PROVIDENT FINANCIAL HOLDINGS INC
Form 10-Q
February 09, 2015
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
(Mark One)

| | |
|---|---|
| [ ü ] | QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 |
| | For the quarterly period ended December 31, 2014 |
| [ ] | TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 |
| | For the transition period from ________________ to _________________ |

Commission File Number
000-28304

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

| | |
|---|---|
| Delaware | 33-0704889 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

3756 Central Avenue, Riverside, California 92506
(Address of principal executive offices and zip code)

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

_________________________________________________________
(Former name, former address and former fiscal year, if changed since last report)

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

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

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

| | |
|---|---|
| Large accelerated filer [ ] | Accelerated filer [ ü ] |
| Non-accelerated filer [ ] | Smaller reporting company [ ] |

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

Yes No ü .
APPLICABLE ONLY TO CORPORATE ISSUERS

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

| | |
|---|---|
| Title of class: | As of February 2, 2015 |
| Common stock, $ 0.01 par value, per share | 8,995,149 shares |

PROVIDENT FINANCIAL HOLDINGS, INC.

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PROVIDENT FINANCIAL HOLDINGS, INC.
Condensed Consolidated Statements of Financial Condition
In Thousands, Except Share Information

| | (Unaudited) December 31, 2014 | June 30, 2014 |
|---|---|---|
| Assets | | |
| Cash and cash equivalents | $32,078 | $118,937 |
| Investment securities – held to maturity (fair value $800 and $800, respectively) | 800 | 800 |
| Investment securities – available for sale, at fair value | 15,377 | 16,347 |
| Loans held for investment, net of allowance for loan losses of $8,693 and $9,744, respectively | 797,783 | 772,141 |
| Loans held for sale, at fair value | 228,783 | 158,883 |
| Accrued interest receivable | 2,554 | 2,483 |
| Real estate owned, net | 3,496 | 2,467 |
| Federal Home Loan Bank (“FHLB”) – San Francisco stock | 7,056 | 7,056 |
| Premises and equipment, net | 5,806 | 6,369 |
| Prepaid expenses and other assets | 18,657 | 20,146 |
| Total assets | $1,112,390 | $1,105,629 |
| Liabilities and Stockholders’ Equity | | |
| Liabilities: | | |
| Non interest-bearing deposits | $55,804 | $58,654 |
| Interest-bearing deposits | 849,708 | 839,216 |
| Total deposits | 905,512 | 897,870 |
| Borrowings | 41,400 | 41,431 |
| Accounts payable, accrued interest and other liabilities | 21,128 | 20,466 |
| Total liabilities | 968,040 | 959,767 |
| Commitments and Contingencies | | |
| Stockholders’ equity: | | |
| Preferred stock, $.01 par value (2,000,000 shares authorized; none issued and outstanding) | — | — |
| Common stock, $.01 par value (40,000,000 shares authorized; 17,716,365 and 17,714,365 shares issued; 8,995,149 and 9,312,269 shares outstanding, respectively) | 177 | 177 |
| Additional paid-in capital | 87,153 | 88,259 |
| Retained earnings | 185,148 | 182,458 |
| Treasury stock at cost (8,721,216 and 8,402,096 shares, respectively) | (128,560) | (125,418) |
| Accumulated other comprehensive income, net of tax | 432 | 386 |
| Total stockholders’ equity | 144,350 | 145,862 |

| | | |
|---|---|---|
| Total liabilities and stockholders' equity | $1,112,390 | $1,105,629 |

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

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PROVIDENT FINANCIAL HOLDINGS, INC.
Condensed Consolidated Statements of Operations
(Unaudited)
In Thousands, Except Per Share Information

| | Quarter Ended December 31, | | Six Months Ended December 31, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Interest income: | | | | |
| Loans receivable, net | $9,376 | $9,085 | $18,571 | $18,791 |
| Investment securities | 72 | 86 | 148 | 178 |
| FHLB – San Francisco stock | 132 | 204 | 276 | 412 |
| Interest-earning deposits | 76 | 138 | 170 | 248 |
| Total interest income | 9,656 | 9,513 | 19,165 | 19,629 |
| | | | | |
| Interest expense: | | | | |
| Checking and money market deposits | 110 | 96 | 214 | 198 |
| Savings deposits | 160 | 152 | 317 | 299 |
| Time deposits | 940 | 1,171 | 1,916 | 2,434 |
| Borrowings | 336 | 439 | 671 | 1,082 |
| Total interest expense | 1,546 | 1,858 | 3,118 | 4,013 |
| | | | | |
| Net interest income | 8,110 | 7,655 | 16,047 | 15,616 |
| Recovery from the allowance for loan losses | (354) | (898) | (1,172) | (1,840) |
| Net interest income, after recovery from the allowance for loan losses | 8,464 | 8,553 | 17,219 | 17,456 |
| | | | | |
| Non-interest income: | | | | |
| Loan servicing and other fees | 291 | 331 | 559 | 526 |
| Gain on sale of loans, net | 8,042 | 5,732 | 15,694 | 12,486 |
| Deposit account fees | 604 | 619 | 1,230 | 1,240 |
| Loss on sale and operations of real estate owned acquired in the settlement of loans, net | (51) | (82) | (70) | (30) |
| Card and processing fees | 336 | 317 | 692 | 661 |
| Other | 275 | 227 | 502 | 444 |
| Total non-interest income | 9,497 | 7,144 | 18,607 | 15,327 |
| | | | | |
| Non-interest expense: | | | | |
| Salaries and employee benefits | 9,950 | 8,912 | 19,531 | 19,364 |
| Premises and occupancy | 1,150 | 1,104 | 2,498 | 2,263 |
| Equipment | 414 | 474 | 886 | 954 |
| Professional expenses | 493 | 507 | 957 | 931 |
| Sales and marketing expenses | 399 | 391 | 730 | 806 |
| Deposit insurance premiums and regulatory assessments | 238 | 229 | 511 | 443 |
| Other | 1,268 | 1,254 | 2,538 | 2,640 |
| Total non-interest expense | 13,912 | 12,871 | 27,651 | 27,401 |
| | | | | |
| Income before income taxes | 4,049 | 2,826 | 8,175 | 5,382 |
| Provision for income taxes | 1,721 | 1,223 | 3,457 | 2,266 |
| Net income | $2,328 | $1,603 | $4,718 | $3,116 |

| | | | | |
|---|---|---|---|---|
| Basic earnings per share | $0.26 | $0.16 | $0.51 | $0.31 |
| Diluted earnings per share | $0.25 | $0.16 | $0.50 | $0.30 |
| Cash dividends per share | $0.11 | $0.10 | $0.22 | $0.20 |

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

PROVIDENT FINANCIAL HOLDINGS, INC.
Condensed Consolidated Statements of Comprehensive Income
(Unaudited)
In Thousands

| | For the Quarters Ended December 31, | | For the Six Months Ended December 31, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Net income | $2,328 | $1,603 | $4,718 | $3,116 |
| Change in unrealized holding gain (loss) on securities available for sale | 95 | (45) | 79 | (166) |
| Reclassification of (gains) losses to net income | — | — | — | — |
| Other comprehensive income (loss), before income taxes | 95 | (45) | 79 | (166) |
| Income tax expense (benefit) | 40 | (19) | 33 | (70) |
| Other comprehensive income (loss) | 55 | (26) | 46 | (96) |
| Total comprehensive income | $2,383 | $1,577 | $4,764 | $3,020 |

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

PROVIDENT FINANCIAL HOLDINGS, INC.
Condensed Consolidated Statements of Stockholders' Equity
(Unaudited)
In Thousands, Except Share Information

For the Quarters and Six Months Ended December 31, 2014 and 2013:

| | Common Stock Shares | Amount | Additional Paid-In Capital | Retained Earnings | Treasury Stock | Accumulated Other Comprehensive Income, Net of Tax | Total |
|---|---|---|---|---|---|---|---|
| Balance at September 30, 2014 | 9,152,065 | $177 | $86,759 | $183,825 | $(126,175) | $377 | $144,963 |
| Net income | | | | 2,328 | | | 2,328 |
| Other comprehensive income | | | | | | 55 | 55 |
| Purchase of treasury stock | (156,916) | | | | (2,385) | | (2,385) |
| Amortization of restricted stock | | | 182 | | | | 182 |
| Stock options expense | | | 212 | | | | 212 |
| Cash dividends | | | | (1,005) | | | (1,005) |
| Balance at December 31, 2014 | 8,995,149 | $177 | $87,153 | $185,148 | $(128,560) | $432 | $144,350 |

| | Common Stock Shares | Amount | Additional Paid-In Capital | Retained Earnings | Treasury Stock | Accumulated Other Comprehensive Income (Loss), Net of Tax | Total |
|---|---|---|---|---|---|---|---|
| Balance at September 30, 2013 | 10,201,348 | $177 | $87,917 | $180,299 | $(111,719) | $484 | $157,158 |
| Net income | | | | 1,603 | | | 1,603 |
| Other comprehensive loss | | | | | | (26) | (26) |
| Purchase of treasury stock | (385,083) | | | | (5,670) | | (5,670) |
| Exercise of stock options | 35,500 | — | 259 | | | | 259 |
| Amortization of restricted stock | | | 51 | | | | 51 |
| Forfeiture of restricted stock | | | 51 | | (51) | | — |
| Stock options expense | | | 79 | | | | 79 |
| Tax effect from stock based compensation | | | 1 | | | | 1 |
| Cash dividends | | | | (1,005) | | | (1,005) |
| Balance at December 31, 2013 | 9,851,765 | $177 | $88,358 | $180,897 | $(117,440) | $458 | $152,450 |

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

| | Common Stock Shares | Amount | Additional Paid-In Capital | Retained Earnings | Treasury Stock | Accumulated Other Comprehensive Income, Net of Tax | Total |
|---|---|---|---|---|---|---|---|
| Balance at June 30, 2014 | 9,312,269 | $177 | $88,259 | $182,458 | $(125,418) | $386 | $145,862 |
| Net income | | | | 4,718 | | | 4,718 |
| Other comprehensive income | | | | | | 46 | 46 |
| Purchase of treasury stock | (319,120) | | | | (4,783) | | (4,783) |
| Exercise of stock options | 2,000 | — | 14 | | | | 14 |
| Amortization of restricted stock | | | 241 | | | | 241 |
| Awards of restricted stock | | | (1,641) | | 1,641 | | — |
| Stock options expense | | | 296 | | | | 296 |
| Tax effect from stock based compensation | | | (16) | | | | (16) |
| Cash dividends | | | | (2,028) | | | (2,028) |
| Balance at December 31, 2014 | 8,995,149 | $177 | $87,153 | $185,148 | $(128,560) | $432 | $144,350 |

| | Common Stock Shares | Amount | Additional Paid-In Capital | Retained Earnings | Treasury Stock | Accumulated Other Comprehensive Income (Loss), Net of Tax | Total |
|---|---|---|---|---|---|---|---|
| Balance at June 30, 2013 | 10,386,399 | $177 | $87,742 | $179,816 | $(108,315) | $554 | $159,974 |
| Net income | | | | 3,116 | | | 3,116 |
| Other comprehensive loss | | | | | | (96) | (96) |
| Purchase of treasury stock | (575,134) | | | | (9,074) | | (9,074) |
| Exercise of stock options | 40,500 | — | 296 | | | | 296 |
| Amortization of restricted stock | | | 102 | | | | 102 |
| Forfeitures of restricted stock | | | 51 | | (51) | | — |
| Stock options expense | | | 159 | | | | 159 |
| Tax effect from stock based compensation | | | 8 | | | | 8 |
| Cash dividends | | | | (2,035) | | | (2,035) |
| Balance at December 31, 2013 | 9,851,765 | $177 | $88,358 | $180,897 | $(117,440) | $458 | $152,450 |

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

PROVIDENT FINANCIAL HOLDINGS, INC.
Condensed Consolidated Statements of Cash Flows
(Unaudited - In Thousands)

| | Six Months Ended December 31, | |
|---|---|---|
| | 2014 | 2013 |
| Cash flows from operating activities: | | |
| Net income | $4,718 | $3,116 |
| Adjustments to reconcile net income to net cash (used for) provided by operating activities: | | |
| Depreciation and amortization | 1,041 | 863 |
| Recovery from the allowance for loan losses | (1,172) | (1,840) |
| Recovery from the allowance for losses on real estate owned | (17) | (17) |
| Gain on sale of loans, net | (15,694) | (12,486) |
| Gain on sale of real estate owned, net | (6) | (161) |
| Stock-based compensation | 537 | 261 |
| Decrease (increase) in current and deferred income taxes | 1,294 | (3,922) |
| Tax effect from stock based compensation | 16 | (8) |
| Increase (decrease) in accounts payable and other liabilities | 302 | (3,217) |
| (Increase) decrease in prepaid expenses and other assets | (258) | 150 |
| Loans originated for sale | (1,079,427) | (1,136,684) |
| Proceeds from sale of loans | 1,025,890 | 1,219,194 |
| Net cash (used for) provided by operating activities | (62,776) | 65,249 |
| Cash flows from investing activities: | | |
| Increase in loans held for investment, net | (26,544) | (10,215) |
| Principal payments from investment securities available for sale | 1,297 | 1,619 |
| Purchase of investment securities available for sale | (250) | — |
| Redemption of FHLB – San Francisco stock | — | 4,368 |
| Proceeds from sale of real estate owned | 883 | 2,530 |
| Purchase of premises and equipment | (267) | (510) |
| Net cash used for investing activities | (24,881) | (2,208) |
| Cash flows from financing activities: | | |
| Increase (decrease) in deposits, net | 7,642 | (9,254) |
| Repayments of long-term borrowings | (31) | (55,029) |
| Exercise of stock options | 14 | 296 |
| Tax effect from stock based compensation | (16) | 8 |
| Cash dividends | (2,028) | (2,035) |
| Treasury stock purchases | (4,783) | (9,074) |
| Net cash provided by (used for) financing activities | 798 | (75,088) |
| Net decrease in cash and cash equivalents | (86,859) | (12,047) |
| Cash and cash equivalents at beginning of period | 118,937 | 193,839 |
| Cash and cash equivalents at end of period | $32,078 | $181,792 |
| Supplemental information: | | |
| Cash paid for interest | $3,129 | $4,342 |
| Cash paid for income taxes | $2,175 | $6,180 |
| Transfer of loans held for sale to held for investment | $1,762 | $2,259 |

| | | |
|---|---|---|
| Real estate acquired in the settlement of loans | $2,292 | $3,972 |

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

PROVIDENT FINANCIAL HOLDINGS, INC.
NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2014

Note 1: Basis of Presentation

The unaudited interim condensed consolidated financial statements included herein reflect all adjustments which are, in the opinion of management, necessary to present a fair statement of the results of operations for the interim periods presented. All such adjustments are of a normal, recurring nature. The condensed consolidated statements of financial condition at June 30, 2014 are derived from the audited consolidated financial statements of Provident Financial Holdings, Inc. and its wholly-owned subsidiary, Provident Savings Bank, F.S.B. (the “Bank”) (collectively, the “Corporation”). Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) have been omitted pursuant to the rules and regulations of the United States Securities and Exchange Commission (“SEC”) with respect to interim financial reporting. It is recommended that these unaudited interim condensed consolidated financial statements be read in conjunction with the audited consolidated financial statements and notes thereto included in the Corporation’s Annual Report on Form 10-K for the year ended June 30, 2014. The results of operations for the quarter and six months ended December 31, 2014 are not necessarily indicative of results that may be expected for the entire fiscal year ending June 30, 2015.

Note 2: Accounting Standard Updates (“ASU”)

ASU 2013-11:
In July 2013, the Financial Accounting Standards Board (“FASB”) issued ASU 2013-11, "Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists." An unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except as follows. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The assessment of whether a deferred tax asset is available is based on the unrecognized tax benefit and deferred tax asset that exist at the reporting date and should be made presuming disallowance of the tax position at the reporting date. The amendments in this ASU are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The amendments should be applied prospectively to all unrecognized tax benefits that exist at the effective date. Retrospective application is permitted. The Corporation's adoption of this ASU did not have a material impact on its consolidated financial statements.

ASU 2014-04:
In January 2014, the FASB issued ASU 2014-04, "Receivables - Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure." The amendments in this ASU are intended to reduce diversity in practice by clarifying when an in substance repossession or foreclosure occurs, that is, when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan should be derecognized and the real estate property recognized. Holding foreclosed real estate property presents different operational and economic risk to creditors compared with holding an impaired loan. Therefore, consistency in the timing of loan derecognition and

presentation of foreclosed real estate properties is of qualitative significance to users of the creditor's financial statements. Additionally, the disclosure of the amount of foreclosed residential real estate properties and of the recorded investment in consumer mortgage loans secured by residential real estate properties that are in the process of foreclosure is expected to provide decision-useful information to many users of the creditor's financial statements. The amendments in this ASU are effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. The Corporation's adoption of this ASU is not expected to have a material impact on its consolidated financial statements.

ASU 2014-14:
In August 2014, the FASB issued ASU 2014-14," Receivables - Troubled Debt Restructurings by Creditors (Subtopic 310-40): Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure." Current GAAP provides classification and measurement guidance for situations in which a creditor obtains a debtor’s assets in satisfaction of a receivable, including receipt of assets through foreclosure, but does not provide specific guidance on how to classify and measure foreclosed loans that are government guaranteed. Current GAAP also does not provide guidance on how to determine the unit of account; that is, whether a single asset should be recognized or whether two separate assets should be recognized (real estate and a guarantee receivable). In practice, most creditors derecognize the loan and recognize a single asset. Some creditors recognize a nonfinancial asset (other real estate owned), while others recognize a financial asset (typically, a guarantee receivable). Regardless of the classification of the asset (or assets), measurement of the asset (or total measurement of the assets) in practice generally represents the amount recoverable under the guarantee. The amendments in this ASU should reduce variations in practice by providing guidance on how to classify and measure certain government-guaranteed mortgage loans upon foreclosure. The amendments in this ASU are effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. The Corporation's adoption of this ASU is not expected to have a material impact on its consolidated financial statements.

Note 3: Earnings Per Share

Basic earnings per share (“EPS”) excludes dilution and is computed by dividing income available to common shareholders by the weighted-average number of shares outstanding for the period.  Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that would then share in the earnings of the entity.

As of December 31, 2014 and 2013, there were outstanding options to purchase 1.1 million shares and 974,200 shares of the Corporation’s common stock, respectively, of which 271,500 shares and 508,200 shares, respectively, were excluded from the diluted EPS computation as their effect was anti-dilutive. As of December 31, 2014 and 2013, there were outstanding restricted stock awards of 266,500 shares and 66,500 shares, respectively, all of which have dilutive effects.

The following table provides the basic and diluted EPS computations for the quarters and six months ended December 31, 2014 and 2013, respectively.

| (In Thousands, Except Earnings Per Share) | For the Quarters Ended December 31, | | For the Six Months Ended December 31, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Numerator: | | | | |
| Net income – numerator for basic earnings per share and diluted earnings per share - available to common stockholders | $2,328 | $1,603 | $4,718 | $3,116 |
| Denominator: | | | | |
| Denominator for basic earnings per share: | | | | |
| Weighted-average shares | 9,120 | 10,078 | 9,187 | 10,192 |
| Effect of dilutive shares: | | | | |
| Stock options | 62 | 164 | 117 | 179 |
| Restricted stock | 56 | 29 | 49 | 27 |

| | | | | |
|---|---|---|---|---|
| Denominator for diluted earnings per share: | | | | |
| Adjusted weighted-average shares and assumed conversions | 9,238 | 10,271 | 9,353 | 10,398 |
| | | | | |
| Basic earnings per share | $0.26 | $0.16 | $0.51 | $0.31 |
| Diluted earnings per share | $0.25 | $0.16 | $0.50 | $0.30 |

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Note 4: Operating Segment Reports

The Corporation operates in two business segments: community banking through the Bank and mortgage banking through Provident Bank Mortgage ("PBM"), a division of the Bank.

The following tables set forth condensed consolidated statements of operations and total assets for the Corporation's operating segments for the quarters and six months ended December 31, 2014 and 2013, respectively.

| | For the Quarter Ended December 31, 2014 | | |
|---|---|---|---|
| (In Thousands) | Provident Bank | Provident Bank Mortgage | Consolidated Totals |
| Net interest income | $6,925 | $1,185 | $8,110 |
| (Recovery) provision for loan losses | (373) | 19 | (354) |
| Net interest income, after (recovery) provision for loan losses | 7,298 | 1,166 | 8,464 |
| | | | |
| Non-interest income: | | | |
| Loan servicing and other fees [(1)] | 85 | 206 | 291 |
| Gain on sale of loans, net [(2)] | 75 | 7,967 | 8,042 |
| Deposit account fees | 604 | — | 604 |
| Loss on sale and operations of real estate owned acquired in the settlement of loans, net | (50) | (1) | (51) |
| Card and processing fees | 336 | — | 336 |
| Other | 275 | — | 275 |
| Total non-interest income | 1,325 | 8,172 | 9,497 |
| | | | |
| Non-interest expense: | | | |
| Salaries and employee benefits | 4,528 | 5,422 | 9,950 |
| Premises and occupancy | 716 | 434 | 1,150 |
| Operating and administrative expenses | 1,093 | 1,719 | 2,812 |
| Total non-interest expense | 6,337 | 7,575 | 13,912 |
| Income before income taxes | 2,286 | 1,763 | 4,049 |
| Provision for income taxes | 988 | 733 | 1,721 |
| Net income | $1,298 | $1,030 | $2,328 |
| Total assets, end of period | $883,665 | $228,725 | $1,112,390 |

(1) Includes an inter-company charge of $144 credited to PBM by the Bank during the period to compensate PBM for originating loans held for investment.

