related regulations of the OCC to help meet the credit needs of their communities, including low- and moderate-income neighborhoods. In addition, the Equal Credit Opportunity Act and the Fair Housing Act prohibit lenders from discriminating in their lending practices on the basis of characteristics specified in those statutes. An institution’s failure to comply with the provisions of the Community Reinvestment Act could, at a minimum, result in regulatory restrictions on its activities and the denial of applications. In addition, an institution’s failure to comply with the Equal Credit Opportunity Act and the Fair Housing Act could result in the OCC, other federal regulatory agencies or the Department of Justice, taking enforcement actions against the institution. To the best of our knowledge, BofI Federal Bank is in full compliance with each of the Community Reinvestment Act, the Equal Credit Opportunity Act and the Fair Housing Act and we do not anticipate the Bank becoming the subject of any enforcement actions.

Federal Home Loan Bank System. The Bank is a member of the FHLB system. Among other benefits, each FHLB serves as a reserve or central bank for its members within its assigned region. Each FHLB is financed primarily from the sale of consolidated obligations of the FHLB system. Each FHLB makes available loans or advances to its members in compliance with the policies and procedures established by the board of directors of the individual FHLB. As an FHLB member, the Bank is required to own capital stock in a Federal Home Loan Bank in specified amounts based on either its aggregate outstanding principal amount of its residential mortgage loans, home purchase contracts and similar obligations at the beginning of each calendar year or its outstanding advances from the FHLB.

Federal Reserve System. The Federal Reserve requires all depository institutions to maintain non-interest bearing reserves at specified levels against their transaction accounts (primarily checking, NOW, and Super NOW checking accounts) and non-personal time deposits. At June 30, 2013, the Bank was in compliance with these requirements.
Activities of Subsidiaries. A savings association seeking to establish a new subsidiary, acquire control of an existing company or conduct a new activity through a subsidiary must provide 30 days prior notice to the FDIC and the OCC and conduct any activities of the subsidiary in compliance with regulations and orders of the OCC. The OCC has the power to require a savings association to divest any subsidiary or terminate any activity conducted by a subsidiary that the OCC determines to pose a serious threat to the financial safety, soundness or stability of the savings association or to be otherwise inconsistent with sound banking

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practices.
Consumer Laws and Regulations. The Dodd-Frank Act established the Bureau of Consumer Financial Protection (“BCFP”) in order to regulate any person who offers or provides personal, family or household financial products or services. The BCFP is an independent “watchdog” within the Federal Reserve System to enforce and create “Federal consumer financial laws.” Banks as well as nonbanks are subject to any rule, regulation or guideline created by the BCFP. The only authority the Federal Reserve has over the BCFP is the authority to delegate examinations regarding compliance with “Federal consumer financial laws.” Except for the power of the Federal Reserve to reject any rules of the BCFP in extremely limited situations, the BCFP may promulgate any consumer financial rule or guideline, and exempt whomever it wants therefrom. If a court interprets a BCFP regulation or guideline, a court may only consider the BCFP’s interpretation of the rule or guideline. Subject to certain limited exemptions, persons subject to the BCFP include anyone who offers or provides consumer financial products or services, including banks, savings associations, credit unions, mortgage brokers, debt collectors and consumer credit reporting agencies. The apparent goal is to have only one agency in charge of protecting consumers by overseeing the application and implementation of “Federal consumer financial laws,” which includes (i) rules, orders and guidelines of the BCFP, (ii) all consumer financial protection functions, powers and duties transferred from other federal agencies, such as the Federal Reserve, the OCC, the FDIC, the Federal Trade Commission, and the Department of Housing and Urban Development, and (iii) a long list of consumer financial protection laws enumerated in the Dodd-Frank Act, such as the Electronic Fund Transfer Act, the Consumer Leasing Act of 1976, the Alternative Mortgage Transaction Parity Act of 1982, the Equal Credit Opportunity Act, the Expedited Funds Availability Act, the Truth in Lending Act and the Truth in Savings Act, among many others. The BCFP has broad examination and enforcement authority, including the power to issue subpoenas and cease and desist orders, commence civil actions, hold investigations and hearings and seek civil penalties, as well as the authority to regulate disclosures, mandate registration of any covered person and to regulate what it considers unfair, deceptive, abusive practices.
However, savings associations with $10 billion or less in assets, such as the Bank, will continue to be examined for compliance with the consumer protection laws and regulations by their primary bank regulators. Such laws and regulations and the other consumer protection laws and regulations to which the Bank has been subject have historically mandated certain disclosure requirements and regulated the manner in which financial institutions must deal with customers when taking deposits from, making loans to, or engaging in other types of transactions with, such customers. The effect of the BCFP on the development and promulgation of consumer protection rules and guidelines and the enforcement of federal “consumer financial laws” on the Bank, if any, cannot be determined with certainty at this time.
Privacy Standards. The Gramm-Leach-Bliley Act (“GLBA”) modernized the financial services industry by establishing a comprehensive framework to permit affiliations among commercial banks, insurance companies, securities firms and other financial service providers. The Bank is subject to OCC regulations implementing the privacy protection provisions of the GLBA. These regulations require the Bank to disclose its privacy policy, including informing consumers of its information sharing practices and informing consumers of their rights to opt out of certain practices.
Anti-Money Laundering and Customer Identification. The U.S. government enacted the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 ("USA Patriot Act") on October 26, 2001 in response to the terrorist events of September 11, 2001. The USA Patriot Act gives the federal government broad powers to address terrorist threats through enhanced domestic security measures, expanded surveillance powers, increased information sharing, and broadened anti-money laundering requirements. In February 2010, Congress re-enacted certain expiring provisions of the USA Patriot Act.