(2) Includes an inter-company charge of $61 credited to PBM by the Bank during the period to compensate PBM for servicing fees on loans sold on a servicing retained basis.

| | For the Quarter Ended December 31, 2013 | | |
|---|---|---|---|
| (In Thousands) | Provident Bank | Provident Bank Mortgage | Consolidated Totals |
| Net interest income | $6,671 | $984 | $7,655 |
| Recovery from the allowance for loan losses | (876) | (22) | (898) |
| Net interest income after recovery from the allowance for loan losses | 7,547 | 1,006 | 8,553 |
| | | | |
| Non-interest income: | | | |
| Loan servicing and other fees [(1)] | 210 | 121 | 331 |
| Gain on sale of loans, net [(2)] | 86 | 5,646 | 5,732 |
| Deposit account fees | 619 | — | 619 |
| Loss on sale and operations of real estate owned acquired in the settlement of loans, net | (82) | — | (82) |
| Card and processing fees | 317 | — | 317 |
| Other | 227 | — | 227 |
| Total non-interest income | 1,377 | 5,767 | 7,144 |
| | | | |
| Non-interest expense: | | | |
| Salaries and employee benefits | 3,600 | 5,312 | 8,912 |
| Premises and occupancy | 630 | 474 | 1,104 |
| Operating and administrative expenses | 1,056 | 1,799 | 2,855 |
| Total non-interest expense | 5,286 | 7,585 | 12,871 |
| Income (loss) before income taxes | 3,638 | (812) | 2,826 |
| Provision (benefit) for income taxes | 1,564 | (341) | 1,223 |
| Net income (loss) | $2,074 | $(471) | $1,603 |
| Total assets, end of period | $1,003,275 | $130,787 | $1,134,062 |

(1) Includes an inter-company charge of $5 credited to PBM by the Bank during the period to compensate PBM for originating loans held for investment.

(2) Includes an inter-company charge of $39 credited to PBM by the Bank during the period to compensate PBM for servicing fees on loans sold on a servicing retained basis.

| (In Thousands) | For the Six Months Ended December 31, 2014<br>Provident Bank | <br>Provident Bank Mortgage | <br>Consolidated Totals |
|---|---|---|---|
| Net interest income | $13,820 | $2,227 | $16,047 |
| (Recovery) provision for loan losses | (1,263) | 91 | (1,172) |
| Net interest income, after (recovery) provision for loan losses | 15,083 | 2,136 | 17,219 |
| | | | |
| Non-interest income: | | | |
| Loan servicing and other fees [(1)] | 93 | 466 | 559 |
| Gain on sale of loans, net [(2)] | 146 | 15,548 | 15,694 |
| Deposit account fees | 1,230 | — | 1,230 |
| Loss on sale and operations of real estate owned acquired in the settlement of loans, net | (69) | (1) | (70) |
| Card and processing fees | 692 | — | 692 |
| Other | 502 | — | 502 |
| Total non-interest income | 2,594 | 16,013 | 18,607 |
| | | | |
| Non-interest expense: | | | |
| Salaries and employee benefits | 8,795 | 10,736 | 19,531 |
| Premises and occupancy | 1,588 | 910 | 2,498 |
| Operating and administrative expenses | 2,249 | 3,373 | 5,622 |
| Total non-interest expense | 12,632 | 15,019 | 27,651 |
| Income before income taxes | 5,045 | 3,130 | 8,175 |
| Provision for income taxes | 2,155 | 1,302 | 3,457 |
| Net income | $2,890 | $1,828 | $4,718 |
| Total assets, end of period | $883,665 | $228,725 | $1,112,390 |

(1) Includes an inter-company charge of $302 credited to PBM by the Bank during the period to compensate PBM for originating loans held for investment.

(2) Includes an inter-company charge of $75 credited to PBM by the Bank during the period to compensate PBM for servicing fees on loans sold on a servicing retained basis.

| (In Thousands) | For the Six Months Ended December 31, 2013 Provident Bank | Provident Bank Mortgage | Consolidated Totals |
|---|---|---|---|
| Net interest income | $13,238 | $2,378 | $15,616 |
| (Recovery) provision for loan losses | (1,859) | 19 | (1,840) |
| Net interest income, after (recovery) provision for loan losses | 15,097 | 2,359 | 17,456 |
| | | | |
| Non-interest income: | | | |
| Loan servicing and other fees [1] | 344 | 182 | 526 |
| Gain on sale of loans, net [2] | 323 | 12,163 | 12,486 |
| Deposit account fees | 1,240 | — | 1,240 |
| (Loss) gain on sale and operations of real estate owned acquired in the settlement of loans, net | (31) | 1 | (30) |
| Card and processing fees | 661 | — | 661 |
| Other | 444 | — | 444 |
| Total non-interest income | 2,981 | 12,346 | 15,327 |
| | | | |
| Non-interest expense: | | | |
| Salaries and employee benefits | 7,555 | 11,809 | 19,364 |
| Premises and occupancy | 1,313 | 950 | 2,263 |
| Operating and administrative expenses | 2,070 | 3,704 | 5,774 |
| Total non-interest expense | 10,938 | 16,463 | 27,401 |
| Income (loss) before income taxes | 7,140 | (1,758) | 5,382 |
| Provision (benefit) for income taxes | 3,005 | (739) | 2,266 |
| Net income (loss) | $4,135 | $(1,019) | $3,116 |
| Total assets, end of period | $1,003,275 | $130,787 | $1,134,062 |

(1) Includes an inter-company charge of $13 credited to PBM by the Bank during the period to compensate PBM for originating loans held for investment.

(2) Includes an inter-company charge of $46 credited to PBM by the Bank during the period to compensate PBM for servicing fees on loans sold on a servicing retained basis.

Note 5: Investment Securities

The amortized cost and estimated fair value of investment securities as of December 31, 2014 and June 30, 2014 were as follows:

| December 31, 2014 | Amortized Cost | Gross Unrealized Gains | Gross Unrealized (Losses) | Estimated Fair Value | Carrying Value |
|---|---|---|---|---|---|
| (In Thousands) | | | | | |
| Held to maturity: | | | | | |
| Certificates of deposit | $800 | $— | $— | $800 | $800 |
| Total investment securities - held to maturity | $800 | $— | $— | $800 | $800 |
| | | | | | |
| Available for sale: | | | | | |
| U.S. government agency MBS [1] | $8,150 | $341 | $— | $8,491 | $8,491 |
| U.S. government sponsored enterprise MBS | 5,503 | 334 | — | 5,837 | 5,837 |
| Private issue CMO [2] | 792 | 7 | — | 799 | 799 |
| Common stock - community development financial institution | 250 | — | — | 250 | 250 |
| Total investment securities - available for sale | $14,695 | $682 | $— | $15,377 | $15,377 |
| Total investment securities | $15,495 | $682 | $— | $16,177 | $16,177 |

[1] Mortgage-Backed Securities (“MBS”).
[2] Collateralized Mortgage Obligations (“CMO”).

| June 30, 2014 | Amortized Cost | Gross Unrealized Gains | Gross Unrealized (Losses) | Estimated Fair Value | Carrying Value |
|---|---|---|---|---|---|
| (In Thousands) | | | | | |
| Held to maturity: | | | | | |
| Certificates of deposit | $800 | $— | $— | $800 | $800 |
| Total investment securities - held to maturity | $800 | $— | $— | $800 | $800 |
| | | | | | |
| Available for sale: | | | | | |
| U.S. government agency MBS | $8,772 | $337 | $— | $9,109 | $9,109 |
| U.S. government sponsored enterprise MBS | 6,128 | 257 | — | 6,385 | 6,385 |
| Private issue CMO | 841 | 12 | — | 853 | 853 |
| Total investment securities - available for sale | $15,741 | $606 | $— | $16,347 | $16,347 |
| Total investment securities | $16,541 | $606 | $— | $17,147 | $17,147 |

In the second quarters of fiscal 2015 and 2014, the Corporation received MBS principal payments of $517,000 and $799,000, respectively, and did not purchase or sell investment securities. For the first six months of fiscal 2015 and 2014, the Corporation received MBS principal payments of $1.3 million and $1.6 million, respectively, and did not purchase or sell investment securities, except the fiscal 2015 purchase of $250,000 in the common stock of a community development financial institution to help fulfill the Corporation's Community Reinvestment Act obligation.

The Corporation evaluates individual investment securities quarterly for other-than-temporary declines in market value. As of December 31, 2014, no investment securities were in an unrealized loss position. This compares to December 31, 2013 when the gross unrealized holding losses related to two adjustable rate private issue CMOs, where one had been in an unrealized loss position for more than 12 months. Based on the nature of the investments, management concluded that such unrealized losses were not other than temporary as of December 31, 2013. The Corporation does not believe that there are any other-than-temporary impairments at December 31, 2014 and 2013; therefore, no impairment losses have been recorded for the quarters and six months ended December 31, 2014 and 2013. The Corporation intends and has the ability to hold these CMOs until maturity and will not likely be required to sell the CMOs before realizing a full recovery.

Contractual maturities of investment securities as of December 31, 2014 and June 30, 2014 were as follows:

| | December 31, 2014 | | June 30, 2014 | |
|---|---|---|---|---|
| (In Thousands) | Amortized Cost | Estimated Fair Value | Amortized Cost | Estimated Fair Value |
| Held to maturity: | | | | |
| Due in one year or less | $800 | $800 | $800 | $800 |
| Due after one through five years | — | — | — | — |
| Due after five through ten years | — | — | — | — |
| Due after ten years | — | — | — | — |
| Total investment securities - held to maturity | $800 | $800 | $800 | $800 |
| Available for sale: | | | | |
| Due in one year or less | $— | $— | $— | $— |
| Due after one through five years | — | — | — | — |
| Due after five through ten years | — | — | — | — |
| Due after ten years | 14,445 | 15,127 | 15,741 | 16,347 |
| No stated maturity (common stock) | 250 | 250 | — | — |
| Total investment securities - available for sale | $14,695 | $15,377 | $15,741 | $16,347 |
| Total investment securities | $15,495 | $16,177 | $16,541 | $17,147 |

Note 6: Loans Held for Investment

Loans held for investment consisted of the following:

| (In Thousands) | December 31, 2014 | June 30, 2014 |
|---|---|---|
| Mortgage loans: | | |
| Single-family | $377,262 | $377,997 |
| Multi-family | 322,302 | 301,211 |
| Commercial real estate | 100,859 | 96,803 |
| Construction | 4,378 | 2,869 |
| Commercial business loans | 859 | 1,237 |
| Consumer loans | 265 | 306 |
| Total loans held for investment, gross | 805,925 | 780,423 |
| Undisbursed loan funds | (2,281) | (1,090) |
| Deferred loan costs, net | 2,832 | 2,552 |
| Allowance for loan losses | (8,693) | (9,744) |
| Total loans held for investment, net | $797,783 | $772,141 |

As of December 31, 2014, the Corporation had $15.2 million in mortgage loans that are subject to negative amortization, consisting of $11.4 million in multi-family loans, $3.6 million in single-family loans and $254,000 in commercial real estate loans.  This

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compares to $23.3 million of negative amortization mortgage loans at June 30, 2014, consisting of $18.7 million in multi-family loans, $3.7 million in single-family loans and $856,000 in commercial real estate loans. During the second quarters and six months of fiscal 2015 and 2014, no loan interest income was added to the negative amortization loan balance. Negative amortization involves a greater risk to the Corporation because the loan principal balance may increase by a range of 110% to 115% of the original loan amount during the period of negative amortization and because the loan payment may increase beyond the means of the borrower when loan principal amortization is required. Also, the Corporation has originated interest-only ARM loans, which typically have a fixed interest rate for the first two to five years coupled with an interest only payment, followed by a periodic adjustable rate and a fully amortizing loan payment. As of December 31, 2014 and June 30, 2014, the interest-only ARM loans were $160.3 million and $170.7 million, or 20% and 22% of loans held for investment, respectively.

The following table sets forth information at December 31, 2014 regarding the dollar amount of loans held for investment that are contractually repricing during the periods indicated, segregated between adjustable rate loans and fixed rate loans. Fixed-rate loans comprised 4% of loans held for investment at December 31, 2014, unchanged from June 30, 2014. Adjustable rate loans having no stated repricing dates that reprice when the index they are tied to reprices (e.g. prime rate index) and checking account overdrafts are reported as repricing within one year. The table does not include any estimate of prepayments which may cause the Corporation's actual repricing experience to differ materially from that shown.

| | Adjustable Rate | | | | | |
|---|---|---|---|---|---|---|
| (In Thousands) | Within One Year | After One Year Through 3 Years | After 3 Years Through 5 Years | After 5 Years Through 10 Years | Fixed Rate | Total |
| Mortgage loans: | | | | | | |
| Single-family | $305,453 | $19,393 | $32,575 | $4,233 | $15,608 | $377,262 |
| Multi-family | 85,070 | 64,281 | 157,330 | 10,677 | 4,944 | 322,302 |
| Commercial real estate | 28,238 | 11,143 | 50,560 | 1,336 | 9,582 | 100,859 |
| Construction | 2,569 | — | — | — | 1,809 | 4,378 |
| Commercial business loans | 388 | — | 122 | — | 349 | 859 |
| Consumer loans | 255 | — | — | — | 10 | 265 |
| Total loans held for investment, gross | $421,973 | $94,817 | $240,587 | $16,246 | $32,302 | $805,925 |

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

In compliance with the regulatory reporting requirements of the Office of the Comptroller of the Currency ("OCC"), the Bank's primary federal regulator, non-performing loans are charged-off to their fair market values in the period the loans, or portion thereof, are deemed uncollectible, generally after the loan becomes 150 days delinquent for real estate secured first trust deed loans and 120 days delinquent for commercial business or real estate secured second trust deed loans.  For loans that were modified from their original terms, were re-underwritten and identified in the Corporation's asset quality reports as troubled debt restructurings ("restructured loans"), the charge-off occurs when the loan becomes 90 days delinquent; and where borrowers file bankruptcy, the charge-off occurs when the loan becomes 60 days delinquent.  The amount of the charge-off is determined by comparing the loan balance to the estimated fair value of the underlying collateral, less disposition costs, with the loan balance in excess of the estimated fair value charged-off against the allowance for loan losses.  The allowance for loan losses for non-performing loans is determined by applying Accounting Standards Codification ("ASC") 310, "Receivables."  For restructured loans that are less than 90 days delinquent, the allowance for loan losses are segregated into (a) individually evaluated allowances for those loans with applicable discounted cash flow calculations still in their restructuring period, classified lower than pass, and containing an embedded loss component or (b) collectively evaluated allowances based on the aggregated pooling method.  For non-performing loans less than 60 days delinquent where the borrower has filed bankruptcy, the collectively evaluated allowances are assigned based on the aggregated pooling method. For non-performing commercial real estate loans, an individually evaluated allowance is calculated based on the loan's fair value and if the fair value is higher than the loan balance, no allowance is required.

The following table summarizes the Corporation’s allowance for loan losses at December 31, 2014 and June 30, 2014:

| (In Thousands) | December 31, 2014 | June 30, 2014 |
|---|---|---|
| Collectively evaluated for impairment: | | |
| Mortgage loans: | | |
| Single-family | $4,483 | $5,476 |
| Multi-family | 2,998 | 3,142 |
| Commercial real estate | 1,075 | 989 |
| Construction | 17 | 35 |
| Commercial business loans | 33 | 51 |
| Consumer loans | 10 | 10 |
| Total collectively evaluated allowance | 8,616 | 9,703 |
| | | |
| Individually evaluated for impairment: | | |
| Mortgage loans: | | |
| Single-family | 57 | — |
| Commercial business loans | 20 | 41 |
| Total individually evaluated allowance | 77 | 41 |
| Total loan loss allowance | $8,693 | $9,744 |

The following table is provided to disclose additional details on the Corporation's allowance for loan losses:

| (Dollars in Thousands) | For the Quarters Ended December 31, 2014 | 2013 | For the Six Months Ended December 31, 2014 | 2013 |
|---|---|---|---|---|
| Allowance at beginning of period | $8,888 | $12,105 | $9,744 | $14,935 |
| Recovery from the allowance for loan losses | (354) | (898) | (1,172) | (1,840) |
| Recoveries: | | | | |
| Mortgage loans: | | | | |
| Single-family | 164 | 99 | 273 | 267 |
| Multi-family | 93 | 8 | 164 | 19 |
| Construction | — | 20 | — | 20 |
| Consumer loans | — | — | 1 | 1 |
| Total recoveries | 257 | 127 | 438 | 307 |
| Charge-offs: | | | | |
| Mortgage loans: | | | | |
| Single-family | (98) | (90) | (317) | (780) |
| Multi-family | — | (199) | — | (1,577) |
| Consumer loans | — | (4) | — | (4) |
| Total charge-offs | (98) | (293) | (317) | (2,361) |
| Net recoveries (charge-offs) | 159 | (166) | 121 | (2,054) |
| Balance at end of period | $8,693 | $11,041 | $8,693 | $11,041 |
| Allowance for loan losses as a percentage of gross loans held for investment | 1.08% | 1.44% | 1.08% | 1.44% |
| Net (recoveries) charge-offs as a percentage of average loans receivable, net, during the period (annualized) | (0.07)% | 0.08% | (0.03)% | 0.46% |
| Allowance for loan losses as a percentage of gross non-performing loans at the end of the period | 73.88% | 57.17% | 73.88% | 57.17% |

The following tables identify the Corporation's total recorded investment in non-performing loans by type, net of allowance for loan losses at December 31, 2014 and June 30, 2014:

| | December 31, 2014 | | |
|---|---|---|---|
| (In Thousands) | Recorded Investment | Allowance for Loan Losses [1] | Net Investment |
| Mortgage loans: | | | |
| Single-family: | | | |
| With a related allowance | $2,660 | $(514) | $2,146 |
| Without a related allowance [2] | 5,207 | — | 5,207 |
| Total single-family loans | 7,867 | (514) | 7,353 |
| | | | |
| Multi-family: | | | |
| With a related allowance | 264 | (79) | 185 |
| Without a related allowance [2] | 1,995 | — | 1,995 |
| Total multi-family loans | 2,259 | (79) | 2,180 |
| | | | |
| Commercial real estate: | | | |
| Without a related allowance [2] | 1,520 | — | 1,520 |
| Total commercial real estate loans | 1,520 | — | 1,520 |
| | | | |
| Commercial business loans: | | | |
| With a related allowance | 120 | (22) | 98 |
| Total commercial business loans | 120 | (22) | 98 |
| | | | |
| Total non-performing loans | $11,766 | $(615) | $11,151 |

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

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

| | June 30, 2014 | | |
|---|---|---|---|
| (In Thousands) | Recorded Investment | Allowance for Loan Losses [1] | Net Investment |
| Mortgage loans: | | | |
| Single-family: | | | |
| With a related allowance | $5,480 | $(1,148) | $4,332 |
| Without a related allowance [2] | 6,067 | — | 6,067 |
| Total single-family loans | 11,547 | (1,148) | 10,399 |
| | | | |
| Multi-family: | | | |
| With a related allowance | 956 | (354) | 602 |
| Without a related allowance [2] | 2,491 | — | 2,491 |
| Total multi-family loans | 3,447 | (354) | 3,093 |
| | | | |
| Commercial real estate: | | | |
| Without a related allowance [2] | 2,352 | — | 2,352 |
| Total commercial real estate loans | 2,352 | — | 2,352 |
| | | | |
| Commercial business loans: | | | |
| With a related allowance | 138 | (46) | 92 |
| Total commercial business loans | 138 | (46) | 92 |
| | | | |
| Total non-performing loans | $17,484 | $(1,548) | $15,936 |

(1) Consists of collectively and individually evaluated allowances, specifically assigned to the individual loan.
(2) There was no related allowance for loan losses because the loans have been charged-off to their fair value or the fair value of the collateral is higher than the individual loan balance.

At December 31, 2014 and June 30, 2014, there were no commitments to lend additional funds to those borrowers whose loans were classified as non-performing.

The following table describes the aging analysis (length of time on non-performing status) of non-performing loans, net of allowance for loan losses or charge offs, as of December 31, 2014:

| (In Thousands) | 3 Months or Less | Over 3 to 6 Months | Over 6 to 12 Months | Over 12 Months | Total |
|---|---|---|---|---|---|
| Mortgage loans: | | | | | |
| Single-family | $791 | $22 | $684 | $5,856 | $7,353 |
| Multi-family | — | — | 404 | 1,776 | 2,180 |
| Commercial real estate | — | — | 448 | 1,072 | 1,520 |
| Commercial business loans | — | — | — | 98 | 98 |
| Total | $791 | $22 | $1,536 | $8,802 | $11,151 |

For the quarters ended December 31, 2014 and 2013, the Corporation's average investment in non-performing loans was $11.8 million and $17.2 million, respectively. The Corporation records payments on non-performing loans utilizing the cash basis or cost recovery method of accounting during the periods when the loans are on non-performing status. For the quarters ended December 31, 2014 and 2013, interest income of $151,000 and $251,000, respectively, was recognized, based on cash receipts from loan payments on non-performing loans; and

$14,000 and $100,000, respectively, was collected and applied to the net loan balances under the cost recovery method. Foregone interest income, which would have been recorded had the non-performing loans been current in accordance with their original terms, amounted to $17,000 and $82,000 for the quarters ended December 31, 2014 and 2013, respectively, and was not included in the results of operations.