AVAILABLE INFORMATION

BofI Holding, Inc. files reports, proxy and information statements and other information electronically with the SEC. You may read and copy any materials that we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. Information may be obtained on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information

statements, and other information regarding issuers that file electronically with the SEC. The SEC's website site address is http://www.sec.gov. Our web site address is http://www.bofiholding.com, and we make our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K and amendments thereto available on our website free of charge.

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ITEM 1A. RISK FACTORS

See the discussion under “Management's Discussion and Analysis of Financial Condition and Results of Operations-Factors that May Affect Our Performance,” which is incorporated herein by reference into this Item 1A.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our principal executive offices, which also serve as our bank’s main office and branch, are located at 4350 La Jolla Village Drive, Suite 140, San Diego, California 92122, and our telephone number is (858) 764-6597. This facility occupies a total of approximately 60,741 square feet under a lease that expires June 30, 2020.

ITEM 3. LEGAL PROCEEDINGS

We may from time to time become a party to legal proceedings arising in the ordinary course of our business. We are not currently a party to any material legal proceedings, lawsuit or claim.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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PART II

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

Our common stock began trading on the NASDAQ National Global Select Market on March 15, 2005 under the symbol “BOFI.” There were 13,785,062 shares of common stock outstanding held by approximately 18,650 shareholders as of August 28, 2013. The following table sets forth, for the calendar quarters indicated, the range of high and low sales prices for the common stock of BofI Holding, Inc. for each quarter during the last two fiscal years. Sales prices represent actual sales of which our management has knowledge. The transfer agent and registrar of our common stock is Computershare.

	BofI Holding, Inc. Common Stock Price Per Share	
Quarter ended:	High	Low
June 30, 2011	$16.80	$13.83
September 30, 2011	$15.20	$11.46
December 31, 2011	$16.70	$12.56
March 31, 2012	$17.61	$15.48
June 30, 2012	$19.93	$16.96
September 30, 2012	$26.66	$19.50
December 31, 2012	$28.44	$23.91
March 31, 2013	$36.82	$28.02
June 30, 2013	$49.98	$35.05

DIVIDENDS

The holders of record of our Series A preferred stock, which was issued in 2003 and 2004, are entitled to receive annual dividends at the rate of six percent (6%) of the stated value per share, which stated value is $10,000 per share. Dividends on the Series A preferred stock accrue and are payable quarterly. Dividends on the preferred stock must be paid prior and in preference to any declaration or payment of any distribution on any outstanding shares of junior stock, including our common stock.

During 2011 we issued an aggregate of 20,182 shares of 6.0% Series B Non-cumulative Perpetual Convertible Preferred Stock (the “Series B preferred stock”). Dividends on the Series B preferred stock were paid quarterly. On August 31, 2012, the Company announced that it would mandatorily convert all outstanding shares of Series B preferred stock into common stock of the Company, and the conversion was completed effective September 11, 2012.

In October 2012 we issued an aggregate of 1,857 shares of 6.0% Series C Non-cumulative Perpetual Convertible Preferred Stock (the “Series C Preferred Stock”) for a purchase price of $10,000 per share or an aggregate of $18.6 million before expenses of the offering. Dividends on the Series C preferred stock were paid quarterly. On April 24, 2013, the Company completed the mandatory conversion of the Series C Preferred Stock, which was converted into 608,840 shares of common stock, reflecting an approximate initial conversion price of $30.50 per share.

Other than dividends to be paid on our preferred stock, we currently intend to retain any earnings to finance the growth and development of our business. Our board of directors has never declared or paid any cash dividends on our common stock and does not expect to do so in the foreseeable future. Our ability to pay dividends, should our board of directors elect to do so, depends largely upon the ability of the Bank to declare and pay dividends to us. Future dividends will depend primarily upon our earnings, financial condition and need for funds, as well as government policies and regulations applicable to us and our bank that limit the amount that may be paid as dividends without

prior approval.

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ISSUER PURCHASES OF EQUITY SECURITIES

Stock Repurchases. On June 30, 2005, our board of directors approved a common stock buyback program to purchase up to 5% of BofI outstanding common shares. The buyback program became effective on August 23, 2005 with no termination date. Prior to July 1, 2008, a total of 319,500 shares of BofI were purchased under the June 2005 buyback program. On November 21, 2008 the board of directors approved an expansion of our common stock buyback program to purchase up to an additional 500,000 shares of our outstanding common shares if and when the opportunity arises. The increased authorization was effective immediately with no termination date. The program authorizes BofI to buy back common stock at its discretion, subject to market conditions. During the fiscal year ended June 30, 2013, no additional shares of BofI common stock were purchased under this program.

Net Settlement of Restricted Stock Awards. Effective November 2007, the stockholders of the Company approved an amendment to the 2004 Stock Incentive Plan, which among other changes permitted net settlement of restricted stock awards for purposes of payment of a grantee's income tax obligation. During the fiscal year ended June 30, 2013, there were 95,862 restricted stock award shares which were retained by the Company and converted to cash at the average rate of $38.07 per share to fund the grantee's income tax obligations.

The following table sets forth our market repurchases of BofI common stock and the BofI common shares retained in connection with net settlement of restricted stock awards during the fourth fiscal quarter ending June 30, 2013. Purchases made relate to the stock repurchase plan of 414,991 shares that was originally approved by the Company's Board of Directors on July 5, 2005, plus an additional 500,000 shares approved on November 20, 2008. Stock repurchased under this plan will be held as treasury shares.

Period	Number of Shares Purchased	Average Price Paid Per Shares	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet be Purchased Under the Plans or Programs
Stock Repurchases				
Quarter Ended June 30, 2013				
April 1, 2013 to June 30, 2013	—	—	—	319,291
Stock Repurchases Balance at June 30, 2013	595,700	$5.72	595,700	319,291
Stock Retained in Net Settlement				
Ending Balance at March 31, 2013	213,342			
April 1, 2013 to June 30, 2013	95,862			
Ending Balance at June 30, 2013	309,204			
Total Treasury Shares at June 30, 2013	904,904			

SALE OF UNREGISTERED SECURITIES

In October 2012, the Company sold an aggregate of 1,857 shares of its Series C Preferred Stock for a purchase price of $10,000 per share or an aggregate of $18.6 million before expenses of the offering. The shares of Series C Preferred Stock were issued in reliance upon the exemptions from registration under the Securities Act of 1933, as amended, provided by Section 4(2) and Rule 506 of Regulation D promulgated thereunder. The shares were issued directly by the Company and did not involve a public offering or general solicitation. The investors in the private placement were "accredited investors" as that term is defined in Rule 501 of Regulation D and acquired the shares for investment only and not with a present view toward, or for resale in connection with, the public sale or distribution thereof.