For the six months ended December 31, 2014 and 2013, the Corporation's average investment in non-performing loans was $13.4 million and $17.8 million, respectively. For the six months ended December 31, 2014 and 2013, interest income of $248,000 and $438,000, respectively, was recognized, based on cash receipts from loan payments on non-performing loans; and $161,000 and $203,000, respectively, was collected and applied to the net loan balances under the cost recovery method. Foregone interest income, which would have been recorded had the non-performing loans been current in accordance with their original terms, amounted to $36,000 and $202,000 for the six months ended December 31, 2014 and 2013, respectively, and was not included in the results of operations.

For the quarters and six months ended December 31, 2014 and 2013, there were no loans that were newly modified from their original terms, re-underwritten or identified in the Corporation's asset quality reports as restructured loans. During the quarters and six months ended December 31, 2014 and 2013, no restructured loans were in default within a 12-month period subsequent to their original restructuring.  Additionally, during the quarter and six months ended December 31, 2014, there was one loan for $113,000 whose modification was extended beyond the initial maturity of the modification. This compares to the quarter and six months ended December 31, 2013 when there were two loans to a single borrower totaling $810,000 whose modifications were extended beyond the initial maturity of the modification.

As of December 31, 2014, the net outstanding balance of the 16 restructured loans was $6.0 million:  one was classified as special mention and remains on accrual status ($687,000); and 15 were classified as substandard ($5.3 million, all of which were on non-accrual status).  As of June 30, 2014, the net outstanding balance of the 17 restructured loans was $6.0 million:  one was classified as special mention on accrual status ($343,000); and 16 were classified as substandard ($5.6 million, all of which were on non-accrual status). Substandard assets have one or more defined weaknesses and are characterized by the distinct possibility that the Corporation will sustain some loss if the deficiencies are not corrected.  Assets that do not currently expose the Corporation to sufficient risk to warrant adverse classification but possess weaknesses are designated as special mention and are closely monitored by the Corporation.  As of December 31, 2014 and June 30, 2014, $5.3 million or 89 percent, and $3.7 million or 62 percent, respectively, of the restructured loans were current with respect to their modified payment terms.

The Corporation upgrades restructured single-family loans to the pass category if the borrower has demonstrated satisfactory contractual payments for at least six consecutive months; 12 months for those loans that were restructured more than once; and if the borrower has demonstrated satisfactory contractual payments beyond 12 consecutive months, the loan is no longer categorized as a restructured loan.  In addition to the payment history described above, multi-family, commercial real estate, construction and commercial business loans (which are sometimes referred to in this report as "preferred loans") must also demonstrate a combination of the following characteristics to be upgraded: satisfactory cash flow, satisfactory guarantor support, and additional collateral support, among others.

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

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

| (In Thousands) | December 31, 2014 | June 30, 2014 |
|---|---|---|
| Restructured loans on non-accrual status: | | |
| Mortgage loans: | | |
| Single-family | $2,792 | $2,957 |
| Multi-family | 1,591 | 1,760 |
| Commercial real estate | 792 | 800 |
| Commercial business loans | 98 | 92 |
| Total | 5,273 | 5,609 |
| | | |
| Restructured loans on accrual status: | | |
| Mortgage loans: | | |
| Single-family | 687 | 343 |
| Total | 687 | 343 |
| | | |
| Total restructured loans | $5,960 | $5,952 |

The following tables show the restructured loans by type, net of allowance for loan losses, at December 31, 2014 and June 30, 2014:

| | December 31, 2014 | | |
|---|---|---|---|
| (In Thousands) | Recorded Investment | Allowance for Loan Losses (1) | Net Investment |
| Mortgage loans: | | | |
| Single-family: | | | |
| With a related allowance | $751 | $(150) | $601 |
| Without a related allowance (2) | 2,878 | — | 2,878 |
| Total single-family loans | 3,629 | (150) | 3,479 |
| | | | |
| Multi-family: | | | |
| Without a related allowance (2) | 1,591 | — | 1,591 |
| Total multi-family loans | 1,591 | — | 1,591 |
| | | | |
| Commercial real estate: | | | |
| Without a related allowance (2) | 792 | — | 792 |
| Total commercial real estate loans | 792 | — | 792 |
| | | | |
| Commercial business loans: | | | |
| With a related allowance | 120 | (22) | 98 |
| Total commercial business loans | 120 | (22) | 98 |
| | | | |
| Total restructured loans | $6,132 | $(172) | $5,960 |

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

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

| | June 30, 2014 | | |
|---|---|---|---|
| (In Thousands) | Recorded Investment | Allowance for Loan Losses (1) | Net Investment |
| Mortgage loans: | | | |
| Single-family: | | | |
| With a related allowance | $994 | $(248) | $746 |
| Without a related allowance (2) | 2,554 | — | 2,554 |
| Total single-family loans | 3,548 | (248) | 3,300 |
| | | | |
| Multi-family: | | | |
| Without a related allowance (2) | 1,760 | — | 1,760 |
| Total multi-family loans | 1,760 | — | 1,760 |
| | | | |
| Commercial real estate: | | | |
| Without a related allowance (2) | 800 | — | 800 |
| Total commercial real estate loans | 800 | — | 800 |
| | | | |
| Commercial business loans: | | | |
| With a related allowance | 138 | (46) | 92 |
| Total commercial business loans | 138 | (46) | 92 |
| | | | |
| Total restructured loans | $6,246 | $(294) | $5,952 |

(1) Consists of collectively and individually evaluated allowances, specifically assigned to the individual loan.
(2) There was no related allowance for loan losses because the loans have been charged-off to their fair value or the fair value of the collateral is higher than the individual loan balance.

During the quarter ended December 31, 2014, four properties were acquired in the settlement of loans, while two previously foreclosed upon properties were sold. This compares to the quarter ended December 31, 2013 when three properties were acquired in the settlement of loans, while four previously foreclosed upon properties were sold. For the six months ended December 31, 2014, seven properties were acquired in the settlement of loans, while four previously foreclosed upon properties were sold and one real estate owned property was written off. This compares to the six months ended December 31, 2013 when six properties were acquired in the settlement of loans, while nine previously foreclosed upon properties were sold. As of December 31, 2014, real estate owned was comprised of six properties with a net fair value of $3.5 million, primarily located in Southern California. This compares to four real estate owned properties, primarily located in Southern California, with a net fair value of $2.5 million at June 30, 2014. A new appraisal was obtained on each of the properties at the time of foreclosure and fair value was calculated by using the lower of the appraised value or the listing price of the property, net of disposition costs. Any initial loss was recorded as a charge to the allowance for loan losses before being transferred to real estate owned. Subsequently, if there is further deterioration in real estate values, specific real estate owned loss reserves are established and charged to the statement of operations. In addition, the Corporation records costs to carry real estate owned as real estate operating expenses as incurred.

Note 7: Derivative and Other Financial Instruments with Off-Balance Sheet Risks

The Corporation is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit in the form of originating loans or providing funds under existing lines of credit, loan sale commitments to third parties and option contracts. These instruments involve, to varying degrees, elements of credit and interest-rate risk in excess of the amount recognized in the accompanying Condensed Consolidated Statements of Financial Condition. The Corporation's exposure to credit loss, in the event of non-performance by the counterparty to these financial instruments, is represented by the contractual amount of these instruments. The Corporation uses the same credit policies in entering into financial instruments with off-balance sheet risk as it does for on-balance sheet instruments. As of December 31, 2014 and June 30, 2014, the Corporation had commitments to extend credit (on loans to be held for investment and loans to be held for sale) of $126.3 million and $134.8 million, respectively.

The following table provides information at the dates indicated regarding undisbursed funds to borrowers on existing lines of credit with the Corporation as well as commitments to originate loans to be held for investment at the dates indicated below.

| Commitments<br>(In Thousands) | December 31, 2014 | June 30, 2014 |
|---|---|---|
| Undisbursed loan funds - Construction loans | $2,281 | $1,090 |
| Undisbursed lines of credit – Mortgage loans | 497 | 616 |
| Undisbursed lines of credit – Commercial business loans | 843 | 1,222 |
| Undisbursed lines of credit – Consumer loans | 708 | 774 |
| Commitments to extend credit on loans to be held for investment | 4,692 | 2,247 |
| Total | $9,021 | $5,949 |

In accordance with ASC 815, "Derivatives and Hedging," and interpretations of the Derivatives Implementation Group of the FASB, the fair value of the commitments to extend credit on loans to be held for sale, loan sale commitments, to be announced ("TBA") MBS trades, put option contracts and call option contracts are recorded at fair value on the Condensed Consolidated Statements of Financial Condition. At December 31, 2014, $2.2 million was included in other assets and $2.1 million was included in other liabilities; at June 30, 2014, $2.6 million was included in other assets and $1.4 million was included in other liabilities. The Corporation does not apply hedge accounting to its derivative financial instruments; therefore, all changes in fair value are recorded in earnings.

The following table provides information regarding the allowance for loan losses for the undisbursed funds and commitments to extend credit on loans to be held for investment for the quarters and six months ended December 31, 2014 and 2013.

| | For the Quarters Ended December 31, | | For the Six Months Ended December 31, | |
|---|---|---|---|---|
| (In Thousands) | 2014 | 2013 | 2014 | 2013 |
| Balance, beginning of the period | $108 | $89 | $61 | $115 |
| (Recovery) provision | (27) | 36 | 20 | 10 |
| Balance, end of the period | $81 | $125 | $81 | $125 |

The net impact of derivative financial instruments on the gain on sale of loans contained in the Condensed Consolidated Statements of Operations during the quarters and six months ended December 31, 2014 and 2013 was as follows:

| | For the Quarters Ended December 31, | | For the Six Months Ended December 31, | |
|---|---|---|---|---|
| Derivative Financial Instruments<br>(In Thousands) | 2014 | 2013 | 2014 | 2013 |
| Commitments to extend credit on loans to be held for sale | $344 | $(3,117) | $(437) | $1,280 |

| | | | | |
|---|---|---|---|---|
| Mandatory loan sale commitments and TBA MBS trades | (1,614) | 5,424 | (677) | (5,824) |
| Option contracts | (57) | 158 | (162) | 266 |
| Total net (loss) gain | $(1,327) | $2,465 | $(1,276) | $(4,278) |

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The outstanding derivative financial instruments at the dates indicated were as follows:

| | December 31, 2014 | | June 30, 2014 | |
|---|---|---|---|---|
| Derivative Financial Instruments | Amount | Fair Value | Amount | Fair Value |
| (In Thousands) | | | | |
| Commitments to extend credit on loans to be held for sale [1] | $121,575 | $2,129 | $132,567 | $2,566 |
| Best efforts loan sale commitments | (31,484) | — | (18,069) | — |
| Mandatory loan sale commitments and TBA MBS trades | (290,785) | (2,105) | (258,021) | (1,428) |
| Put option contracts | (10,000) | 44 | (10,000) | — |
| Call option contracts | 10,000 | 66 | — | — |
| Total | $(200,694) | $134 | $(153,523) | $1,138 |

(1) Net of 29.3 percent at December 31, 2014 and 28.0 percent at June 30, 2014 of commitments which management has estimated may not fund.

Note 8: Income Taxes

ASC 740, "Income Taxes," requires the affirmative evaluation that it is more likely than not, based on the technical merits of a tax position, that an enterprise is entitled to economic benefits resulting from positions taken in income tax returns. If a tax position does not meet the more-likely-than-not recognition threshold, the benefit of that position is not recognized in the financial statements. Management has determined that there are no unrecognized tax benefits to be reported in the Corporation's financial statements.

ASC 740 requires that when determining the need for a valuation allowance against a deferred tax asset, management must assess both positive and negative evidence with regard to the realizability of the tax losses represented by that asset. To the extent available sources of taxable income are insufficient to absorb tax losses, a valuation allowance is necessary. Sources of taxable income for this analysis include prior years' tax returns, the expected reversals of taxable temporary differences between book and tax income, prudent and feasible tax-planning strategies, and future taxable income. The deferred tax asset related to the allowance will be realized when actual charge-offs are made against the allowance. Based on the availability of loss carry-backs and projected taxable income during the periods for which loss carry-forwards are available, management believes it is more likely than not the Corporation will realize the deferred tax asset. The Corporation continues to monitor the deferred tax asset on a quarterly basis for a valuation allowance. The future realization of these tax benefits primarily hinges on adequate future earnings to utilize the tax benefit. Prospective earnings or losses, tax law changes or capital changes could prompt the Corporation to reevaluate the assumptions which may be used to establish a valuation allowance. The Corporation maintains net deferred income tax assets for deductible temporary tax differences, such as loss reserves, deferred compensation, non-accrued interest and unrealized gains. The Corporation did not have any liabilities for uncertain tax positions or any known unrecognized tax benefit at December 31, 2014 or June 30, 2014.

The Corporation files income tax returns for the United States and state of California jurisdictions. The Internal Revenue Service has audited the Bank's income tax returns through 1996 and the California Franchise Tax Board has audited the Bank through 1990. Also, the Internal Revenue Service completed a review of the Corporation's income tax returns for fiscal 2006 and 2007; and the California Franchise Tax Board completed a review of the Corporation's income tax returns for fiscal 2009 and 2010. Tax years subsequent to fiscal 2010 remain subject to federal examination; and the California state income tax returns for years subsequent to fiscal 2010 are subject to future examination by state taxing authorities.

It is the Corporation’s policy to record any penalties or interest charges arising from federal or state taxes as a component of income tax expense. During the quarter ended December 31, 2014, there were no tax penalties or interest charges. For the six months ended December 31, 2014, the Corporation paid $4,000 in interest charges to the State of California tax authority for the fiscal 2010 tax obligation. There were no tax penalties or interest charges for the quarter and six months ended December 31, 2013.

Note 9: Fair Value of Financial Instruments

The Corporation adopted ASC 820, “Fair Value Measurements and Disclosures,” and elected the fair value option pursuant to ASC 825, “Financial Instruments” on loans originated for sale by PBM. ASC 820 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. ASC 825 permits entities to elect to measure many financial instruments and certain other assets and liabilities at fair value on an instrument-by-instrument basis (the “Fair Value Option”) at specified election dates. At each subsequent reporting date, an entity is required to report unrealized gains and losses on items in earnings for which the fair value option has been elected. The objective of the Fair Value Option is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. Direct loan origination costs and fees for loans held for sale under the fair value method are recognized in Non-interest income under Gain (loss) on sale of loans, net, as incurred and not deferred.

The following table describes the difference at the dates indicated between the aggregate fair value and the aggregate unpaid principal balance of loans held for sale at fair value.

| (In Thousands) | Aggregate Fair Value | Aggregate Unpaid Principal Balance | Net Unrealized Gain |
|---|---|---|---|
| As of December 31, 2014: | | | |
| Loans held for sale, measured at fair value | $228,783 | $219,859 | $8,924 |
| | | | |
| As of June 30, 2014: | | | |
| Loans held for sale, measured at fair value | $158,883 | $152,192 | $6,691 |

ASC 820-10-65-4, “Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly,” provides additional guidance for estimating fair value in accordance with ASC 820, “Fair Value Measurements,” when the volume and level of activity for the asset or liability have significantly decreased.

ASC 820 establishes a three-level valuation hierarchy that prioritizes inputs to valuation techniques used in fair value calculations. The three levels of inputs are defined as follows:

| | |
|---|---|
| Level 1 - | Unadjusted quoted prices in active markets for identical assets or liabilities that the Corporation has the ability to access at the measurement date. |
| Level 2 - | Observable inputs other than Level 1 such as: quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated to observable market data for substantially the full term of the asset or liability. |
| Level 3 - | Unobservable inputs for the asset or liability that use significant assumptions, including assumptions of risks. These unobservable assumptions reflect the Corporation’s estimate of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include the use of pricing models, discounted cash flow models and similar techniques. |

ASC 820 requires the Corporation to maximize the use of observable inputs and minimize the use of unobservable inputs.  If a financial instrument uses inputs that fall in different levels of the hierarchy, the instrument will be categorized based upon the lowest level of input that is significant to the fair value calculation.

The Corporation’s financial assets and liabilities measured at fair value on a recurring basis consist of investment securities, loans held for sale at fair value, interest-only strips and derivative financial instruments; while non-performing loans, mortgage servicing assets ("MSA") and real estate owned are measured at fair value on a nonrecurring basis.

Investment securities are primarily comprised of U.S. government agency MBS, U.S. government sponsored enterprise MBS, private issue CMO and common stock of a community development financial institution.  The Corporation utilizes unadjusted quoted prices in active markets for identical securities for its fair value measurement of debt securities, quoted prices in active and less than active markets for similar securities for its fair value measurement of MBS and debt securities (Level 2), broker price indications for similar securities in non-active markets for its fair value measurement of CMO (Level 3) and pricing indications from recent transaction in non-active markets for common stock of a community development financial institution (Level 3).

Derivative financial instruments are comprised of commitments to extend credit on loans to be held for sale, mandatory loan sale commitments, TBA MBS trades and option contracts. The fair value of TBA MBS trades is determined using quoted secondary-market prices (Level 2). The fair values of other derivative financial instruments are determined by quoted prices for a similar commitment or commitments, adjusted for the specific attributes of each commitment, including management's estimate of loan commitments which may not fund (Level 3).

Loans held for sale at fair value are primarily single-family loans. The fair value is determined, when possible, using quoted secondary-market prices such as TBA MBS trades. If no such quoted price exists, the fair value of a loan is determined by quoted prices for a similar loan or loans (Level 2).

Non-performing loans are loans which are inadequately protected by the current net worth and paying capacity of the borrowers or of the collateral pledged. The non-performing loans are characterized by the distinct possibility that the Corporation will sustain some loss if the deficiencies are not corrected. The fair value of a non-performing loan is determined based on an observable market price or current appraised value, net of estimated disposition costs, of the underlying collateral. Appraised and reported values may be discounted based on management’s historical knowledge, changes in market conditions from the time of valuation, and/or management’s expertise and knowledge of the borrower. For non-performing loans which are restructured loans, the fair value is derived from discounted cash flow analysis (Level 3), except for those which are in the process of foreclosure or 90 days delinquent for which the fair value is derived from the appraised value of the collateral (Level 2). For other non-performing loans which are not restructured loans, the fair value is derived from relative value analysis: historical experience and management estimates by loan type for which collectively evaluated allowances are assigned (Level 3); or the appraised value of the collateral for loans which are in the process of foreclosure or where borrowers file bankruptcy (Level 2). For non-performing commercial real estate loans, the fair value is derived from the appraised value of the collateral (Level 2). Non-performing loans are reviewed and evaluated on at least a quarterly basis for additional allowance and adjusted accordingly, based on the same factors identified above. This loss is not recorded directly as an adjustment to current earnings or other comprehensive income (loss), but rather as a component in determining the overall adequacy of the allowance for loan losses. These adjustments to the estimated fair value of non-performing loans may result in increases or decreases to the provision for loan losses recorded in current earnings.

The Corporation uses the amortization method for its MSA, which amortizes the MSA in proportion to and over the period of estimated net servicing income and assesses the MSA for impairment based on fair value at each reporting date. The fair value of MSA is calculated using the present value method; which includes a third party’s prepayment projections of similar instruments, weighted-average coupon rates and the estimated average life (Level 3).

The rights to future income from serviced loans that exceed contractually specified servicing fees are recorded as interest-only strips. The fair value of interest-only strips is calculated using the same assumptions that are used to value the related MSA (Level 3).

The fair value of real estate owned is derived from the lower of the appraised value at the time of foreclosure or the listing price, net of estimated disposition costs (Level 2).