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EQUITY COMPENSATION PLAN INFORMATION

The following table provides information regarding the aggregate number of securities to be issued under all of our stock option and equity based compensation plans upon exercise of outstanding options, warrants and other rights and their weighted-average exercise prices as of June 30, 2013. There were no securities issued under equity compensation plans not approved by security holders.

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options and units granted	(b) Weighted-average excercise price of outstanding options and units granted	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	460,967	$17.43	1,047,521
Equity compensation plans not approved by security holders	—	—	N/A
Total	460,967	$17.43	1,047,521

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ITEM 6. SELECTED FINANCIAL DATA

The following selected consolidated financial information should be read in conjunction with "Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations" and the audited consolidated financial statements and footnotes included elsewhere in this Form 10-K.

	At or for the Fiscal Years Ended June 30,				
(Dollars in thousands, except per share amounts)	2013	2012	2011	2010	2009
Selected Balance Sheet Data:					
Total assets	$3,090,771	$2,386,845	$1,940,087	$1,421,081	$1,302,208
Loans, net of allowance for loan losses	2,256,918	1,720,563	1,325,101	774,899	615,463
Loans held for sale, at fair value	36,665	38,469	20,110	5,511	3,190
Loans held for sale, at cost	40,326	40,712	—	—	—
Allowance for loan losses	14,182	9,636	7,419	5,893	4,754
Securities—trading	7,111	5,838	5,053	4,402	5,445
Securities—available-for-sale	185,607	164,159	145,671	242,430	265,807
Securities—held-to-maturity	275,691	313,032	370,626	320,807	350,898
Total deposits	2,091,999	1,615,088	1,340,325	968,180	648,524
Securities sold under agreements to repurchase	110,000	120,000	130,000	130,000	130,000
Advances from the FHLB	590,417	422,000	305,000	182,999	262,984
Junior subordinated debentures and other borrowings	5,155	5,155	7,655	5,155	165,155
Total stockholders' equity	268,262	206,620	147,766	129,808	88,939
Selected Income Statement Data:					
Interest and dividend income	$135,654	$115,733	$92,935	$85,572	$77,778
Interest expense	34,026	36,545	34,422	34,953	41,419
Net interest income	101,628	79,188	58,513	50,619	36,359
Provision for loan losses	7,550	8,063	5,800	5,775	4,730
Net interest income after provision for loan losses	94,078	71,125	52,713	44,844	31,629
Non-interest income (loss)	27,710	16,370	7,993	8,316	(6,687)
Non-interest expense	53,587	37,958	26,534	17,283	12,894
Income before income tax expense	68,201	49,537	34,172	35,877	12,048
Income tax expense	27,910	20,061	13,593	14,749	4,906
Net income	$40,291	$29,476	$20,579	$21,128	$7,142
Net income attributable to common stock	$39,456	$28,205	$20,270	$20,517	$6,452
Per Share Data:					
Net income:					
Basic	$3.00	$2.45	$1.88	$2.31	$0.78
Diluted	$2.89	$2.33	$1.87	$2.22	$0.77
Book value per common share	$19.16	$15.82	$13.67	$12.25	$9.79
Tangible book value per common share	$19.16	$15.82	$13.67	$12.25	$9.79
Weighted average number of common shares outstanding:					

Basic	13,156,646	11,489,190	10,763,571	8,869,453	8,284,938
Diluted	13,819,412	12,488,555	10,857,470	9,396,652	8,876,991
Common shares outstanding at end of period	13,733.325	11,512,536	10,436,332	10,184,975	8,082,768
Performance Ratios and Other Data:					
Loan originations for investment	$1,054,624	$732,826	$608,901	$74,702	$33,170
Loan originations for sale	$1,085,941	$664,622	$216,868	$114,842	$83,741
Loan purchases	$1,541	$—	$124,784	$185,812	$57,410
Return on average assets	1.46 %	1.35 %	1.26 %	1.56 %	0.59 %
Return on average common stockholders’ equity	17.57 %	16.95 %	15.17 %	21.17 %	8.79 %
Interest rate spread [1]	3.66 %	3.55 %	3.50 %	3.64 %	2.83 %
Net interest margin [2]	3.79 %	3.70 %	3.67 %	3.83 %	3.04 %
Efficiency ratio [3]	41.43 %	39.72 %	39.90 %	29.33 %	43.46 %

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	At or for the Fiscal Years Ended June 30,				
(Dollars in thousands, except per share amounts)	2013	2012	2011	2010	2009
Capital Ratios:					
Equity to assets at end of period	8.68 %	8.66 %	7.62 %	9.13 %	6.83 %
Tier 1 leverage (core) capital to adjusted tangible assets [4]	8.63 %	8.62 %	7.99 %	8.79 %	6.98 %
Tier 1 risk-based capital ratio [4]	14.52 %	13.69 %	12.41 %	14.56 %	11.14 %
Total risk-based capital ratio [4]	15.28 %	14.32 %	13.01 %	15.25 %	11.73 %
Tangible capital to tangible assets [4]	8.63 %	8.62 %	7.99 %	8.79 %	6.98 %
Asset Quality Ratios:					
Net charge-offs to average loans outstanding	0.14 %	0.35 %	0.45 %	0.69 %	0.43 %
Non-performing loans to total loans	0.80 %	0.98 %	0.72 %	1.48 %	0.45 %
Non-performing assets to total assets	0.66 %	0.77 %	0.99 %	1.01 %	0.65 %
Allowance for loan losses to total loans held for investment at end of period	0.62 %	0.55 %	0.56 %	0.75 %	0.76 %
Allowance for loan losses to non-performing loans	77.48 %	56.28 %	77.18 %	50.35 %	167.39 %

[1] Interest rate spread represents the difference between the weighted average yield on interest-earning assets and the weighted average rate paid on interest-bearing liabilities.
[2] Net interest margin represents net interest income as a percentage of average interest-earning assets.
[3] Efficiency ratio represents non-interest expense as a percentage of the aggregate of net interest income and non-interest income.
[4] Reflects regulatory capital ratios of BofI Federal Bank only.

ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis contains forward-looking statements that are based upon current expectations. Forward-looking statements involve risks and uncertainties. Our actual results and the timing of events could differ materially from those expressed or implied in our forward-looking statements due to various important factors, including those set forth under “Factors that May Affect Our Performance” and elsewhere in this Form 10-K. The following discussion and analysis should be read together with the “Selected Financial Data” and consolidated financial statements, including the related notes included elsewhere in this Form 10-K.

OVERVIEW

Our company, BofI Holding, Inc., is the holding company for BofI Federal Bank, a diversified financial services company with $3.1 billion in assets that provides innovative banking and lending products and services to customers nationwide through scalable low cost distribution channels. BofI Holding, Inc.'s common stock is listed on the NASDAQ Global Select Market and is a component of the Russell 3000 Index.

Net income for the fiscal year ended June 30, 2013 was $40.3 million compared to $29.5 million and $20.6 million for the fiscal years ended June 30, 2012 and 2011, respectively. Net income attributable to common stockholders for the fiscal year ended June 30, 2013 was $39.5 million, or $2.89 per diluted share compared to $28.2 million, or $2.33 per diluted share and $20.3 million, or $1.87 per diluted share for the years ended June 30, 2012 and 2011, respectively.