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

The following fair value hierarchy tables present information at the dates indicated about the Corporation's assets measured at fair value on a recurring basis:

| | Fair Value Measurement at December 31, 2014 Using: | | | |
|---|---|---|---|---|
| (In Thousands) | Level 1 | Level 2 | Level 3 | Total |
| Assets: | | | | |
| Investment securities: | | | | |
| U.S. government agency MBS | $— | $8,491 | $— | $8,491 |
| U.S. government sponsored enterprise MBS | — | 5,837 | — | 5,837 |
| Private issue CMO | — | — | 799 | 799 |
| Common stock - community development financial institution | — | — | 250 | 250 |
| Investment securities | — | 14,328 | 1,049 | 15,377 |
| | | | | |
| Loans held for sale, at fair value | — | 228,783 | — | 228,783 |
| Interest-only strips | — | — | 64 | 64 |
| | | | | |
| Derivative assets: | | | | |
| Commitments to extend credit on loans to be held for sale | — | — | 2,134 | 2,134 |
| Option contracts | — | — | 110 | 110 |
| Derivative assets | — | — | 2,244 | 2,244 |
| Total assets | $— | $243,111 | $3,357 | $246,468 |
| | | | | |
| Liabilities: | | | | |
| Derivative liabilities: | | | | |
| Commitments to extend credit on loans to be held for sale | $— | $— | $5 | $5 |
| Mandatory loan sale commitments | — | — | 86 | 86 |
| TBA MBS trades | — | 2,019 | — | 2,019 |
| Derivative liabilities | — | 2,019 | 91 | 2,110 |
| Total liabilities | $— | $2,019 | $91 | $2,110 |

| | Fair Value Measurement at June 30, 2014 Using: | | | |
|---|---|---|---|---|
| (In Thousands) | Level 1 | Level 2 | Level 3 | Total |
| Assets: | | | | |
| Investment securities: | | | | |
| U.S. government agency MBS | $— | $9,109 | $— | $9,109 |
| U.S. government sponsored enterprise MBS | — | 6,385 | — | 6,385 |
| Private issue CMO | — | — | 853 | 853 |
| Investment securities | — | 15,494 | 853 | 16,347 |
| | | | | |
| Loans held for sale, at fair value | — | 158,883 | — | 158,883 |
| Interest-only strips | — | — | 62 | 62 |
| | | | | |
| Derivative assets: | | | | |
| Commitments to extend credit on loans to be held for sale | — | — | 2,570 | 2,570 |
| Derivative assets | — | — | 2,570 | 2,570 |
| Total assets | $— | $174,377 | $3,485 | $177,862 |
| | | | | |
| Liabilities: | | | | |
| Derivative liabilities: | | | | |
| Commitments to extend credit on loans to be held for sale | $— | $— | $4 | $4 |
| Mandatory loan sale commitments | — | — | 93 | 93 |
| TBA MBS trades | — | 1,335 | — | 1,335 |
| Derivative liabilities | — | 1,335 | 97 | 1,432 |
| Total liabilities | $— | $1,335 | $97 | $1,432 |

The following tables summarize reconciliations of the beginning and ending balances during the periods shown of recurring fair value measurements recognized in the Condensed Consolidated Statements of Financial Condition using Level 3 inputs:

| | For the Quarter Ended December 31, 2014 Fair Value Measurement Using Significant Other Unobservable Inputs (Level 3) | | | | | | |
|---|---|---|---|---|---|---|---|
| (In Thousands) | Private Issue CMO | Common stock [1] | Interest-Only Strips | Loan Commit-ments to Originate [2] | Manda-tory Commit-ments [3] | Option Contracts | Total |
| Beginning balance at September 30, 2014 | $828 | $250 | $70 | $1,785 | $(245) | $33 | $2,721 |
| Total gains or losses (realized/ unrealized): | | | | | | | |
| Included in earnings | — | — | — | 344 | 149 | (57) | 436 |
| Included in other comprehensive loss | (4) | — | (6) | — | — | — | (10) |
| Purchases | — | — | — | — | — | 134 | 134 |
| Issuances | — | — | — | — | — | — | — |
| Settlements | (25) | — | — | — | 10 | — | (15) |
| Transfers in and/or out of Level 3 | — | — | — | — | — | — | — |
| Ending balance at December 31, 2014 | $799 | $250 | $64 | $2,129 | $(86) | $110 | $3,266 |

(1) Common stock of a community development financial institution.
(2) Consists of commitments to extend credit on loans to be held for sale.
(3) Consists of mandatory loan sale commitments.

| | For the Quarter Ended December 31, 2013 Fair Value Measurement Using Significant Other Unobservable Inputs (Level 3) | | | | | |
|---|---|---|---|---|---|---|
| (In Thousands) | Private Issue CMO | Interest-Only Strips | Loan Commit-ments to Originate [1] | Manda-tory Commit-ments [2] | Option Contracts | Total |
| Beginning balance at September 30, 2013 | $953 | $103 | $3,365 | $(141) | $82 | $4,362 |
| Total gains or losses (realized/unrealized): | | | | | | |
| Included in earnings | — | — | (3,117) | 329 | 158 | (2,630) |
| Included in other comprehensive loss | 19 | (15) | — | — | — | 4 |
| Purchases | — | — | — | — | 155 | 155 |
| Issuances | — | — | — | — | — | — |
| Settlements | (47) | — | — | 8 | (64) | (103) |
| Transfers in and/or out of Level 3 | — | — | — | — | — | — |
| Ending balance at December 31, 2013 | $925 | $88 | $248 | $196 | $331 | $1,788 |

(1) Consists of commitments to extend credit on loans to be held for sale.
(2) Consists of mandatory loan sale commitments.

| | For the Six Months Ended December 31, 2014 Fair Value Measurement Using Significant Other Unobservable Inputs (Level 3) | | | | | | |
|---|---|---|---|---|---|---|---|
| (In Thousands) | Private Issue CMO | Common stock [1] | Interest-Only Strips | Loan Commitments to Originate [2] | Mandatory Commitments [3] | Option Contracts | Total |
| Beginning balance at June 30, 2014 | $853 | $— | $62 | $2,566 | $(93) | $— | $3,388 |
| Total gains or losses (realized/unrealized): | | | | | | | |
| Included in earnings | — | — | — | (437) | (7) | (162) | (606) |
| Included in other comprehensive loss | (5) | — | 2 | — | — | — | (3) |
| Purchases | — | 250 | — | — | — | 321 | 571 |
| Issuances | — | — | — | — | — | — | — |
| Settlements | (49) | — | — | — | 14 | (49) | (84) |
| Transfers in and/or out of Level 3 | — | — | — | — | — | — | — |
| Ending balance at December 31, 2014 | $799 | $250 | $64 | $2,129 | $(86) | $110 | $3,266 |

(1) Common stock of a community development financial institution.
(2) Consists of commitments to extend credit on loans to be held for sale.
(3) Consists of mandatory loan sale commitments.

| | For the Six Months Ended December 31, 2013 Fair Value Measurement Using Significant Other Unobservable Inputs (Level 3) | | | | | |
|---|---|---|---|---|---|---|
| (In Thousands) | Private Issue CMO | Interest-Only Strips | Loan Commitments to originate [1] | Mandatory Commitments [2] | Option Contracts | Total |
| Beginning balance at June 30, 2013 | $1,019 | $98 | $(1,032) | $83 | $589 | $757 |
| Total gains or losses (realized/unrealized): | | | | | | |
| Included in earnings | — | — | 1,280 | 99 | 266 | 1,645 |
| Included in other comprehensive loss | 19 | (10) | — | — | — | 9 |
| Purchases | — | — | — | — | 370 | 370 |
| Issuances | — | — | — | — | — | — |
| Settlements | (113) | — | — | 14 | (894) | (993) |
| Transfers in and/or out of Level 3 | — | — | — | — | — | — |
| Ending balance at December 31, 2013 | $925 | $88 | $248 | $196 | $331 | $1,788 |

(1) Consists of commitments to extend credit on loans to be held for sale.
(2) Consists of mandatory loan sale commitments.

The following fair value hierarchy tables present information about the Corporation’s assets measured at fair value at the dates indicated on a nonrecurring basis:

| | Fair Value Measurement at December 31, 2014 Using: | | | |
|---|---|---|---|---|
| (In Thousands) | Level 1 | Level 2 | Level 3 | Total |
| Non-performing loans | $— | $9,138 | $2,013 | $11,151 |
| MSA | — | — | 208 | 208 |
| Real estate owned, net | — | 3,496 | — | 3,496 |
| Total | $— | $12,634 | $2,221 | $14,855 |

| | Fair Value Measurement at June 30, 2014 Using: | | | |
|---|---|---|---|---|
| (In Thousands) | Level 1 | Level 2 | Level 3 | Total |
| Non-performing loans | $— | $10,910 | $5,026 | $15,936 |
| MSA | — | — | 241 | 241 |
| Real estate owned, net | — | 2,467 | — | 2,467 |
| Total | $— | $13,377 | $5,267 | $18,644 |

The following table presents additional information about valuation techniques and inputs used for assets and liabilities, including derivative financial instruments, which are measured at fair value and categorized within Level 3 as of December 31, 2014:

| (Dollars In Thousands) | Fair Value As of December 31, 2014 | Valuation Techniques | Unobservable Inputs | Range [1] (Weighted Average) | Impact to Valuation from an Increase in Inputs [2] |
|---|---|---|---|---|---|
| Assets: | | | | | |
| Securities available-for sale: Private issue CMO | $799 | Market comparable pricing | Comparability adjustment | (0.4)% – 1.1% (0.9%) | Increase |
| Common stock of community development financial institution | $250 | Market pricing | Pricing indications from recent transactions | $0.00 - $0.14 ($0.05) | Increase |
| Non-performing loans | $92 | Discounted cash flow | Default rates | 0.0% - 30.0% (0.0%) | Decrease |
| Non-performing loans | $1,921 | Relative value analysis | Loss severity | 20.0% - 30.0% (21.9%) | Decrease |
| MSA | $208 | Discounted cash flow | Prepayment speed (CPR)<br>Discount rate | 19.5% - 60.0% (31.0%)<br>9.0% - 10.5% (9.2%) | Decrease<br>Decrease |
| Interest-only strips | $64 | Discounted cash flow | Prepayment speed (CPR)<br>Discount rate | 20.2% - 39.2% (25.7%)<br>9.0% | Decrease<br>Decrease |
| Commitments to extend credit on loans to be held for sale | $2,134 | Relative value analysis | TBA-MBS broker quotes<br>Fall-out ratio [3] | 99.1% – 106.2% (102.3%) of par<br>22.5% - 30.3% (29.3%) | Decrease<br>Decrease |
| Option contracts | $110 | Relative value analysis | Broker quotes | 126.8% of par | Increase |
| Liabilities: | | | | | |
| Commitments to extend credit on loans to be held for sale | $5 | Relative value analysis | TBA-MBS broker quotes<br>Fall-out ratio [3] | 101.4% – 103.9% (102.3%) of par<br>22.5% - 30.3% (29.3%) | Increase<br>Increase |
| | $86 | | | | |

| | | | | |
|---|---|---|---|---|
| Mandatory loan sale commitments | Relative value analysis | TBA MBS broker quotes | 101.2% - 105.0% (104.3%) of par | Increase |
| | | Roll-forward costs [4] | 0.007% | Increase |

[1] The range is based on the estimated fair values and management estimates.

[2] Unless otherwise noted, this column represents the directional change in the fair value of the Level 3 investments that would result from an increase to the corresponding unobservable input. A decrease to the unobservable input would have the opposite effect. Significant changes in these inputs in isolation could result in significantly higher or lower fair value measurements.

[3] The percentage of commitments to extend credit on loans to be held for sale which management has estimated may not fund.

[4] An estimated cost to roll forward the mandatory loan sale commitments which management has estimated may not be delivered to the corresponding investors in a timely manner.

The significant unobservable inputs used in the fair value measurement of the Corporation's assets and liabilities include the following: prepayment speeds, discount rates, MBS – TBA quotes, fallout ratios, broker quotes and roll-forward costs, among others. Significant increases or decreases in any of these inputs in isolation could result in significantly lower or higher fair value measurement. The various unobservable inputs used to determine valuations may have similar or diverging impacts on valuation.

The carrying amount and fair value of the Corporation's other financial instruments as of December 31, 2014 and June 30, 2014 were as follows:

| (In Thousands) | December 31, 2014 Carrying Amount | Fair Value | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|---|
| Financial assets: | | | | | |
| Loans held for investment, net | $797,783 | $804,707 | — | — | $804,707 |
| FHLB – San Francisco stock | $7,056 | $7,056 | — | $7,056 | — |
| Financial liabilities: | | | | | |
| Deposits | $905,512 | $882,526 | — | — | $882,526 |
| Borrowings | $41,400 | $44,440 | — | — | $44,440 |

| (In Thousands) | June 30, 2014 Carrying Amount | Fair Value | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|---|
| Financial assets: | | | | | |
| Loans held for investment, net | $772,141 | $778,851 | — | — | $778,851 |
| FHLB – San Francisco stock | $7,056 | $7,056 | — | $7,056 | — |
| Financial liabilities: | | | | | |
| Deposits | $897,870 | $875,440 | — | — | $875,440 |
| Borrowings | $41,431 | $44,424 | — | — | $44,424 |

Loans held for investment: For loans that reprice frequently at market rates, the carrying amount approximates the fair value. For fixed-rate loans, the fair value is determined by either (i) discounting the estimated future cash flows of such loans over their estimated remaining contractual maturities using a current interest rate at which such loans would be made to borrowers, or (ii) quoted market prices. The allowance for loan losses is subtracted as an estimate of the underlying credit risk.

FHLB – San Francisco stock: The carrying amount reported for FHLB – San Francisco stock approximates fair value. When redeemed, the Corporation will receive an amount equal to the par value of the stock.

Deposits: The fair value of time deposits is estimated using a discounted cash flow calculation. The discount rate is based upon rates currently offered for deposits of similar remaining maturities. The fair value of transaction accounts (checking, money market and savings accounts) is based on management estimates, consistent with current market conditions.

Borrowings: The fair value of borrowings has been estimated using a discounted cash flow calculation. The discount rate on such borrowings is based upon rates currently offered for borrowings of similar remaining maturities.

The Corporation has various processes and controls in place to ensure that fair value is reasonably estimated. The Corporation generally determines fair value of their Level 3 assets and liabilities by using internally developed models which primarily utilize discounted cash flow techniques and prices obtained from independent management services or brokers. The Corporation performs due diligence procedures over third-party pricing service providers in order to support their use in the valuation process. The fair values of investment securities, commitments to extend credit on loans held for sale, mandatory commitments and option contracts are determined from the independent management services or brokers; while the fair value of MSA and interest-only strips are determined using the internally developed models which are based on discounted cash flow analysis. The fair value of non-performing loans is calculated by using discounted cash flows, relative value analysis or collateral value, less selling costs.

While the Corporation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. During the quarter ended December 31, 2014, there were no significant changes to the Corporation's valuation techniques that had, or are expected to have, a material impact on its consolidated financial position or results of operations.

Note 10: Incentive Plans

As of December 31, 2014, the Corporation had five share-based compensation plans, which are described below. These plans are the 2013 Equity Incentive Plan (“2013 Plan”), the 2010 Equity Incentive Plan (“2010 Plan”), the 2006 Equity Incentive Plan (“2006 Plan”), the 2003 Stock Option Plan and the 1996 Stock Option Plan.

For the quarters ended December 31, 2014 and 2013, the compensation cost for these plans was $394,000 and $130,000, respectively. The income tax effect recognized in the Condensed Consolidated Statements of Financial Condition for share-based compensation plans was none and a $1,000 credit in the quarters ended December 31, 2014 and 2013, respectively.

For the six months ended December 31, 2014 and 2013, the compensation cost for these plans was $537,000 and $261,000, respectively. The income tax effect recognized in the Condensed Consolidated Statements of Financial Condition for share-based compensation plans was a $16,000 debit and an $8,000 credit for the six months ended December 31, 2014 and 2013, respectively.

Equity Incentive Plan. The Corporation established and the shareholders approved the 2013 Plan, the 2010 Plan and the 2006 Plan for directors, advisory directors, directors emeriti, officers and employees of the Corporation and its subsidiary. The 2013 Plan authorizes 300,000 stock options and 300,000 shares of restricted stock. The 2013 Plan also provides that no person may be granted more than 60,000 stock options or 45,000 shares of restricted stock in any one year. The 2010 Plan authorizes 586,250 stock options and 288,750 shares of restricted stock. The 2010 Plan also provides that no person may be granted more than 117,250 stock options or 43,312 shares of restricted stock in any one year. The 2006 Plan authorizes 365,000 stock options and 185,000 shares of restricted stock. The 2006 Plan also provides that no person may be granted more than 73,000 stock options or 27,750 shares of restricted stock in any one year.

Equity Incentive Plan - Stock Options. Under the 2013 Plan, 2010 Plan and 2006 Plan (collectively, “the Plans”), options may not be granted at a price less than the fair market value at the date of the grant. Options typically vest over a five-year or shorter period as long as the director, advisory director, director emeritus, officer or employee remains in service to the Corporation. The options are exercisable after vesting for up to the remaining term of the original grant. The maximum term of the options granted is 10 years.

The fair value of each option grant is estimated on the date of the grant using the Black-Scholes option valuation model with the following assumptions. The expected volatility is based on implied volatility from historical common stock closing prices for the prior 84 months. The expected dividend yield is based on the most recent quarterly dividend on an annualized basis. The expected term is based on the historical experience of all fully vested stock option grants and is reviewed annually. The risk-free interest rate is based on the U.S. Treasury note rate with a term similar to the underlying stock option on the particular grant date.

| | For the Quarter Ended December 31, 2014 | | For the Six Months Ended December 31, 2014 | |
|---|---|---|---|---|
| Expected volatility range | — | % | 53.7 | % |
| Weighted-average volatility | — | % | 53.7 | % |
| Expected dividend yield | — | % | 3.0 | % |
| Expected term (in years) | 0 | | 7.2 | |
| Risk-free interest rate | — | % | 2.2 | % |

During the second quarter of fiscal 2015, no options were granted, exercised or forfeited. This compares to the second quarter of fiscal 2014 when 35,500 options were exercised, 21,800 options were forfeited and no options were granted. For the first six months of fiscal 2015, 369,000 options were granted, while 2,000 options were exercised and no options were forfeited. This compares to the first six months of fiscal 2014 when no options were granted, while 40,500 options were exercised and 21,800 options were forfeited. As of December 31, 2014 and 2013, there were 130,750 and 510,250 stock options available for future grants under the Plans, respectively.

The following tables summarize the stock option activity in the Plans for the quarter and six months ended December 31, 2014.

| | For the Quarter Ended December 31, 2014 | | | |
|---|---|---|---|---|
| Options | Shares | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Term (Years) | Aggregate Intrinsic Value ($000) |
| Outstanding at September 30, 2014 | 1,015,000 | $13.49 | | |
| Granted | — | $— | | |
| Exercised | — | $— | | |
| Forfeited | — | $— | | |
| Outstanding at December 31, 2014 | 1,015,000 | $13.49 | 6.76 | $3,726 |
| Vested and expected to vest at December 31, 2014 | 898,600 | $13.63 | 6.51 | $3,404 |
| Exercisable at December 31, 2014 | 433,000 | $14.19 | 4.19 | $2,117 |

| | For the Six Months Ended December 31, 2014 | | | |
|---|---|---|---|---|
| Options | Shares | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Term (Years) | Aggregate Intrinsic Value ($000) |
| Outstanding at June 30, 2014 | 648,000 | $12.84 | | |
| Granted | 369,000 | $14.59 | | |
| Exercised | (2,000) | $7.03 | | |
| Forfeited | — | $— | | |
| Outstanding at December 31, 2014 | 1,015,000 | $13.49 | 6.76 | $3,726 |
| Vested and expected to vest at December 31, 2014 | 898,600 | $13.63 | 6.51 | $3,404 |
| Exercisable at December 31, 2014 | 433,000 | $14.19 | 4.19 | $2,117 |

As of December 31, 2014 and 2013, there was $2.6 million and $657,000 of unrecognized compensation expense, respectively, related to unvested share-based compensation arrangements under the Plans. The expense is expected to be recognized over a weighted-average period of 3.3 years and 1.8 years, respectively. The forfeiture rate during the first six months of fiscal 2015 and 2014 was 20 percent for both periods, and was calculated by using the historical forfeiture experience of all fully vested stock option grants and is reviewed annually.

Equity Incentive Plan – Restricted Stock. The Corporation used 300,000 shares, 288,750 shares and 185,000 shares of its treasury stock to fund the 2013 Plan, the 2010 Plan and the 2006 Plan, respectively. Awarded shares typically vest over a five-year or shorter period as long as the director, advisory director, director emeriti, officer or employee remains in service to the Corporation. Once vested, a recipient of restricted stock will have all rights of a shareholder, including the power to vote and the right to receive dividends. The Corporation recognizes compensation expense for the restricted stock awards based on the fair value of the shares at the award date.

There was no restricted stock activity in the second quarter of fiscal 2015 and 2014, other than the forfeiture of 5,750 shares in the second quarter of fiscal 2014. For the first six months of fiscal 2015, there was no restricted stock activity, other than the award of 185,000 shares. This compares to no restricted stock activity, other than the forfeiture of 5,750 shares of restricted stock in the first six months of fiscal 2014. As of December 31, 2014 and 2013, there were 275,350 shares and 475,350 shares of restricted stock available for future awards under the Plans.

The following tables summarize the unvested restricted stock activity in the quarter and six months ended December 31, 2014.

| | For the Quarter Ended December 31, 2014 | |
|---|---|---|
| Unvested Shares | Shares | Weighted-Average Award Date Fair Value |
| Unvested at September 30, 2014 | 266,500 | $11.78 |
| Granted | — | $— |
| Vested | — | $— |
| Forfeited | — | $— |
| Unvested at December 31, 2014 | 266,500 | $11.78 |
| Expected to vest at December 31, 2014 | 213,200 | $11.78 |

| | For the Six Months Ended December 31, 2014 | |
|---|---|---|
| Unvested Shares | Shares | Weighted-Average Award Date Fair Value |
| Unvested at June 30, 2014 | 81,500 | $8.34 |
| Granted | 185,000 | $13.30 |
| Vested | — | $— |
| Forfeited | — | $— |
| Unvested at December 31, 2014 | 266,500 | $11.78 |
| Expected to vest at December 31, 2014 | 213,200 | $11.78 |

As of December 31, 2014 and 2013, the unrecognized compensation expense was $2.7 million and $370,000, respectively, related to unvested share-based compensation arrangements under the Plans, and reported as a reduction to stockholders' equity. This expense is expected to be recognized over a weighted-average period of 3.5 years and 1.5 years, respectively. Similar to stock options, a forfeiture rate of 20 percent has been applied for the restricted stock compensation expense calculations in the first six months of fiscal 2015 and 2014.

Stock Option Plans. The Corporation established the 2003 Stock Option Plan and the 1996 Stock Option Plan (collectively, the "Stock Option Plans") for key employees and eligible directors under which options to acquire up to 352,500 shares and 1.15 million shares of common stock, respectively, may be granted. Under the Stock Option Plans, stock options may not be granted at a price less than the fair market value at the date of the grant. Stock options typically vest over a five-year period on a pro-rata basis as long as the employee or director remains in service to the Corporation. The stock options are exercisable after vesting for up to the remaining term of the original grant. The maximum term of the stock options granted is 10 years. As of December 31, 2014, no stock options remain available for future grants under the 2003 and 1996 Stock Option Plans, which expired in November 2013 and January 2007, respectively.

The fair value of each stock option grant was estimated on the date of the grant using the Black-Scholes option valuation model with the following assumptions. The expected volatility was based on implied volatility from historical common stock closing prices for the prior 84 months. The expected dividend yield was based on the most recent quarterly dividend on an annualized basis. The expected term was based on the historical experience of all fully vested stock option grants and is reviewed annually. The risk-free interest rate was based on the U.S. Treasury note rate with a term similar to the underlying stock option on the particular grant date.

For the second quarter of fiscal 2015 and 2014, there was no activity in the Stock Option Plans, except forfeitures of 13,000 shares in the second quarter of fiscal 2014. For the first six months of fiscal 2015 and 2014, there was no activity in the Stock Option Plans, except forfeitures of 17,500 shares and 88,000 shares, respectively. As of December 31, 2014 and 2013, there were no stock options available for future grants under the Stock Option Plans.

The following tables summarize the activity in the Stock Option Plans for the quarter and six months ended December 31, 2014.

| | For the Quarter Ended December 31, 2014 | | | |
|---|---|---|---|---|
| Options | Shares | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Term (Years) | Aggregate Intrinsic Value ($000) |
| Outstanding at September 30, 2014 | 77,500 | $23.41 | | |
| Granted | — | $— | | |
| Exercised | — | $— | | |
| Forfeited | — | $— | | |
| Outstanding at December 31, 2014 | 77,500 | $23.41 | 2.00 | $— |
| Vested and expected to vest at December 31, 2014 | 77,500 | $23.41 | 2.00 | $— |
| Exercisable at December 31, 2014 | 77,500 | $23.41 | 2.00 | $— |

| | For the Six Months Ended December 31, 2014 | | | |
|---|---|---|---|---|
| Options | Shares | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Term (Years) | Aggregate Intrinsic Value ($000) |
| Outstanding at June 30, 2014 | 95,000 | $23.33 | | |
| Granted | — | $— | | |
| Exercised | — | $— | | |
| Forfeited | (17,500) | $23.00 | | |
| Outstanding at December 31, 2014 | 77,500 | $23.41 | 2.00 | $— |
| Vested and expected to vest at December 31, 2014 | 77,500 | $23.41 | 2.00 | $— |
| Exercisable at December 31, 2014 | 77,500 | $23.41 | 2.00 | $— |

As of December 31, 2014 and 2013, there was no unrecognized compensation expense at both dates, related to unvested share-based compensation arrangements under the Stock Option Plans.

Note 11: Reclassification adjustment of Accumulated Other Comprehensive Income ("AOCI")

ASU 2013-02, "Comprehensive Income (Topic 220)," requires disclosure of reclassification adjustments of AOCI, including changes in AOCI balances by component and significant items reclassified out of AOCI.

The following tables provide the changes in AOCI by component for the quarters and six months ended December 31, 2014 and 2013.

| (In Thousands) | For the Quarter Ended December 31, 2014<br>Unrealized gains and losses on<br>Investment securities available for sale | Interest-only strips | Total |
|---|---|---|---|
| Beginning balance at September 30, 2014 | $337 | $40 | $377 |
| Other comprehensive income (loss) before reclassifications | 58 | (3) | 55 |
| Amount reclassified from accumulated other comprehensive income | — | — | — |
| Net other comprehensive income (loss) | 58 | (3) | 55 |
| Ending balance at December 31, 2014 | $395 | $37 | $432 |

| (In Thousands) | For the Quarter Ended December 31, 2013<br>Unrealized gains and losses on<br>Investment securities available for sale | Interest-only strips | Total |
|---|---|---|---|
| Beginning balance at September 30, 2013 | $425 | $59 | $484 |
| Other comprehensive loss before reclassifications | (17) | (9) | (26) |
| Amount reclassified from accumulated other comprehensive income | — | — | — |
| Net other comprehensive loss | (17) | (9) | (26) |
| Ending balance at December 31, 2013 | $408 | $50 | $458 |

| (In Thousands) | For the Six Months Ended December 31, 2014<br>Unrealized gains on<br>Investment securities available for sale | Interest-only strips | Total |
|---|---|---|---|
| Beginning balance at June 30, 2014 | $351 | $35 | $386 |
| Other comprehensive income before reclassifications | 44 | 2 | 46 |
| Amount reclassified from accumulated other comprehensive income | — | — | — |
| Net other comprehensive income | 44 | 2 | 46 |
| Ending balance at December 31, 2014 | $395 | $37 | $432 |

| (In Thousands) | For the Six Months Ended December 31, 2013<br>Unrealized gains and losses on<br>Investment securities available for sale | Interest-only strips | Total |
|---|---|---|---|
| Beginning balance at June 30, 2013 | $498 | $56 | $554 |
| Other comprehensive loss before reclassifications | (90) | (6) | (96) |
| Amount reclassified from accumulated other comprehensive income | — | — | — |
| Net other comprehensive loss | (90) | (6) | (96) |
| Ending balance at December 31, 2013 | $408 | $50 | $458 |

There were no significant items reclassified out of AOCI for the quarters and six months ended December 31, 2014 and 2013.

Note 12: Offsetting Derivative and Other Financial Instruments

The Corporation's derivative transactions are generally governed by International Swaps and Derivatives Association Master Agreements and similar arrangements, which include provisions governing the setoff of assets and liabilities between the parties. When the Corporation has more than one outstanding derivative transaction with a single counterparty, the setoff provisions contained within these agreements generally allow the non-defaulting party the right to reduce its liability to the defaulting party by amounts eligible for setoff, including the collateral received as well as eligible offsetting transactions with that counterparty, irrespective of the currency, place of payment, or booking office. The Corporation's policy is to present its derivative assets and derivative liabilities on the Condensed Consolidated Statements of Financial Condition on a net basis for each type of derivatives. The derivative assets and liabilities are comprised of mandatory loan sale commitments, TBA MBS trades and option contracts.

The following tables present the gross and net amounts of derivative assets and liabilities and other financial instruments as reported in the Corporation's Condensed Consolidated Statement of Financial Condition, and the gross amount not offset in the Corporation's Condensed Consolidated Statement of Financial Condition as of the dates indicated.

As of December 31, 2014:

| (In Thousands) | Gross Amount of Recognized Assets | Gross Amount Offset in the Condensed Consolidated Statements of Financial Condition | Net Amount of Assets in the Condensed Consolidated Statements of Financial Condition | Gross Amount Not Offset in the Condensed Consolidated Statements of Financial Condition: Financial Instruments | Cash Collateral Received | Net Amount |
|---|---|---|---|---|---|---|
| Assets | | | | | | |
| Derivatives | $— | $— | $— | $— | $— | $— |
| Total | $— | $— | $— | $— | $— | $— |

| (In Thousands) | Gross Amount of Recognized Liabilities | Gross Amount Offset in the Condensed Consolidated Statements of Financial Condition | Net Amount of Liabilities in the Condensed Consolidated Statements of Financial Condition | Gross Amount Not Offset in the Condensed Consolidated Statements of Financial Condition: Financial Instruments | Cash Collateral Received | Net Amount |
|---|---|---|---|---|---|---|
| Liabilities | | | | | | |
| Derivatives | $1,995 | $— | $1,995 | $— | $— | $1,995 |
| Total | $1,995 | $— | $1,995 | $— | $— | $1,995 |

As of June 30, 2014:

| (In Thousands) | Gross Amount of Recognized Assets | Gross Amount Offset in the Condensed Consolidated Statements of Financial Condition | Net Amount of Assets in the Condensed Consolidated Statements of Financial Condition | Gross Amount Not Offset in the Condensed Consolidated Statements of Financial Condition: Financial Instruments | Cash Collateral Received | Net Amount |
|---|---|---|---|---|---|---|
| Assets | | | | | | |
| Derivatives | $— | $— | $— | $— | $— | $— |
| Total | $— | $— | $— | $— | $— | $— |

| (In Thousands) | Gross Amount of Recognized Liabilities | Gross Amount Offset in the Condensed Consolidated Statements of Financial Condition | Net Amount of Liabilities in the Condensed Consolidated Statements of Financial Condition | Gross Amount Not Offset in the Condensed Consolidated Statements of Financial Condition | | |
|---|---|---|---|---|---|---|
| | | | | Financial Instruments | Cash Collateral Received | Net Amount |
| Liabilities | | | | | | |
| Derivatives | $1,428 | $— | $1,428 | $— | $— | $1,428 |
| Total | $1,428 | $— | $1,428 | $— | $— | $1,428 |

Note 13: Subsequent Events

On January 28, 2015, the Corporation announced that the Corporation's Board of Directors declared a quarterly cash dividend of $0.11 per share. Shareholders of the Corporation's common stock at the close of business on February 18, 2015 will be entitled to receive the cash dividend. The cash dividend will be payable on March 12, 2015.

ITEM 2 – Management's Discussion and Analysis of Financial Condition and Results of Operations

General

Provident Financial Holdings, Inc., a Delaware corporation, was organized in January 1996 for the purpose of becoming the holding company of Provident Savings Bank, F.S.B. upon the Bank's conversion from a federal mutual to a federal stock savings bank ("Conversion"). The Conversion was completed on June 27, 1996. The Corporation is regulated by the Federal Reserve Board ("FRB"). At December 31, 2014, the Corporation had total assets of $1.11 billion, total deposits of $905.5 million and total stockholders' equity of $144.4 million. The Corporation has not engaged in any significant activity other than holding the stock of the Bank. Accordingly, the information set forth in this report, including financial statements and related data, relates primarily to the Bank and its subsidiaries. As used in this report, the terms "we," "our," "us," and "Corporation" refer to Provident Financial Holdings, Inc. and its consolidated subsidiaries, unless the context indicates otherwise.

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

The Corporation's business consists of community banking activities and mortgage banking activities, conducted by Provident Bank and Provident Bank Mortgage, a division of the Bank. Community banking activities primarily consist of accepting deposits from customers within the communities surrounding the Bank's full service offices and investing those funds in single-family loans, multi-family loans, commercial real estate loans, construction loans, commercial business loans, consumer loans and other real estate loans. The Bank also offers business checking accounts, other business banking services, and services loans for others. Mortgage banking activities consist of the origination, purchase and sale of mortgage loans secured primarily by single-family residences. The Bank currently operates 15 retail/business banking offices in Riverside County and San Bernardino County (commonly known as the Inland Empire). Provident Bank Mortgage operates two wholesale loan production offices: one in Pleasanton and one in Rancho Cucamonga, California; and 14 retail loan production offices located throughout California. The Corporation's revenues are derived principally from interest on its loans and investment securities and fees generated through its community banking and mortgage banking activities. There are various risks inherent in the Corporation's business including, among others, the general business environment, interest rates, the California real estate market, the demand for loans, the prepayment of loans, the repurchase of loans previously sold to investors, the secondary market conditions to sell loans, competitive conditions, legislative and regulatory changes, fraud and other risks.

The Corporation began to distribute quarterly cash dividends in the quarter ended December 31, 2002. On October 30, 2014, the Corporation declared a quarterly cash dividend of $0.11 per share for the Corporation's shareholders of record at the close of business on November 20, 2014, which was paid on December 12, 2014. Future declarations or payments of dividends will be subject to the consideration of the Corporation's Board of Directors, which will take into account the Corporation's financial condition, results of operations, tax considerations, capital requirements, industry standards, legal restrictions, economic conditions and other factors, including the regulatory restrictions which affect the payment of dividends by the Bank to the Corporation. Under Delaware law, dividends may be paid either out of surplus or, if there is no surplus, out of net profits for the current fiscal year and/or the preceding fiscal year in which the dividend is declared. For further discussion, see Note 13 of the Notes to Unaudited Interim Condensed Consolidated Financial Statements.

Management's Discussion and Analysis of Financial Condition and Results of Operations is intended to assist in understanding the financial condition and results of operations of the Corporation. The information contained in this section should be read in conjunction with the Unaudited Interim Condensed Consolidated Financial Statements and accompanying selected Notes to Unaudited Interim Condensed Consolidated Financial Statements.

Safe-Harbor Statement

Certain matters in this Form 10-Q constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. This Form 10-Q contains statements that the Corporation believes are "forward-looking statements." These statements relate to the Corporation's financial condition, results of operations, plans, objectives, future performance or business. When considering these forward-looking statements, you should keep in mind these risks and uncertainties, as well as any cautionary statements the Corporation may make. Moreover, you should treat these statements as speaking only as of the date they are made and based only on information then actually known to the Corporation. There are a number of important factors that could cause future results to differ materially from historical performance and these forward-looking statements. Factors which could cause actual results to differ materially include, but are not limited to, the credit risks of lending activities, including changes in the level and trend of loan delinquencies and charge-offs and changes in our allowance for loan losses and provision for loan losses that may be impacted by deterioration in the residential and commercial real estate markets and may lead to increased losses and non-performing assets and may result in our allowance for loan losses not being adequate to cover actual losses and require us to materially increase our reserve; changes in general economic conditions, either nationally or in our market areas; changes in the levels of general interest rates, and the relative differences between short and long term interest rates, deposit interest rates, our net interest margin and funding sources; fluctuations in the demand for loans, the number of unsold homes, land and other properties and fluctuations in real estate values in our market areas; secondary market conditions for loans and our ability to sell loans in the secondary market; results of examinations of the Corporation by the FRB or of the Bank by the OCC or other regulatory authorities, including the possibility that any such regulatory authority may, among other things, require us to enter into a formal enforcement action or to increase our allowance for loan losses, write-down assets, change our regulatory capital position or affect our ability to borrow funds or maintain or increase deposits, or impose additional requirements and restrictions on us, any of which could adversely affect our liquidity and earnings; legislative or regulatory changes that adversely affect our business including changes in regulatory policies and principles, including the interpretation of regulatory capital or other rules, including as a result of Basel III; the impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd Frank Act") and the implementing regulations; the availability of resources to address changes in laws, rules, or regulations or to respond to regulatory actions; adverse changes in the securities markets; our ability to attract and retain deposits; increases in premiums for deposit insurance; our ability to control operating costs and expenses; the use of estimates in determining fair value of certain of our assets, which estimates may prove to be incorrect and result in significant declines in valuation; difficulties in reducing risk associated with the loans on our balance sheet; staffing fluctuations in response to product demand or the implementation of corporate strategies that affect our workforce and potential associated charges; computer systems on which we depend could fail or experience a security breach; our ability to implement our branch expansion strategy; our ability to successfully integrate any assets, liabilities, customers, systems, and management personnel we have acquired or may in the future acquire into our operations and our ability to realize related revenue synergies and cost savings within expected time frames and any goodwill charges related thereto; our ability to manage loan delinquency rates; our ability to retain key members of our senior management team; costs and effects of litigation, including settlements and judgments; increased competitive pressures among financial services companies; changes in consumer spending, borrowing and savings habits; the availability of resources to address changes in laws, rules, or regulations or to respond to regulatory actions; our ability to pay dividends on our common stock; adverse changes in the securities markets; the inability of key third-party providers to perform their obligations to us; changes in accounting policies and practices, as may be adopted by the financial institution regulatory agencies or the Financial Accounting Standards Board, including additional guidance and interpretation on accounting issues and details of the implementation of new accounting methods; war or terrorist activities; and other economic, competitive, governmental, regulatory, and technological factors affecting our operations, pricing, products and services and other risks detailed in this report and in the Corporation's other reports filed with or furnished to the SEC, including its Annual Report on Form 10-K for the fiscal year ended June 30, 2014. These developments could have an adverse impact on our financial position and our results of operations. Forward-looking statements are based upon management's beliefs and assumptions at the time they are made. We undertake no obligation to publicly update or revise any forward-looking statements included in this document or to update the reasons why actual results could differ from those contained in such statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking statements discussed in this document might not occur, and you should not put undue reliance on any forward-looking statements.

Critical Accounting Policies

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Condensed Consolidated Statements of Financial Condition and Condensed Consolidated Statements of Operations. Therefore, management considers its accounting for income taxes a critical accounting policy.

Executive Summary and Operating Strategy

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

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

During the next three years, subject to market conditions, the Corporation intends to improve its community banking business by moderately growing total assets; by decreasing the concentration of single-family mortgage loans within loans held for investment; and by increasing the concentration of higher yielding preferred loans (i.e., multi-family, commercial real estate, construction and commercial business loans). In addition, the Corporation intends to decrease the percentage of time deposits in its deposit base and to increase the percentage of lower cost checking and savings accounts. This strategy is intended to improve core revenue through a higher net interest margin and ultimately, coupled with the growth of the Corporation, an increase in net interest income. While the Corporation's long-term strategy is for moderate growth, management recognizes that the total balance sheet may decline or stabilize at current levels in response to weaknesses in general economic conditions, which may improve capital ratios and mitigate credit and liquidity risk.

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

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

There are a number of risks associated with the business activities of the Corporation, many of which are beyond the Corporation's control, including: changes in accounting principles, laws, regulation, interest rates and the economy, among others. The Corporation attempts to mitigate many of these risks through prudent banking practices, such as interest rate risk management, credit risk management, operational risk management, and liquidity risk management.  The current California economic environment presents heightened risk for the Corporation primarily with respect to real estate values and loan delinquencies.  Although real estate values and unemployment rates have been improving since 2009, any future decline in real estate values or increase in unemployment rates may lead to higher loan losses since the majority of the Corporation's loans are secured by real estate located within California.  Significant declines in the value of California real estate may also inhibit the Corporation's ability to recover on defaulted loans by selling the underlying real estate.  The Corporation's operating costs may increase significantly as a result of the Dodd-Frank Act.   Many aspects of the Dodd-Frank Act are subject to rulemaking and will take effect over several years, making it difficult to anticipate the overall financial impact on the Corporation.

Off-Balance Sheet Financing Arrangements and Contractual Obligations

Commitments and Derivative Financial Instruments. The Corporation is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers.  These financial instruments include commitments to extend credit, in the form of originating loans or providing funds under existing lines of credit, loan sale agreements to third parties and option contracts. These instruments involve, to varying degrees, elements of credit and interest-rate risk in excess of the amount recognized in the accompanying Condensed Consolidated Statements of Financial Condition. The Corporation's exposure to credit loss, in the event of non-performance by the counterparty to these financial instruments, is represented by the contractual amount of these instruments. The Corporation uses the same credit policies in entering into financial instruments with off-balance sheet risk as it does for on-balance sheet instruments. For a discussion on commitments and derivative financial instruments, see Note 7 of the Notes to Unaudited Interim Condensed Consolidated Financial Statements.

Contractual Obligations. The following table summarizes the Corporation's contractual obligations at December 31, 2014 and the effect these obligations are expected to have on the Corporation's liquidity and cash flows in future periods:

| | Payments Due by Period | | | | |
|---|---|---|---|---|---|
| (In Thousands) | Less than 1 year | 1 to less than 3 years | 3 to 5 years | Over 5 years | Total |
| Operating obligations | $2,105 | $2,860 | $1,224 | $125 | $6,314 |
| Pension benefits | 229 | 459 | 459 | 6,988 | 8,135 |
| Time deposits | 173,412 | 132,880 | 59,065 | — | 365,357 |
| FHLB – San Francisco advances | 1,314 | 2,697 | 21,946 | 22,243 | 48,200 |
| FHLB – San Francisco letter of credit | 5,000 | — | — | — | 5,000 |
| FHLB – San Francisco MPF credit enhancement (1) | 73 | 146 | 146 | 2,124 | 2,489 |
| Total | $182,133 | $139,042 | $82,840 | $31,480 | $435,495 |

(1) Represents the recourse provision for loans previously sold by the Bank to the FHLB – San Francisco under its Mortgage Partnership Finance ("MPF") program. The FHLB – San Francisco discontinued the MPF program on October 6, 2006. As of December 31, 2014, the Bank serviced $32.9 million of loans under this program. The estimated amounts are based on historical loss experience.

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

In addition to the off-balance sheet financing arrangements and contractual obligations mentioned above, the Corporation has derivatives and other financial instruments with off-balance sheet risks as described in Note 7 of the Notes to Unaudited Interim Condensed Consolidated Financial Statements.

Comparison of Financial Condition at December 31, 2014 and June 30, 2014

Total assets increased $6.8 million to $1.11 billion at December 31, 2014 from June 30, 2014. The increase was primarily attributable to the increases in loans held for investment and loans held for sale, which were funded mostly by cash and cash equivalents.

Total cash and cash equivalents, primarily excess cash deposited with the Federal Reserve Bank of San Francisco, decreased $86.8 million, or 73 percent, to $32.1 million at December 31, 2014 from $118.9 million at June 30, 2014. The decrease in the total cash and cash equivalents was primarily attributable to the investment of excess liquidity to fund loans held for investment and loans held for sale.

Total investment securities decreased $970,000, or six percent, to $16.2 million at December 31, 2014 from $17.1 million at June 30, 2014. The decrease was primarily the result of scheduled and accelerated principal payments on mortgage-backed securities, partly offset by the purchase of $250,000 in the common stock of a community development financial institution in July 2014 to help fulfill the Corporation's Community Reinvestment Act obligation. For further analysis on investment securities, see Note 5 of the Notes to Unaudited Interim Condensed Consolidated Financial Statements.