Growth in our interest earning assets, particularly the loan portfolio, was the primary driver of the increase in our net income from fiscal 2011 to fiscal 2013. Net income increased $10.8 million for the year ended June 30, 2013 compared to the year ended June 30, 2012.

We define net income without the after-tax impact of realized and unrealized securities gains and losses as adjusted earnings ("core earnings"), a non-GAAP financial measure, which we believe provides useful information about the Bank's operating performance. Core earnings for the fiscal years ended 2013, 2012, and 2011 were $41.5 million, $30.7 million, and $19.7 million, respectively.

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Below is a reconciliation of net income to core earnings (non-GAAP):

	For the Fiscal Years Ended June 30,		
(Dollars in Thousands)	2013	2012	2011
Net Income	$40,291	$29,476	$20,579
Realized securities losses (gains)	(212)	—	(2,420)
Unrealized securities losses	2,227	2,018	890
Tax provision	(825)	(817)	609
Core Earnings	$41,481	$30,677	$19,658

Net interest income for the year ended June 30, 2013 was $101.6 million compared to $79.2 million and $58.5 million for the years ended June 30, 2012 and 2011, respectively. The increase was primarily due to growth in our loan portfolio from fiscal years 2011 through 2013.

Provision for loan losses for the years ended June 30, 2013 was $7.6 million, compared to $8.1 million and $5.8 million for the years ended June 30, 2012 and 2011, respectively. The decrease of $0.5 million for fiscal year 2013 is the result of lower charge-offs partially offset by additional provisions needed for growth in the loan portfolio.

Mortgage banking income was $23.0 million compared to $16.7 million and $4.7 million for the years ended June 30, 2013, 2012, and 2011. The increase was a result of higher loan originations for sale of $1,085.9 million compared to $664.6 million and $216.9 million for the years ended June 30, 2013, 2012, and 2011, respectively.

Non-interest expense for the fiscal year ended June 30, 2013 was $53.6 million compared to $38.0 million and $26.5 million for the years ended 2012 and 2011 respectively. The increase was primarily due to increased staffing levels in order to support growth in lending and deposit operations. Our staffing rose to 312 full-time equivalents compared to 230 and 173 at June 30, 2013, 2012, and 2011, respectively.

Total assets were $3,090.8 million at June 30, 2013 compared to $2,386.8 million at June 30, 2012 and $1,940.1 million at June 30, 2011. Assets grew $703.9 million or 29.5% during the last fiscal year and $446.8 million or 23.0% during fiscal 2012, primarily due to an increase in the origination of single family and multifamily mortgage loans. These loans were funded primarily with growth in deposits and to a lesser extent capital transactions.

Our future performance will depend on many factors, including changes in interest rates, competition for deposits and quality loans, the credit performance of our assets, regulatory actions and our ability to improve operating efficiencies. (See "Factors that May Affect our Performance.")

CRITICAL ACCOUNTING POLICIES

The following discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements and the notes thereto, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these consolidated financial statements requires us to make a number of estimates and assumptions that affect the reported amounts and disclosures in the consolidated financial statements. On an ongoing basis, we evaluate our estimates and assumptions based upon historical experience and various factors and circumstances. We believe that our estimates and assumptions are reasonable under the circumstances. However, actual results may differ significantly from these estimates and assumptions that could have a material effect on the carrying value of assets and liabilities at the balance sheet dates and our results of operations for the reporting periods.
Securities. Currently, we classify securities as either trading, available-for-sale or held-to-maturity. Trading securities are those securities for which we have elected fair value accounting. Trading securities are recorded at fair value with changes in fair value recorded in earnings each period. Securities available-for-sale are reported at estimated fair

value, with unrealized gains and losses, net of the related tax effects, excluded from operations and reported as a separate component of accumulated other comprehensive income or loss. The fair values of securities traded in active markets are obtained from market quotes. If quoted prices in active markets are not available, we determine the fair values by utilizing industry-standard tools to calculate the net present value of the expected cash flows available to the securities from the underlying mortgage assets. To determine the performance of the underlying mortgage loan pools, we consider where appropriate borrower prepayments, defaults, and loss