Loans held for investment increased $25.7 million, or three percent, to $797.8 million at December 31, 2014 from $772.1 million at June 30, 2014. During the first six months of fiscal 2015 and 2014, the Corporation originated $92.9 million and $84.0 million, respectively, of loans held for investment, consisting primarily of single-family, multi-family and commercial real estate loans. During the first six months of fiscal 2015, the Corporation purchased $218,000 of loans to be held for investment as compared to none in the same period last year. Total loan principal payments during the first six months of fiscal 2015 were $67.8 million, a 11 percent decrease from $76.5 million in the comparable period in fiscal 2014. In addition, real estate owned acquired in the settlement of loans in the first six months of fiscal 2015 was $2.3 million, a 43 percent decline from $4.0 million in the same period last year due primarily to the improvement in the Corporation's loan quality and general improvement in real estate markets. The balance of preferred loans increased $25.1 million, or six percent, to $426.1 million at December 31, 2014, compared to $401.0 million at June 30, 2014, and represented 53 percent and 51 percent of loans held for investment, respectively. The balance of single-family loans held for investment decreased slightly to $377.3 million at December 31, 2014, compared to $378.0 million at June 30, 2014, and represented approximately 47 percent and 49 percent of loans held for investment, respectively.

The tables below describe the geographic dispersion of gross real estate secured loans held for investment at December 31, 2014 and June 30, 2014, as a percentage of the total dollar amount outstanding:

As of December 31, 2014

| (Dollars In Thousands) Loan Category | Inland Empire Balance | % | Southern California [(1)] Balance | % | Other California Balance | % | Other States Balance | % | Total Balance | % |
|---|---|---|---|---|---|---|---|---|---|---|
| Single-family | $111,476 | 29 % | $202,315 | 54 % | $60,769 | 16 % | $2,702 | 1 % | $377,262 | 100 % |
| Multi-family | 67,513 | 21 % | 165,234 | 51 % | 86,609 | 27 % | 2,946 | 1 % | 322,302 | 100 % |
| Commercial real estate | 42,411 | 42 % | 46,266 | 46 % | 12,182 | 12 % | — | — % | 100,859 | 100 % |
| Construction | 720 | 17 % | 2,289 | 52 % | 1,369 | 31 % | — | — % | 4,378 | 100 % |
| Total | $222,120 | 27 % | $416,104 | 52 % | $160,929 | 20 % | $5,648 | 1 % | $804,801 | 100 % |

(1) Other than the Inland Empire.

As of June 30, 2014

| (Dollars In Thousands) Loan Category | Inland Empire Balance | % | Southern California [(1)] Balance | % | Other California Balance | % | Other States Balance | % | Total Balance | % |
|---|---|---|---|---|---|---|---|---|---|---|
| Single-family | $111,412 | 30 % | $201,432 | 53 % | $62,168 | 16 % | $2,985 | 1 % | $377,997 | 100 % |
| Multi-family | 62,614 | 21 % | 156,242 | 52 % | 79,065 | 26 % | 3,290 | 1 % | 301,211 | 100 % |
| Commercial real estate | 45,352 | 47 % | 42,296 | 44 % | 9,155 | 9 % | — | — % | 96,803 | 100 % |
| Construction | 1,500 | 52 % | — | — % | 1,369 | 48 % | — | — % | 2,869 | 100 % |
| Total | $220,878 | 28 % | $399,970 | 51 % | $151,757 | 20 % | $6,275 | 1 % | $778,880 | 100 % |

(1) Other than the Inland Empire.

Loans held for sale increased $69.9 million, or 44 percent, to $228.8 million at December 31, 2014 from $158.9 million at June 30, 2014. The increase was primarily due to the higher volume of loans originated for sale of $565.7 million during the quarter ended December 31, 2014 as compared to $477.2 million during the quarter ended June 30, 2014 and the timing difference between loan fundings and loan sale settlements.

Total deposits increased $7.6 million, or one percent, to $905.5 million at December 31, 2014 from $897.9 million at June 30, 2014. Transaction accounts increased $20.5 million, or four percent, to $547.5 million at December 31, 2014 from $527.0 million at June 30, 2014; while time deposits decreased $12.9 million, or three percent, to $358.0 million at December 31, 2014 from $370.9 million at June 30, 2014. The change in deposit mix was consistent with the

Corporation’s marketing strategy to promote transaction accounts and the strategic decision to increase the percentage of lower cost transaction accounts in its deposit base and decrease the percentage of time deposits by competing less aggressively on time deposit interest rates.

Total stockholders’ equity decreased $1.5 million, or one percent, to $144.4 million at December 31, 2014, from $145.9 million at June 30, 2014, primarily as a result of stock repurchases totaling $4.8 million (see Part II, Item 2, “Unregistered Sales of Equity

Securities and Use of Proceeds") and $2.0 million of quarterly cash dividends paid, partly offset by net income of $4.7 million during the first six months of fiscal 2015.

Comparison of Operating Results for the Quarters and Six Months Ended December 31, 2014 and 2013

The Corporation's net income for the second quarter of fiscal 2015 was $2.3 million, an increase of $725,000, or 45 percent, from $1.6 million in the same period of fiscal 2014. The increase in net income for the quarter was attributable to an increase in non-interest income, partly offset by an increase in non-interest expense. For the first six months of fiscal 2015, the Corporation's net income was $4.7 million, an increase of $1.6 million, or 52 percent, from $3.1 million in the same period of fiscal 2014. The increase in net income for the first six months was primarily attributable to an increase in non-interest income, partly offset by an increase in the provision for income taxes.

The Corporation's efficiency ratio, defined as non-interest expense divided by the sum of net interest income and non-interest income, improved to 79 percent for the second quarter of fiscal 2015 from 87 percent for the same period of fiscal 2014.  The improvement in the efficiency ratio for the quarter was primarily the result of the increase in non-interest income, partly offset by the increase in non-interest expenses. For the first six months of fiscal 2015, the Corporation's efficiency ratio also improved to 80 percent from 89 percent for the same period of fiscal 2014. The improvement in the efficiency ratio was primarily the result of the increase in non-interest income.

Return on average assets for the second quarter of fiscal 2015 was 0.84 percent, up 28 basis points from 0.56 percent in the same period last year.   For the first six months of fiscal 2015, return on average assets was 0.85 percent, up 31 basis points from 0.54 percent in the same period last year.

Return on average equity for the second quarter of fiscal 2015 was 6.42 percent compared to 4.13 percent for the same period last year.   For the first six months of fiscal 2015, return on average equity was 6.50 percent compared to 3.97 percent for the same period last year.

Diluted earnings per share for the second quarter of fiscal 2015 were $0.25, a 56 percent increase from $0.16 in the same period last year. For the first six months of fiscal 2015, diluted earnings per share were $0.50, a 67 percent increase from $0.30 in the same period last year. The higher percentage increase of the diluted earnings per share in comparison to the percentage increase of the net income was primarily attributable to stock repurchases during the last 12 months.

Net Interest Income:

For the Quarters Ended December 31, 2014 and 2013.  Net interest income increased $455,000, to $8.1 million for the second quarter of fiscal 2015 from $7.7 million for the comparable period in fiscal 2014, due to a higher net interest margin, partly offset by a lower average earning asset balance.  The net interest margin was 3.01 percent in the second quarter of fiscal 2015, up 27 basis points from 2.74 percent in the same period of fiscal 2014 due to an increase in the average yield of interest-earning assets and a decrease in the average cost of interest-bearing liabilities. The weighted-average yield of interest-earning assets increased by 18 basis points to 3.59 percent while the weighted-average cost of interest-bearing liabilities decreased by 10 basis points to 0.65 percent for the second quarter of fiscal 2015 as compared to the same period last year. The average balance of earning assets decreased $39.7 million, or four percent, to $1.08 billion in the second quarter of fiscal 2015 from $1.12 billion in the comparable period of fiscal 2014, due primarily to the deployment of excess liquidity to payoff time deposits and borrowings at maturity.

For the Six Months Ended December 31, 2014 and 2013. Net interest income increased $431,000, or three percent, to $16.0 million for the first six months of fiscal 2015 from $15.6 million for the comparable period in fiscal 2014, due to a higher net interest margin, partly offset by a lower average earning asset balance. The net interest margin was 2.99 percent in the first six months of fiscal 2015, up 21 basis points from 2.78 percent in the same period of fiscal 2014 due to an increase in the average yield on interest-earning assets and a decrease in the average cost of interest-bearing liabilities. The weighted-average yield on interest-earning assets increased by eight basis points to 3.57 percent, while the weighted-average cost of interest-bearing liabilities decreased by 16 basis points to 0.65 percent for the first six months of fiscal 2015 as compared to the same period last year. The average balance of earning assets decreased $49.5 million, or four percent, to $1.07 billion in the first six months of fiscal 2015 from $1.12 billion in the comparable period of fiscal 2014, consistent with the Corporation’s strategy of managing liquidity, interest rate and credit risk.

Interest Income:

For the Quarters Ended December 31, 2014 and 2013. Total interest income increased by $143,000, or two percent, to $9.7 million for the second quarter of fiscal 2015 from $9.5 million in the same quarter of fiscal 2014. This increase was primarily the result of the investment of excess liquidity into higher yielding interest-earning assets, primarily to fund increases in loans held for sale and loans held for investment.

Loans receivable interest income increased $291,000, or three percent, to $9.4 million in the second quarter of fiscal 2015 from $9.1 million for the same quarter of fiscal 2014. This increase was attributable to a higher average loan balance, partly offset by a lower average loan yield. The average balance of loans receivable, including loans held for sale, increased by $72.6 million, or eight percent, to $934.2 million for the second quarter of fiscal 2015 as compared to $861.6 million in the same quarter of fiscal 2014. The average loan yield during the second quarter of fiscal 2015 decreased 21 basis points to 4.01 percent from 4.22 percent during the same quarter last year. The decrease in the average loan yield was primarily attributable to the repricing of adjustable rate loans to lower interest rates, payoffs of loans which carried a higher average yield than the average yield of loans receivable and a decrease in the average yield of loans held for sale. The average balance of loans held for sale increased $31.4 million, or 28 percent, to $143.5 million during the second quarter of fiscal 2015 from $112.1 million in the same quarter of fiscal 2014. The average yield on the loans held for sale decreased by 34 basis points to 3.93 percent in the second quarter of fiscal 2015 from 4.27 percent in the same quarter of fiscal 2014.

Interest income from investment securities decreased $14,000, or 16 percent, to $72,000 for the second quarter of fiscal 2015 from $86,000 in the same quarter of fiscal 2014. This decrease was attributable to a lower average balance of investment securities and, to a lesser extent, a lower average yield. The average balance of investment securities decreased $1.9 million, or 10 percent, to $16.3 million during the second quarter of fiscal 2015 from $18.2 million during the same quarter of fiscal 2014. The decrease in the average balance was primarily due to scheduled and accelerated principal payments on mortgage-backed securities. The average yield on investment securities decreased 13 basis points to 1.76 percent during the quarter ended December 31, 2014 from 1.89 percent during the quarter ended December 31, 2013. The decrease in the average yield of investment securities was primarily attributable to the repricing of adjustable rate mortgage-backed securities to lower interest rates.

The FHLB – San Francisco cash dividend received in the second quarter of fiscal 2015 was $132,000, compared to $204,000 in the same quarter of fiscal 2014. In the second quarter of fiscal 2015, none of the Bank's FHLB – San Francisco capital stock was redeemed, as compared to the $2.4 million capital stock redemption in the same period of fiscal 2014.

Interest income from interest-earning deposits, primarily cash deposited at the Federal Reserve Bank of San Francisco, was $76,000 in the second quarter of fiscal 2015, down 45 percent from $138,000 in the same quarter of fiscal 2014. The decrease was due to a lower average balance for the second quarter of fiscal 2015 as compared to the same period last year as the average yield was unchanged at 25 basis points during both periods. The average balance of the interest-earning deposits in the second quarter of fiscal 2015 was $119.5 million, a decrease of $105.4 million or 47 percent, from $224.9 million in the same quarter of fiscal 2014. The decrease in the average balance of the interest-earning deposits was due primarily to the investment of excess liquidity to fund loans held for investment and loans held for sale and to payoff time deposits and borrowings at maturity.

For the Six Months Ended December 31, 2014 and 2013. Total interest income decreased by $464,000, or two percent, to $19.2 million for the first six months of fiscal 2015 from $19.6 million in the same period of fiscal 2014. This decrease was primarily the result of the lower average loan yield and a decrease in the average balance of FHLB stock, partially offset by the increase in the average balance of loans receivable, including loans held for sale.

Loans receivable interest income decreased $220,000, or one percent, to $18.6 million in the first six months of fiscal 2015 from $18.8 million for the same period of fiscal 2014. This decrease was attributable to a lower average loan yield, partly offset by a higher average loan balance. The average loan yield during the first six months of fiscal 2015 decreased 16 basis points to 4.05 percent from 4.21 percent during the same period last year. The decrease in the average loan yield was primarily attributable to the repricing of adjustable rate loans to lower interest rates, payoffs of loans which carried a higher average yield than the average yield of loans receivable and a decrease in the average yield of loans held for sale. The average balance of loans receivable, including loans held for sale, increased $23.7 million, or three percent, to $917.0 million for the first six months of fiscal 2015 as compared to $893.3 million in the same period of fiscal 2014. The average balance of loans held for sale decreased by $9.8 million, or seven percent, to $134.8 million during the first six months of fiscal 2015 from $144.6 million in the the same period of fiscal 2014. The average yield on the loans held for sale decreased by 18 basis points to 3.96 percent in the first six months of fiscal 2015 from 4.14 percent in the same period of fiscal 2014, primarily due to the decrease in mortgage interest rates.

Interest income from investment securities decreased $30,000, or 17 percent, to $148,000 for the first six months of fiscal 2015 from $178,000 in the same period of fiscal 2014. This decrease was attributable to a lower average balance of investment securities and, to a lesser extent, a lower average yield. The average balance of investment securities decreased $1.9 million, or 10 percent, to $16.7 million during the first six months of fiscal 2015 from $18.6 million during the same period of fiscal 2014. The decrease in the average balance was primarily due to scheduled and accelerated principal payments on mortgage-backed securities. The average yield on investment securities decreased 14 basis points to 1.77 percent during the six months ended December 31, 2014 from 1.91 percent during the same period ended December 31, 2013. The decrease in the average yield of investment securities was primarily attributable to the repricing of adjustable rate mortgage-backed securities to lower interest rates. During the first six months of fiscal 2015, the Corporation did not purchase any investment securities, other than the purchase of $250,000 in the common stock of a community development financial institution, while $1.3 million of principal payments were received on mortgage-backed securities.

The FHLB – San Francisco cash dividend received in the first six months of fiscal 2015 was $276,000, compared to $412,000 in the same period of fiscal 2014. In the first six months of fiscal 2015, none of the Bank's FHLB – San Francisco capital stock was redeemed, as compared to the $4.4 million capital stock redemption in the same period of fiscal 2014.

Interest income from interest-earning deposits, primarily cash deposited at the Federal Reserve Bank of San Francisco, was $170,000 in the first six months of fiscal 2015, down 31 percent from $248,000 in the same period of fiscal 2014. The decrease was due to a lower average balance for the first six months of fiscal 2015 as compared to the same period last year as the average yield was unchanged at 25 basis points during both six month periods. The average balance of the interest-earning deposits in the first six months of fiscal 2015 was $133.6 million, a decrease of $65.1 million or 33 percent, from $198.7 million in the same period of fiscal 2014. The decrease in the average balance of the interest-earning deposits was due primarily to the deployment of excess liquidity to fund loans held for investment and to payoff time deposits and borrowings at maturity.

Interest Expense:

For the Quarters Ended December 31, 2014 and 2013. Total interest expense for the second quarter of fiscal 2015 was $1.5 million as compared to $1.9 million for the same period last year, a decrease of $312,000, or 17 percent. This decrease was primarily attributable to a lower average balance of interest-bearing liabilities and, to a lesser extent, a lower average cost of interest-bearing liabilities.

Interest expense on deposits for the second quarter of fiscal 2015 was $1.2 million as compared to $1.4 million for the same period last year, a decrease of $209,000, or 15 percent. The decrease in interest expense on deposits was primarily attributable to a lower average cost and, to a lesser extent, a lower average balance. The average cost of deposits decreased to 0.53 percent during the second quarter of fiscal 2015 from 0.61 percent during the same quarter last year, a decrease of eight basis points. The decrease in the average cost of deposits was attributable primarily to higher cost time deposits repricing to lower current market interest rates and a lower percentage of time deposits to the total deposit balance. The average balance of deposits decreased $17.1 million, or two percent, to $908.1 million during the quarter ended December 31, 2014 from $925.2 million during the same period last year. The decrease in the average balance was primarily attributable to a decrease in time deposits, partly offset by an increase in transaction accounts. Strategically, the Corporation has been promoting transaction accounts and competing less aggressively for time deposits. The Corporation believes the increase in transaction accounts was also attributable to the impact of depositors seeking an alternative to lower yielding time deposits in light of the current low interest rate environment. The average balance of transaction accounts to total deposits in the second quarter of fiscal 2015 was 60 percent, compared to 58 percent in the same period of fiscal 2014.

Interest expense on borrowings, consisting of FHLB – San Francisco advances, for the second quarter of fiscal 2015 decreased $103,000, or 23 percent, to $336,000 from $439,000 for the same period last year. The decrease in interest expense on borrowings was the result of a lower average balance, partly offset by a higher average cost. The average balance of borrowings decreased $14.4 million, or 26 percent, to $41.4 million during the quarter ended December 31, 2014 from $55.8 million during the same period last year. The decrease in the average balance was due to scheduled maturities. The average cost of borrowings increased to 3.22 percent for the quarter ended December 31, 2014 from 3.12 percent in the same quarter last year, an increase of 10 basis points. The increase in average cost was due to maturities of lower costing advances.

For the Six Months Ended December 31, 2014 and 2013. Total interest expense for the first six months of fiscal 2015 was $3.1 million as compared to $4.0 million for the same period last year, a decrease of $895,000, or 22 percent. This decrease was primarily attributable to a lower average balance of interest-bearing liabilities, particularly borrowings, and, to a lesser extent, a lower average cost of interest-bearing liabilities.

Interest expense on deposits for the first six months of fiscal 2015 was $2.4 million as compared to $2.9 million for the same period last year, a decrease of $484,000, or 17 percent. The decrease in interest expense on deposits was primarily attributable to a lower average cost and, to a lesser extent, a lower average balance. The average cost of deposits decreased to 0.54 percent during the first six months of fiscal 2015 from 0.63 percent during the same period last year, a decrease of nine basis points. The decrease in the average cost of deposits was primarily attributable to new time deposits with a lower average cost replacing maturing time deposits with a higher average cost, consistent with current relatively low market interest rates. The average balance of deposits decreased $16.4 million, or two percent, to $905.6 million during the six months ended December 31, 2014 from $922.0 million during the same period last year. The decrease in the average balance was primarily attributable to a decrease in time deposits, partly offset by an increase in transaction accounts. The average balance of transaction accounts to total deposits in the first six months of fiscal 2015 was 60 percent, compared to 57 percent in the same period of fiscal 2014.

Interest expense on borrowings, consisting of FHLB – San Francisco advances, for the first six months of fiscal 2015 decreased by $411,000, or 38 percent, to $671,000 from $1.1 million for the same period last year. The decrease in interest expense on borrowings was the result of a lower average balance and, to a much lesser extent, lower average cost. The average balance of borrowings decreased by $24.7 million, or 37 percent, to $41.4 million during the six months ended December 31, 2014 from $66.1 million during the same period last year. The decrease in the average balance was due to scheduled maturities. The average cost of borrowings decreased to 3.21 percent for the six months ended December 31, 2014 from 3.25 percent in the same period last year, a decrease of four basis points. The decrease in average cost was due to maturities of higher costing advances.

The following tables present the average balance sheets for the quarters and six months ended December 31, 2014 and 2013, respectively:

Average Balance Sheets

| (Dollars In Thousands) | Quarter Ended December 31, 2014 Average Balance | Interest | Yield/ Cost | | Quarter Ended December 31, 2013 Average Balance | Interest | Yield/ Cost | |
|---|---|---|---|---|---|---|---|---|
| Interest-earning assets: | | | | | | | | |
| Loans receivable, net [(1)] | $934,214 | $9,376 | 4.01 | % | $861,635 | $9,085 | 4.22 | % |
| Investment securities | 16,348 | 72 | 1.76 | % | 18,162 | 86 | 1.89 | % |
| FHLB – San Francisco stock | 7,056 | 132 | 7.48 | % | 12,080 | 204 | 6.76 | % |
| Interest-earning deposits | 119,493 | 76 | 0.25 | % | 224,949 | 138 | 0.25 | % |
| Total interest-earning assets | 1,077,111 | 9,656 | 3.59 | % | 1,116,826 | 9,513 | 3.41 | % |
| Non interest-earning assets | 35,491 | | | | 36,806 | | | |
| Total assets | $1,112,602 | | | | $1,153,632 | | | |
| Interest-bearing liabilities: | | | | | | | | |
| Checking and money market accounts [(2)] | $302,866 | 110 | 0.14 | % | $294,199 | 96 | 0.13 | % |
| Savings accounts | 243,872 | 160 | 0.26 | % | 238,275 | 152 | 0.25 | % |
| Time deposits | 361,407 | 940 | 1.03 | % | 392,741 | 1,171 | 1.18 | % |
| Total deposits | 908,145 | 1,210 | 0.53 | % | 925,215 | 1,419 | 0.61 | % |
| Borrowings | 41,406 | 336 | 3.22 | % | 55,760 | 439 | 3.12 | % |
| Total interest-bearing liabilities | 949,551 | 1,546 | 0.65 | % | 980,975 | 1,858 | 0.75 | % |
| Non interest-bearing liabilities | 17,998 | | | | 17,333 | | | |
| Total liabilities | 967,549 | | | | 998,308 | | | |
| Stockholders' equity | 145,053 | | | | 155,324 | | | |
| Total liabilities and stockholders' equity | $1,112,602 | | | | $1,153,632 | | | |
| Net interest income | | $8,110 | | | | $7,655 | | |
| Interest rate spread [(3)] | | | 2.94 | % | | | 2.66 | % |
| Net interest margin [(4)] | | | 3.01 | % | | | 2.74 | % |
| Ratio of average interest-earning assets to average interest-bearing liabilities | | | 113.43 | % | | | 113.85 | % |
| Return on average assets | | | 0.84 | % | | | 0.56 | % |
| Return on average equity | | | 6.42 | % | | | 4.13 | % |

(1) Includes loans held for sale and non-performing loans, as well as net deferred loan cost amortization of $143 and $99 for the quarters ended December 31, 2014 and 2013, respectively.

(2) Includes the average balance of non interest-bearing checking accounts of $58.1 million and $59.0 million during the quarters ended December 31, 2014 and 2013, respectively.

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

(4) Represents net interest income before provision for loan losses as a percentage of average interest-earning assets.

| | Six Months Ended December 31, 2014 | | | | Six Months Ended December 31, 2013 | | | |
|---|---|---|---|---|---|---|---|---|
| | Average Balance | Interest | Yield/ Cost | | Average Balance | Interest | Yield/ Cost | |
| Interest-earning assets: | | | | | | | | |
| Loans receivable, net [1] | $917,008 | $18,571 | 4.05 | % | $893,335 | $18,791 | 4.21 | % |
| Investment securities | 16,679 | 148 | 1.77 | % | 18,625 | 178 | 1.91 | % |
| FHLB – San Francisco stock | 7,056 | 276 | 7.82 | % | 13,185 | 412 | 6.25 | % |
| Interest-earning deposits | 133,612 | 170 | 0.25 | % | 198,724 | 248 | 0.25 | % |
| Total interest-earning assets | 1,074,355 | 19,165 | 3.57 | % | 1,123,869 | 19,629 | 3.49 | % |
| Non interest-earning assets | 35,185 | | | | 37,117 | | | |
| Total assets | $1,109,540 | | | | $1,160,986 | | | |
| Interest-bearing liabilities: | | | | | | | | |
| Checking and money market accounts [2] | $299,286 | 214 | 0.14 | % | $291,852 | 198 | 0.13 | % |
| Savings accounts | 242,317 | 317 | 0.26 | % | 234,552 | 299 | 0.25 | % |
| Time deposits | 364,045 | 1,916 | 1.04 | % | 395,635 | 2,434 | 1.22 | % |
| Total deposits | 905,648 | 2,447 | 0.54 | % | 922,039 | 2,931 | 0.63 | % |
| Borrowings | 41,413 | 671 | 3.21 | % | 66,094 | 1,082 | 3.25 | % |
| Total interest-bearing liabilities | 947,061 | 3,118 | 0.65 | % | 988,133 | 4,013 | 0.81 | % |
| Non interest-bearing liabilities | 17,372 | | | | 16,062 | | | |
| Total liabilities | 964,433 | | | | 1,004,195 | | | |
| Stockholders’ equity | 145,107 | | | | 156,791 | | | |
| Total liabilities and stockholders’ equity | $1,109,540 | | | | $1,160,986 | | | |
| Net interest income | | $16,047 | | | | $15,616 | | |
| Interest rate spread [3] | | | 2.92 | % | | | 2.68 | % |
| Net interest margin [4] | | | 2.99 | % | | | 2.78 | % |
| Ratio of average interest-earning assets to average interest-bearing liabilities | | | 113.44 | % | | | 113.74 | % |
| Return on average assets | | | 0.85 | % | | | 0.54 | % |
| Return on average equity | | | 6.50 | % | | | 3.97 | % |

(1) Includes loans held for sale and non-performing loans, as well as net deferred loan cost amortization of $184 and $299 for the six months ended December 31, 2014 and 2013, respectively.

(2) Includes the average balance of non interest-bearing checking accounts of $58.2 million and $58.1 million during the six months ended December 31, 2014 and 2013, respectively.

(3)

Represents the difference between the weighted-average yield on all interest-earning assets and the weighted-average rate on all interest-bearing liabilities.

(4) Represents net interest income before provision for loan losses as a percentage of average interest-earning assets.

The following tables provide the rate/volume variances for the quarters and six months ended December 31, 2014 and 2013, respectively:

Rate/Volume Variance

| | Quarter Ended December 31, 2014 Compared To Quarter Ended December 31, 2013 Increase (Decrease) Due to | | | |
|---|---|---|---|---|
| (In Thousands) | Rate | Volume | Rate/ Volume | Net |
| Interest-earning assets: | | | | |
| Loans receivable [1] | $(437) | $766 | $(38) | $291 |
| Investment securities | (6) | (9) | 1 | (14) |
| FHLB – San Francisco stock | 22 | (85) | (9) | (72) |
| Interest-bearing deposits | — | (62) | — | (62) |
| Total net change in income on interest-earning assets | (421) | 610 | (46) | 143 |
| | | | | |
| Interest-bearing liabilities: | | | | |
| Checking and money market accounts | 11 | 3 | — | 14 |
| Savings accounts | 4 | 4 | — | 8 |
| Time deposits | (150) | (93) | 12 | (231) |
| Borrowings | 14 | (113) | (4) | (103) |
| Total net change in expense on interest-bearing liabilities | (121) | (199) | 8 | (312) |
| Net (decrease) increase in net interest income | $(300) | $809 | $(54) | $455 |

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

| | Six Months Ended December 31, 2014 Compared To Six Months Ended December 31, 2013 Increase (Decrease) Due to | | | |
|---|---|---|---|---|
| | Rate | Volume | Rate/ Volume | Net |
| Interest-earning assets: | | | | |
| Loans receivable [1] | $(699) | $498 | $(19) | $(220) |
| Investment securities | (12) | (19) | 1 | (30) |
| FHLB – San Francisco stock | 104 | (192) | (48) | (136) |
| Interest-bearing deposits | — | (78) | — | (78) |
| Total net change in income on interest-earning assets | (607) | 209 | (66) | (464) |
| | | | | |
| Interest-bearing liabilities: | | | | |
| Checking and money market accounts | 11 | 5 | — | 16 |
| Savings accounts | 8 | 10 | — | 18 |
| Time deposits | (353) | (194) | 29 | (518) |
| Borrowings | (12) | (404) | 5 | (411) |
| Total net change in expense on interest-bearing liabilities | (346) | (583) | 34 | (895) |
| Net (decrease) increase in net interest income | $(261) | $792 | $(100) | $431 |

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

Recovery from the Allowance for Loan Losses:

For the Quarters Ended December 31, 2014 and 2013. During the second quarter of fiscal 2015, the Corporation recorded a recovery from the allowance for loan losses of $(354,000), down 61 percent from the recovery from the allowance for loan losses of $(898,000) in the same period of fiscal 2014. The recovery in the second quarter of fiscal 2015 was primarily attributable to further improvement in credit quality. Non-performing loans declined $4.7 million, or 30 percent, to $11.2 million at December 31, 2014 as compared to $15.9 million at June 30, 2014 and were $17.1 million at December 31, 2013. Net recoveries in the second quarter of fiscal 2015 were $(159,000) or (0.07) percent (annualized) of average loans receivable, compared to net charge-offs of $166,000 or 0.08 percent (annualized) of average loans receivable in the same quarter of fiscal 2014. Total classified loans, consisting of special mention and substandard loans, were $30.5 million at December 31, 2014 as compared to $35.4 million at June 30, 2014 and to $33.8 million at December 31, 2013.

For the Six Months Ended December 31, 2014 and 2013. During the first six months of fiscal 2015, the Corporation recorded a recovery from the allowance for loan losses of $(1.2 million), down 36 percent from the recovery from the allowance for loan losses of $(1.8 million) in the same period of fiscal 2014. The recovery in the first six months of fiscal 2015 was primarily attributable to further improvement in credit quality. Net recoveries in the first six months of fiscal 2015 were $(121,000) or (0.03) percent (annualized) of average loans receivable, compared to net charge-offs of $2.1 million or 0.46 percent (annualized) of average loans receivable in the same period of fiscal 2014.

The allowance for loan losses was determined through quantitative and qualitative adjustments including the Bank's charge-off experience and reflects the impact on loans held for investment from the current general economic conditions of the U.S. and California economies such as the improving unemployment rate and higher home prices in California. See related discussion of “Asset Quality” below.

At December 31, 2014, the allowance for loan losses was $8.7 million, comprised of collectively evaluated allowances of $8.6 million and individually evaluated allowances of $77,000; in comparison to the allowance for loan losses of $9.7 million at June 30, 2014, comprised of collectively evaluated allowances of $9.7 million and individually evaluated allowances of $41,000. The allowance for loan losses as a percentage of gross loans held for investment was 1.08 percent at December 31, 2014 compared to 1.25 percent at June 30, 2014. Management considers, based on currently available information, the allowance for loan losses sufficient to absorb potential losses inherent in loans held for investment. For further analysis on the allowance for loan losses, see Note 6 of the Notes to Unaudited Interim Condensed Consolidated Financial Statements.

Non-Interest Income:

For the Quarters Ended December 31, 2014 and 2013. Total non-interest income increased $2.4 million, or 34 percent, to $9.5 million for the quarter ended December 31, 2014 from $7.1 million for the same period last year. The increase was primarily attributable to an increase in the gain on sale of loans.

The net gain on sale of loans increased $2.3 million, or 40 percent, to $8.0 million for the second quarter of fiscal 2015 from $5.7 million in the same quarter of fiscal 2014 reflecting the impact of a higher loan sale volume and, to a lesser extent, a higher average loan sale margin. Total loan sale volume, which includes the net change in commitments to extend credit on loans to be held for sale, was $567.6 million in the quarter ended December 31, 2014, up $151.7 million, or 36 percent, from $415.9 million in the comparable quarter last year. The increase in loan sale volume was attributable to lower mortgage interest rates in the second quarter of fiscal 2015 as compared to the same period last year. The average loan sale margin for PBM during the second quarter of fiscal 2015 was 1.40 percent, up four basis points from 1.36 percent for the same period of fiscal 2014. The gain on sale of loans includes a net favorable fair-value adjustment on loans held for sale and derivative financial instruments (commitments to extend credit, commitments to sell loans, commitments to sell mortgage-backed securities, and option contracts) pursuant to ASC 815 and ASC 825 that amounted to a net gain of $1.6 million in the second quarter of fiscal 2015 as compared to a net unfavorable fair-value adjustment net loss of $(2.2 million) in the same period last year. The fair-value adjustment on loans held for sale and derivative financial instruments was consistent with the Bank's mortgage banking activity and the volatility of the mortgage interest rates. As of December 31, 2014, the fair value of derivative financial instruments pursuant to ASC 815 and ASC 825 was $9.1 million, compared to $7.8 million at June 30, 2014 and $4.1 million at December 31, 2013. The gain on sale of loans for the second quarter of fiscal 2015 also includes a $1,000 recourse reserve recovery on loans sold that are subject to repurchase, compared to a $70,000 recourse reserve recovery in the comparable quarter last year. As of December 31, 2014, the total recourse reserve for loans sold that are subject to repurchase was $711,000, compared to $904,000 at June 30, 2014 and $1.2 million at December 31, 2013. See “Asset Quality” for additional information related to the recourse reserve liability.

For the Six Months Ended December 31, 2014 and 2013. Total non-interest income increased $3.3 million, or 22 percent, to $18.6 million for the six months ended December 31, 2014 from $15.3 million for the same period last year. The increase was primarily attributable to an increase in the gain on sale of loans.

The net gain on sale of loans increased $3.2 million, or 26 percent, to $15.7 million for the first six months of fiscal 2015 from $12.5 million in the same period of fiscal 2014 reflecting the impact of a higher average loan sale margin and, to a lesser extent, a higher loan sale volume. The average loan sale margin for PBM during the first six months of fiscal 2015 was 1.46 percent, up 22 basis points from 1.24 percent for the same period of fiscal 2014. Total loan sale volume was $1.07 billion in the first six months ended December 31, 2014, up $86.2 million, or nine percent, from $979.3 million in the comparable quarter last year. The increase in loan sale volume was attributable to lower mortgage interest rates in the first six months of fiscal 2015 as compared to the same period last year. The gain on sale of loans includes a favorable fair-value adjustment on derivative financial instruments pursuant to ASC 815 and ASC 825, a net gain of $957,000 in the first six months of fiscal 2015 as compared to an unfavorable fair-value adjustment, a net loss of $(1.2 million), in the same period last year. The gain on sale of loans for the first six months of fiscal 2015 also includes a $200,000 recourse reserve recovery on loans sold that are subject to repurchase, compared to a $256,000 recourse reserve recovery in the comparable period last year.

Non-Interest Expense:

For the Quarters Ended December 31, 2014 and 2013. Total non-interest expense in the quarter ended December 31, 2014 was $13.9 million, an increase of $1.0 million or eight percent, as compared to $12.9 million in the quarter ended December 31, 2013. The increase in non-interest expense was primarily due to an increase in salaries and employee benefits related to mortgage banking operations.

Total salaries and employee benefits increased $1.1 million, or 12 percent, to $10.0 million in the second quarter of fiscal 2015 from $8.9 million in the same period of fiscal 2014. The increase was primarily attributable to higher incentive compensation, resulting primarily from employee bonuses which were not accrued and awarded last year and from increased mortgage banking operations. PBM loan originations increased $117.8 million, or 26 percent, to $573.5 million in the second quarter of fiscal 2015 from $455.7 million in the comparable period in fiscal 2014.

For the Six Months Ended December 31, 2014 and 2013. Total non-interest expense in the six months ended December 31, 2014 was $27.7 million, an increase of $250,000 or one percent, as compared to $27.4 million in the same period ended December 31, 2013. The increase in non-interest expense was primarily due to increases in salaries and employee benefits and other operating expenses related to mortgage banking operations.

Total salaries and employee benefits increased $167,000, or one percent, to $19.5 million in the first six months of fiscal 2015 from $19.4 million in the same period of fiscal 2014. The increase was primarily attributable to higher incentive compensation, resulting primarily from employee bonuses which were not accrued and awarded last year. PBM loan originations decreased $40.2 million, or four percent, to $1.10 billion in the first six months of fiscal 2015 from $1.14 billion in the comparable period in fiscal 2014.

Provision for Income Taxes:

The income tax provision reflects accruals for taxes at the applicable rates for federal income tax and California franchise tax based upon reported pre-tax income, adjusted for the effect of all permanent differences between income for tax and financial reporting purposes, such as non-deductible stock-based compensation, bank-owned life insurance policies and certain California tax-exempt loans. Therefore, there are fluctuations in the effective income tax rate from period to period based on the relationship of net permanent differences to income before tax.

For the Quarters Ended December 31, 2014 and 2013. The income tax provision was $1.7 million for the quarter ended December 31, 2014 as compared to $1.2 million for the same quarter last year. The effective income tax rate for the quarter ended December 31, 2014 was 42.5 percent as compared to 43.3 percent in the same quarter last year. The Corporation believes that the effective income tax rate applied in the second quarter of fiscal 2015 reflects its current income tax obligations.

For the Six Months Ended December 31, 2014 and 2013. The income tax provision was $3.5 million for the six months ended December 31, 2014 as compared to $2.3 million for the same period last year. The effective income tax rate for the six months ended December 31, 2014 was 42.3 percent as compared to 42.1 percent in the same period last year. The Corporation believes that the effective income tax rate applied in the first six months of fiscal 2015 reflects its current income tax obligations.

Asset Quality

Non-performing loans, net of the allowance for loan losses, consisting of loans with collateral primarily located in Southern California, decreased $4.7 million, or 30 percent, to $11.2 million at December 31, 2014 from $15.9 million at June 30, 2014. Non-performing loans as a percentage of loans held for investment improved to 1.40 percent at December 31, 2014 from 2.06 percent at June 30, 2014. The non-performing loans at December 31, 2014 were primarily comprised of 30 single-family loans ($7.4 million); four multi-family loans ($2.2 million); four commercial real estate loans ($1.5 million); and two commercial business loans ($98,000). This compares to the non-performing loans at June 30, 2014 which were primarily comprised of 35 single-family loans ($10.4 million); seven multi-family loans ($3.1 million); six commercial real estate loans ($2.4 million); and two commercial business loans ($92,000). No interest accruals were made for loans that were past due 90 days or more or if the loans were deemed non-performing.

When a loan is considered non-performing, as defined by ASC 310 “Receivables,” the Corporation measures impairment based on the present value of expected future cash flows discounted at the loan’s effective interest rate. However, if the loan is “collateral-dependent” or foreclosure is probable, impairment is measured based on the fair value of the collateral. At least quarterly, management reviews non-performing loans. When the measured value of an individually identified non-performing loan is less than the recorded investment in the loan, the Corporation charges-off or records an individually evaluated allowance equal to the excess of the recorded investment in the loan over its measured value. For non-performing commercial real estate loans, an individually evaluated allowance is calculated based on the loan's fair value and if the fair value is higher than the loan balance, no allowance is required. A collectively evaluated allowance is provided on loans which do not have a charge-off or individually evaluated allowance and is determined based on a quantitative and a qualitative analysis using a loss migration methodology. The loans are classified by type and loan grade, and the historical loss migration is tracked for the various stratifications. Loss experience is quantified for the most recent four quarters, and that loss experience is applied to the stratified portfolio at each quarter end. The qualitative analysis data includes current unemployment rates, retail sales, gross domestic product, employment growth, real estate value trends, home sales, and commercial real estate vacancy rates, among other current economic data.

As of December 31, 2014, total restructured loans, net of allowance for loan losses was $6.0 million, unchanged from June 30, 2014. At December 31, 2014 and June 30, 2014, $5.3 million and $5.6 million, respectively, of these restructured loans were classified as non-performing. As of December 31, 2014, $5.3 million, or 89 percent, of the restructured loans have a current payment status, consistent with their modified payment terms; this compares to $3.7 million, or 62 percent, of restructured loans that had a current payment status, consistent with their modified payment terms as of June 30, 2014.

Real estate owned was $3.5 million at December 31, 2014, an increase of $1.0 million or 40 percent from $2.5 million at June 30, 2014. Real estate owned at December 31, 2014 was comprised of four single-family properties ($1.3 million), one commercial real estate property ($2.0 million) and one multi-family property ($193,000). The Corporation has not suspended foreclosure activity at anytime through the most recent credit cycle because, to date, the Corporation has not been in a situation where its foreclosure documentation, process or legal standing has been challenged by a court. The Corporation maintains the original promissory note and deed of trust for loans held for investment. As a result, the Corporation does not rely on lost-note affidavits to fulfill foreclosure filing requirements.

Non-performing assets, which includes non-performing loans and real estate owned, decreased $2.9 million, or 16 percent, to $14.6 million or 1.32 percent of total assets at December 31, 2014 from $18.4 million or 1.66 percent of total assets at June 30, 2014. Restructured loans which are performing in accordance with their modified terms and are not otherwise classified non-accrual are not included in non-performing assets. For further analysis on non-performing loans and restructured loans, see Note 6 of the Notes to Unaudited Interim Condensed Consolidated

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Occasionally, the Corporation is required to repurchase loans sold to Freddie Mac, Fannie Mae or other institutional investors if it is determined that such loans do not meet the credit requirements of the investor, or if one of the parties involved in the loan misrepresented pertinent facts, committed fraud, or if such loans were 90-days past due within 120 days of the loan funding date. During the first six months of fiscal 2015, the Corporation repurchased three loans, totaling $637,000, from an investor pursuant to the recourse/repurchase covenants contained in the loan sale agreements, while additional repurchase requests were settled that did not result in the repurchase of the loan itself. This compares to the first six months of fiscal 2014 when the Corporation repurchased one loan, totaling $122,000, from an investor pursuant to the recourse/repurchase covenants contained in the loan sale agreements, while additional repurchase requests were settled that did not result in the repurchase of the loan itself. The primary reasons for honoring the repurchase requests are borrower fraud, undisclosed liabilities on borrower applications, and documentation, verification and appraisal disputes. For the first six months of fiscal 2015, the Corporation had a recourse reserve recovery of $(200,000) and received net reimbursements of $7,000. This compares to the first six months of fiscal 2014 when the Corporation had a recourse reserve recovery of $(256,000) and settled claims for $653,000. As of December 31, 2014, the total recourse reserve for loans sold that are subject to repurchase was $711,000, compared to $904,000 at June 30, 2014 and $1.2 million at December 31, 2013.

Beginning in 2008, in connection with the down turn in the real estate market, the Corporation implemented tighter underwriting standards to reduce potential loan repurchase requests, including requiring higher credit scores, generally lower debt-to-income ratios, and verification of income and assets, among other criteria. Despite management's diligent estimate of the recourse reserve, the Corporation is still subject to risks and uncertainties associated with potentially higher loan repurchase claims from investors, primarily those related to loans originated and sold in the calendar years 2004 through 2007.