severities based on a number of macroeconomic factors, including housing price changes, unemployment rates, interest rates and borrower attributes such as credit score and loan documentation at the time of origination. We input for each security our projections of monthly default rates, loss severity rates and voluntary prepayment rates for the underlying mortgages for the remaining life of the security to determine the expected cash flows. The projections of default rates are derived by the Company from the historic default rate observed in the pool of loans collateralizing the security, increased by (or decreased by) the forecasted increase or decrease in the national unemployment rate. The projections of loss severity rates are derived by the Company from the historic loss severity rate observed in the pool of loans, increased by (or decreased by) the forecasted decrease or increase in the national home price appreciation (HPA) index. To determine the discount rates used to compute the present value of the expected cash flows for these non-agency MBS securities, we separate the securities by the borrower characteristics in the underlying pool. For example, non-agency RMBS “Prime” securities generally have borrowers with higher FICO scores and better documentation of income. “Alt-A” securities generally have borrowers with lower FICO and less documentation of income. “Pay-option ARMs” are Alt-A securities with borrowers that tend to pay the least amount of principal (or increase their loan balance through negative amortization). Separate discount rates are calculated for Prime, Alt-A and Pay-option ARM non-agency MBS securities using market-participant assumptions for risk, capital and return on equity.

Securities that management has the positive intent and ability to hold to maturity are classified as held-to-maturity and recorded at amortized cost. Amortization of purchase premiums and accretion of discounts on securities are recorded as yield adjustments on such securities using the effective interest method. The specific identification method is used for purposes of determining cost in computing realized gains and losses on investment securities sold.

At each reporting date, we monitor our available-for-sale and held-to-maturity securities for other-than-temporary impairment. The Company measures its debt securities in an unrealized loss position at the end of the reporting period for other-than-temporary impairment by comparing the present value of the cash flows currently expected to be collected from the security with its amortized cost basis. If the calculated present value is lower than the amortized cost, the difference is the credit component of an other-than-temporary impairment of its debt securities. The excess of the present value over the fair value of the security (if any) is the noncredit component of the impairment, only if the Company does not intend to sell the security and will not be required to sell the security before recovery of its amortized cost basis. The credit component of the other-than-temporary-impairment is recorded as a loss in earnings and the noncredit component is recorded as a charge to other comprehensive income, net of the related income tax benefit.

For non-agency RMBS we determine the cash flow expected to be collected and calculate the present value for purposes of testing for other-than-temporary impairment, by utilizing the same industry-standard tool and the same cash flows as those calculated for fair values (discussed above). We compute cash flows based upon the underlying mortgage loan pools and our estimates of prepayments, defaults, and loss severities. We input our projections for the underlying mortgages for the remaining life of the security to determine the expected cash flows. The discount rates used to compute the present value of the expected cash flows for purposes of testing for the credit component of the other-than-temporary impairment are different from those used to calculate fair value and are either the implicit rate calculated in each of our securities at acquisition or the last accounting yield (ASC Topic 325-40-35). We calculate the implicit rate at acquisition based on the contractual terms of the security, considering scheduled payments (and minimum payments in the case of pay-option ARMs) without prepayment assumptions. We use this discount rate in the industry-standard model to calculate the present value of the cash flows for purposes of measuring the credit component of an other-than-temporary impairment of our debt securities.

Allowance for Loan Losses. The allowance for loan losses is maintained at a level estimated to provide for probable incurred losses in the loan portfolio. Management determines the adequacy of the allowance based on reviews of individual loans and pools of loans, recent loss experience, current economic conditions, the risk characteristics of the various categories of loans and other pertinent factors. This evaluation is inherently subjective and requires estimates that are susceptible to significant revision as more information becomes available. The allowance is increased by the provision for loan losses, which is charged against current period operating results and recoveries of loans previously

charged-off. The allowance is decreased by the amount of charge-offs of loans deemed uncollectible. Allocations of the allowance may be made for specific loans but the entire allowance is available for any loan that, in management's judgment, should be charged off.

The allowance for loan loss includes specific and general reserves. Specific reserves are provided for impaired loans considered TDRs. All other impaired loans are written down through charge-offs to their realizable value and no specific or general reserve is provided. A loan is measured for impairment generally two different ways. If the loan is primarily dependent upon the borrower to make payments, then impairment is calculated by comparing the present value of the expected future payments discounted at the effective loan rate to the carrying value of the loan. If the loan is collateral dependent, the net proceeds from the sale of the collateral is compared to the carrying value of the loan. If the calculated amount is less than the carrying value of the loan, the loan has impairment.

A general reserve is included in the allowance for loan loss and is determined by adding the results of a quantitative and a qualitative analysis to all other loans not measured for impairment at the reporting date. The quantitative analysis determines

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the Bank’s actual annual historic charge-off rates and applies the average historic rates to the outstanding loan balances in each pool, the product of which is the general reserve amount. The qualitative analysis considers one or more of the following factors: changes in lending policies and procedures, changes in economic conditions, changes in the content of the portfolio, changes in lending management, changes in the volume of delinquency rates, changes to the scope of the loan review system, changes in the underlying collateral of the loans, changes in credit concentrations and any changes in the requirements to the credit loss calculations. A loss rate is estimated and applied to those loans affected by the qualitative factors. The following portfolio segments have been identified: single family secured mortgage, home equity secured mortgage, single family warehouse and other, multifamily secured mortgage, commercial real estate and land secured mortgage, recreational vehicles and auto secured, factoring, C&I and other.

USE OF NON-GAAP FINANCIAL MEASURES

In addition to the results presented in accordance with GAAP, this report includes non-GAAP financial measures such as core earnings. Core earnings exclude realized and unrealized gains and losses associated with our securities portfolios, net of tax. Excluding these gains and losses provides investors with an understanding of our Bank's core lending and mortgage banking business. Non-GAAP financial measures have inherent limitations, are not required to be uniformly applied and are not audited. Readers should be aware of these limitations and should be cautious as to their use of such measures. Although we believe the non-GAAP financial measures disclosed in this report enhance investors' understanding of its business and performance, these non-GAAP measures should not be consider in isolation, or as a substitute for GAAP basis financial measures.

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AVERAGE BALANCES, NET INTEREST INCOME, YIELDS EARNED AND RATES PAID

The following tables set forth, for the periods indicated, information regarding (i) average balances; (ii) the total amount of interest income from interest-earning assets and the weighted average yields on such assets; (iii) the total amount of interest expense on interest-bearing liabilities and the weighted average rates paid on such liabilities; (iv) net interest income; (v) interest rate spread; and (vi) net interest margin:

	For the Fiscal Years Ended June 30,								
	2013			2012			2011		
(Dollars in thousands)	Average Balance[1]	Interest Income / Expense	Average Yields Earned / Rates Paid	Average Balance[1]	Interest Income / Expense	Average Yields Earned / Rates Paid	Average Balance[1]	Interest Income / Expense	Average Yields Earned / Rates Paid
Assets:									
Loans[2,3]	$2,157,974	$113,503	5.26 %	$1,607,523	$89,308	5.56 %	$1,013,645	$60,508	5.97 %
Federal funds sold	17,017	30	0.18 %	12,297	10	0.08 %	8,407	11	0.13 %
Interest-earning deposits in other financial institutions	23,632	47	0.20 %	295	—	— %	384	—	— %
Mortgage-backed and other investment securities[4]	462,946	21,588	4.66 %	506,223	26,353	5.21 %	556,518	32,353	5.81 %
Stock of the FHLB, at cost	22,594	486	2.15 %	16,683	62	0.37 %	16,845	63	0.37 %
Total interest-earning assets	2,684,163	135,654	5.05 %	2,143,021	115,733	5.40 %	1,595,799	92,935	5.82 %
Non-interest-earning assets	70,896			46,464					