The following table shows the summary of the recourse liability for the quarters and six months ended December 31, 2014 and 2013:

| | For the Quarters Ended December 31, | | For the Six Months Ended December 31, | |
|---|---|---|---|---|
| Recourse Liability<br>(In Thousands) | 2014 | 2013 | 2014 | 2013 |
| Balance, beginning of the period | $712 | $1,258 | $904 | $2,111 |
| Recovery from recourse liability | (1) | (70) | (200) | (256) |
| Net reimbursements (settlements) in lieu of loan repurchases | — | 14 | 7 | (653) |
| Balance, end of the period | $711 | $1,202 | $711 | $1,202 |

A decline in real estate values subsequent to the time of origination of the Corporation's real estate secured loans could result in higher loan delinquency levels, foreclosures, provisions for loan losses and net charge-offs. Real estate values and real estate markets are beyond the Corporation's control and are generally affected by changes in national, regional or local economic conditions and other factors. These factors include fluctuations in interest rates and the availability of loans to potential purchasers, changes in tax laws and other governmental statutes, regulations and policies and acts of nature, such as earthquakes and national disasters particular to California where substantially all of the Corporation's real estate collateral is located. If real estate values decline from the levels described in the following tables (which were calculated at the time of loan origination), the value of the real estate collateral securing the Corporation's loans as set forth in the table could be significantly overstated. The Corporation's ability to recover on defaulted loans by foreclosing and selling the real estate collateral would then be diminished and it would be more likely to suffer losses on defaulted loans. The Corporation generally does not update the loan-to-value ratio ("LTV") on its loans held for investment by obtaining new appraisals or broker price opinions (nor does the Corporation intend to do so in the future as a result of the costs and inefficiencies associated with completing the task) unless a specific loan has demonstrated deterioration or the Corporation receives a loan modification request from a borrower (in which case individually evaluated allowances are established, if required). Therefore, it is reasonable to assume that the LTV ratios disclosed in the following tables may be understated in comparison to their current LTV ratios as a result of their year of origination, the subsequent general decline in real estate values that occurred and the specific location of the individual properties. The Corporation has not quantified the current LTVs of its loans held for investment nor the impact the decline in real estate values has had on the original LTVs of its loans held for investment.

The following table describes certain credit risk characteristics of the Corporation's single-family, first trust deed, mortgage loans held for investment as of December 31, 2014:

| (Dollars In Thousands) | Outstanding Balance [1] | Weighted-Average FICO [2] | Weighted-Average LTV [3] | Weighted-Average Seasoning [4] |
|---|---|---|---|---|
| Interest only | $159,589 | 733 | 72% | 8.32 years |
| Stated income [5] | $165,509 | 731 | 67% | 9.03 years |
| FICO less than or equal to 660 | $12,526 | 643 | 63% | 8.79 years |
| Over 30-year amortization | $14,557 | 733 | 64% | 9.26 years |

(1) The outstanding balance presented on this table may overlap more than one category. Of the outstanding balance, $3.1 million of "interest only," $5.7 million of "stated income," $766 of "FICO less than or equal to 660," and $233 of "over 30-year amortization" balances were non-performing.

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

(3) LTV is the ratio calculated by dividing the current loan balance by the lower of the original appraised value or purchase price of the real estate collateral.

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

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

The following table summarizes the amortization schedule of the Corporation's interest only single-family, first trust deed, mortgage loans held for investment, including the percentage of those which are identified as non-performing or 30 – 89 days delinquent as of December 31, 2014:

| (Dollars In Thousands) | Balance | Non-Performing [1] | 30 - 89 Days Delinquent [1] |
|---|---|---|---|
| Fully amortize in the next 12 months | $39,001 | 1% | —% |
| Fully amortize between 1 year and 5 years | 120,588 | 2% | —% |
| Fully amortize after 5 years | — | —% | —% |
| Total | $159,589 | 2% | —% |

(1) As a percentage of each category.

The following table summarizes the interest rate reset (repricing) schedule of the Corporation's stated income single-family, first trust deed, mortgage loans held for investment, including the percentage of those which are identified as non-performing or 30 – 89 days delinquent as of December 31, 2014:

| (Dollars In Thousands) | Balance [1] | Non-Performing [1] | 30 - 89 Days Delinquent [1] |
|---|---|---|---|
| Interest rate reset in the next 12 months | $157,427 | 3% | —% |
| Interest rate reset between 1 year and 5 years | 8,082 | 10% | —% |
| Interest rate reset after 5 years | — | —% | —% |
| Total | $165,509 | 3% | —% |

(1)

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

The reset of interest rates on adjustable rate mortgage loans (primarily interest only single-family loans) has not created a payment shock for a large percentage of the Corporation's borrowers primarily because the majority of the loans are repricing at a 2.75 percent margin over six-month LIBOR which has resulted in a lower interest rate than the borrowers pre-adjustment interest rate and a large percentage of the loans are still in their interest-only period. Management expects that the economic recovery from the recent recession will be slow to develop, which may translate to an extended period of lower interest rates and a reduced risk of mortgage payment shock for the foreseeable future, though the continuation of weak economic conditions may increase the risk of delinquencies and defaults. The higher delinquency levels experienced by the Bank in fiscal 2008 through 2011 was primarily due to high unemployment, the recent U.S. recession, weak economic conditions and the decline in real estate values, particularly in California. It should be noted, however, that delinquency levels experienced since fiscal 2011 have improved, primarily due to an improvement in real estate markets and general economic conditions, as compared to the levels experienced in fiscal 2008 through 2011.

The following table describes certain credit risk characteristics, geographic locations and the calendar year of loan origination of the Corporation's single-family, first trust deed, mortgage loans held for investment, at December 31, 2014:

| | Calendar Year of Origination | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| (Dollars In Thousands) | 2006 & Prior | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | Total |
| Loan balance (in thousands) | $250,530 | $48,214 | $21,539 | $900 | $126 | $1,292 | $5,720 | $6,758 | $33,724 | $368,803 |
| Weighted-average LTV (1) | 66% | 72% | 75% | 52% | 70% | 68% | 55% | 58% | 70% | 67% |
| Weighted-average age (in years) | 9.56 | 7.51 | 6.75 | 5.40 | 4.12 | 3.40 | 2.38 | 1.52 | 0.41 | 8.00 |
| Weighted-average FICO (2) | 730 | 731 | 743 | 750 | 700 | 716 | 747 | 747 | 749 | 733 |
| Number of loans | 792 | 104 | 43 | 3 | 1 | 5 | 27 | 34 | 59 | 1,068 |
| | | | | | | | | | | |
| Geographic breakdown (%) | | | | | | | | | | |
| Inland Empire | 29% | 30% | 25% | 100% | 100% | 50% | 19% | 28% | 30% | 29% |
| Southern California (3) | 61% | 39% | 43% | —% | —% | 50% | 37% | 32% | 43% | 54% |
| Other California (4) | 9% | 30% | 32% | —% | —% | —% | 44% | 40% | 27% | 16% |
| Other States | 1% | 1% | —% | —% | —% | —% | —% | —% | —% | 1% |
| Total | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% |

(1) LTV is the ratio calculated by dividing the current loan balance by the lower of the original appraised value or purchase price of the real estate collateral.
(2) At time of loan origination.
(3) Other than the Inland Empire.
(4) Other than the Inland Empire and Southern California.

The following table describes certain credit risk characteristics, geographic locations and the calendar year of loan origination of the Corporation's multi-family loans held for investment, at December 31, 2014:

| (Dollars In Thousands) | Calendar Year of Origination 2006 & Prior | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Loan balance (in thousands) | $64,033 | $15,662 | $4,947 | $— | $— | $19,040 | $30,274 | $89,650 | $98,696 | $322,302 |
| Weighted-average LTV (1) | 47% | 54% | 44% | —% | —% | 58% | 56% | 58% | 57% | 55% |
| Weighted-average DCR (2) | 1.43x | 1.26x | 1.39x | — | — | 1.51x | 1.73x | 1.70x | 1.57x | 1.57x |
| Weighted-average age (in years) | 9.60 | 7.46 | 6.71 | — | — | 3.28 | 2.37 | 1.40 | 0.47 | 3.32 |
| Weighted-average FICO (3) | 705 | 699 | 708 | — | — | 744 | 732 | 760 | 762 | 745 |
| Number of loans | 112 | 27 | 6 | — | — | 20 | 38 | 119 | 113 | 435 |
| | | | | | | | | | | |
| Geographic breakdown (%) | | | | | | | | | | |
| Inland Empire | 19% | 9% | 28% | —% | —% | 31% | 14% | 33% | 13% | 21% |
| Southern California (4) | 48% | 88% | 72% | —% | —% | 54% | 53% | 42% | 53% | 51% |
| Other California (5) | 28% | 3% | —% | —% | —% | 15% | 33% | 25% | 34% | 27% |
| Other States | 5% | —% | —% | —% | —% | —% | —% | —% | —% | 1% |
| Total | 100% | 100% | 100% | —% | —% | 100% | 100% | 100% | 100% | 100% |

(1) LTV is the ratio calculated by dividing the current loan balance by the lower of the original appraised value or purchase price of the real estate collateral.
(2) Debt Coverage Ratio ("DCR") at time of origination.
(3) At time of loan origination.
(4) Other than the Inland Empire.
(5) Other than the Inland Empire and Southern California.

The following table summarizes the interest rate reset or maturity schedule of the Corporation's multi-family loans held for investment, including the percentage of those which are identified as non-performing, 30 – 89 days delinquent or not fully amortizing as of December 31, 2014:

| (Dollars In Thousands) | Balance | Non-Performing (1) | 30 - 89 Days Delinquent | Percentage Not Fully Amortizing (1) |
|---|---|---|---|---|
| Interest rate reset or mature in the next 12 months | $86,854 | 3% | —% | 37% |
| Interest rate reset or mature between 1 year and 5 years | 229,917 | —% | —% | 7% |
| Interest rate reset or mature after 5 years | 5,531 | —% | —% | 25% |
| Total | $322,302 | 1% | —% | 15% |

(1) As a percentage of each category.

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The following table describes certain credit risk characteristics, geographic locations and the calendar year of loan origination of the Corporation's commercial real estate loans held for investment, at December 31, 2014:

| (Dollars In Thousands) | Calendar Year of Origination 2006 & Prior | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | Total (5)(6) |
|---|---|---|---|---|---|---|---|---|---|---|
| Loan balance (in thousands) | $23,278 | $11,065 | $1,127 | $— | $366 | $769 | $15,784 | $20,723 | $27,747 | $100,859 |
| Weighted-average LTV (1) | 46% | 53% | 45% | —% | 57% | 62% | 51% | 47% | 48% | 48% |
| Weighted-average DCR (2) | 2.11x | 1.39x | 1.32x | — | 1.26x | 1.47x | 1.88x | 1.82x | 1.75x | 1.82x |
| Weighted-average age (in years) | 9.60 | 7.57 | 6.84 | — | 4.60 | 3.02 | 2.27 | 1.41 | 0.44 | 3.93 |
| Weighted-average FICO (2) | 696 | 732 | 766 | — | 704 | 770 | 753 | 756 | 750 | 739 |
| Number of loans | 27 | 9 | 3 | — | 2 | 1 | 15 | 26 | 33 | 116 |
| | | | | | | | | | | |
| Geographic breakdown (%): | | | | | | | | | | |
| Inland Empire | 40% | 48% | 17% | —% | 51% | —% | 68% | 34% | 35% | 42% |
| Southern California (3) | 60% | 36% | 83% | —% | 49% | 100% | 32% | 39% | 48% | 46% |
| Other California (4) | —% | 16% | —% | —% | —% | —% | —% | 27% | 17% | 12% |
| Other States | —% | —% | —% | —% | —% | —% | —% | —% | —% | —% |
| Total | 100% | 100% | 100% | —% | 100% | 100% | 100% | 100% | 100% | 100% |

(1) LTV is the ratio calculated by dividing the current loan balance by the lower of the original appraised value or purchase price of the real estate collateral.
(2) At time of loan origination.
(3) Other than the Inland Empire.
(4) Other than the Inland Empire and Southern California.
(5) Comprised of the following: $22.2 million in Mixed Use; $18.1 million in Retail; $15.4 million in Office; $12.4 million in Mobile Home Park; $6.5 million in Gas/Convenience Stores; $5.6 million in Light Industrial/Manufacturing; $5.6 million in Warehouse; $5.0 million in Medical/Dental Office; $3.4 million in Restaurant/Fast Food; $3.1 million in Mini-Storage; $1.7 million in Hotel and Motel; $1.5 million in Automotive – Non Gasoline; and $383,000 in Other.
(6) Consisting of $84.2 million or 83.5 percent in investment properties and $16.7 million or 16.5 percent in owner occupied properties.

The following table summarizes the interest rate reset or maturity schedule of the Corporation's commercial real estate loans held for investment, including the percentage of those which are identified as non-performing, 30 – 89 days delinquent or not fully amortizing as of December 31, 2014:

| (Dollars In Thousands) | Balance | Non-Performing (1) | 30 - 89 Days Delinquent | Percentage Not Fully Amortizing (1) |
|---|---|---|---|---|
| Interest rate reset or mature in the next 12 months | $29,030 | 5% | —% | 80% |

| | | | | |
|---|---|---|---|---|
| Interest rate reset or mature between 1 year and 5 years | 71,829 | —% | —% | 79% |
| Interest rate reset or mature after 5 years | — | —% | —% | —% |
| Total | $100,859 | 2% | —% | 79% |

(1) As a percentage of each category.

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

| (In Thousands) | At December 31, 2014 | At June 30, 2014 |
|---|---|---|
| Loans on non-accrual status (excluding restructured loans): | | |
| Mortgage loans: | | |
| Single-family | $4,561 | $7,442 |
| Multi-family | 589 | 1,333 |
| Commercial real estate | 728 | 1,552 |
| Total | 5,878 | 10,327 |
| | | |
| Accruing loans past due 90 days or more | — | — |
| | | |
| Restructured loans on non-accrual status: | | |
| Mortgage loans: | | |
| Single-family | 2,792 | 2,957 |
| Multi-family | 1,591 | 1,760 |
| Commercial real estate | 792 | 800 |
| Commercial business loans | 98 | 92 |
| Total | 5,273 | 5,609 |
| | | |
| Total non-performing loans | 11,151 | 15,936 |
| | | |
| Real estate owned, net | 3,496 | 2,467 |
| Total non-performing assets | $14,647 | $18,403 |
| | | |
| Restructured loans on accrual status: | | |
| Mortgage loans: | | |
| Single-family | $687 | $343 |
| Total | $687 | $343 |
| | | |
| Non-performing loans as a percentage of loans held for investment, net of allowance for loan losses | 1.40% | 2.06% |
| | | |
| Non-performing loans as a percentage of total assets | 1.00% | 1.44% |
| | | |
| Non-performing assets as a percentage of total assets | 1.32% | 1.66% |

The following table describes the non-performing loans, net of allowance for loan losses, by the calendar year of origination as of December 31, 2014:

| (In Thousands) | Calendar Year of Origination 2006 & Prior | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Mortgage loans: | | | | | | | | | | |
| Single-family | $4,877 | $1,927 | $455 | $— | $— | $— | $94 | $— | $— | $7,353 |
| Multi-family | 1,995 | 185 | — | — | — | — | — | — | — | 2,180 |
| Commercial real estate | 1,520 | — | — | — | — | — | — | — | — | 1,520 |
| Commercial business loans | — | — | — | 98 | — | — | — | — | — | 98 |
| Total | $8,392 | $2,112 | $455 | $98 | $— | $— | $94 | $— | $— | $11,151 |

The following table describes the non-performing loans, net of allowance for loan losses, by the geographic location as of December 31, 2014:

| (In Thousands) | Inland Empire | Southern California [(1)] | Other California [(2)] | Other States | Total |
|---|---|---|---|---|---|
| Mortgage loans: | | | | | |
| Single-family | $2,436 | $4,403 | $456 | $58 | $7,353 |
| Multi-family | 430 | — | 1,346 | 404 | 2,180 |
| Commercial real estate | 1,520 | — | — | — | 1,520 |
| Commercial business loans | 6 | 92 | — | — | 98 |
| Total | $4,392 | $4,495 | $1,802 | $462 | $11,151 |

(1) Other than the Inland Empire.

(2) Other than the Inland Empire and Southern California.

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

| (Dollars In Thousands) | At December 31, 2014 Balance | Count | At June 30, 2014 Balance | Count |
|---|---|---|---|---|
| Special mention loans: | | | | |
| Mortgage loans: | | | | |
| Single-family | $3,736 | 13 | $2,140 | 10 |
| Multi-family | 4,555 | 1 | 7,256 | 4 |
| Commercial business loans | — | — | 22 | 1 |
| Total special mention loans | 8,291 | 14 | 9,418 | 15 |
| | | | | |
| Substandard loans: | | | | |
| Mortgage loans: | | | | |
| Single-family | 7,419 | 31 | 11,096 | 38 |
| Multi-family | 8,573 | 13 | 8,471 | 13 |
| Commercial real estate | 6,089 | 8 | 6,349 | 9 |
| Commercial business loans | 98 | 2 | 92 | 2 |
| Total substandard loans | 22,179 | 54 | 26,008 | 62 |
| | | | | |
| Total classified loans | 30,470 | 68 | 35,426 | 77 |
| | | | | |
| Real estate owned: | | | | |
| Single-family | 1,330 | 4 | 494 | 2 |
| Multi-family | 193 | 1 | — | — |
| Commercial real estate | 1,973 | 1 | 1,973 | 2 |
| Total real estate owned | 3,496 | 6 | 2,467 | 4 |
| | | | | |
| Total classified assets | $33,966 | 74 | $37,893 | 81 |

Loan Volume Activities

The following table is provided to disclose details related to the volume of loans originated, purchased and sold for the quarters and six months indicated:

| | For the Quarters Ended December 31, | | For the Six Months Ended December 31, | |
|---|---|---|---|---|
| (In Thousands) | 2014 | 2013 | 2014 | 2013 |
| Loans originated and purchased for sale: | | | | |
| Retail originations | $259,140 | $229,181 | $510,471 | $556,929 |
| Wholesale originations and purchases | 306,517 | 223,800 | 568,956 | 579,755 |
| Total loans originated and purchased for sale [1] | 565,657 | 452,981 | 1,079,427 | 1,136,684 |
| Loans sold: | | | | |
| Servicing released | (512,728) | (495,968) | (1,001,469) | (1,188,345) |
| Servicing retained | (7,144) | (4,855) | (8,828) | (5,495) |
| Total loans sold [2] | (519,872) | (500,823) | (1,010,297) | (1,193,840) |
| Loans originated for investment: | | | | |
| Mortgage loans: | | | | |
| Single-family | 11,647 | 2,730 | 24,598 | 5,178 |
| Multi-family | 26,857 | 30,488 | 48,090 | 62,858 |
| Commercial real estate | 11,931 | 8,379 | 17,081 | 14,442 |
| Construction | — | 1,500 | 3,009 | 1,500 |
| Commercial business loans | — | 13 | 75 | 13 |
| Consumer loans | 1 | — | 1 | — |
| Total loans originated for investment [3] | 50,436 | 43,110 | 92,854 | 83,991 |
| Loans purchased for investment: | | | | |
| Mortgage loans: | | | | |
| Single-family | — | — | 218 | — |
| Total loans purchased for investment [3] | — | — | 218 | — |
| Mortgage loan principal payments | (42,973) | (34,676) | (67,753) | (76,543) |
| Real estate acquired in settlement of loans | (1,365) | (1,213) | (2,292) | (3,972) |
| Increase (decrease) in other items, net [4] | 5,167 | (4,473) | 3,385 | 4,860 |
| Net increase (decrease) in loans held for investment and loans held for sale at fair value | $57,050 | $(45,094) | $95,542 | $(48,820) |

(1) Includes PBM loans originated and purchased for sale during the quarters and six months ended December 31, 2014 and 2013 totaling $561.9 million, $453.0 million, $1.08 billion and $1.14 billion, respectively.

(2) Includes PBM loans sold during the quarters and six months ended December 31, 2014 and 2013 totaling $516.5 million, $500.8 million, $1.01 billion and $1.19 billion, respectively.

(3) Includes PBM loans originated and purchased for investment during the quarters and six months ended December 31, 2014 and 2013 totaling $11.6 million, $2.8 million, $26.0 million and $5.2 million, respectively.

(4) Includes net changes in undisbursed loan funds, deferred loan fees or costs, allowance for loan losses, fair value of loans held for sale and repurchases.

Loans that the Corporation has originated for sale are primarily sold on a servicing released basis. Clear ownership is conveyed to the investor by endorsing the original note in favor of the investor; transferring the servicing to a new servicer consistent with investor instructions; communicating the servicing transfer to the borrower as required by law; and sending the loan file and collateral instruments electronically to the investor contemporaneous with receiving the cash proceeds from the sale of the loan. Additionally, the Corporation registers the change of ownership in the mortgage electronic registration system known as MERS as required by the contractual terms of the loan sale agreement. The Corporation does not believe that completing this additional registration clouds ownership of the note since the steps previously described have also been taken. Also, the Corporation retains an imaged copy of the entire loan file and collateral instruments as an abundance of caution in the event questions arise that can only be answered by reviewing the loan file. Additionally, the Corporation does not originate or sponsor mortgage-backed securities.

Liquidity and Capital Resources

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

The primary investing activity of the Corporation is the origination and purchase of loans held for investment and loans held for sale. During the first six months of fiscal 2015 and 2014, the Corporation originated and purchased $1.17 billion and $1.22 billion of loans, respectively. The total loans sold in the first six months of fiscal 2015 and 2014 were $1.01 billion and $1.19 billion, respectively. At December 31, 2014, the Corporation had loan origination commitments totaling $126.3 million, undisbursed lines of credit totaling $2.0 million and undisbursed loan funds totaling $2.3 million. The Corporation anticipates that it will have sufficient funds available to meet its current loan commitments.

The Corporation’s primary financing activity is gathering deposits. During the first six months of fiscal 2015, the net increase in deposits was $7.6 million, or one percent, primarily due to the increase in transaction accounts, which was partly offset by scheduled maturities in time deposits. The increase in transaction accounts and the decrease in time deposits were consistent with the Corporation's operating strategy. As of December 31, 2014, total deposits were $905.5 million. At December 31, 2014, time deposits scheduled to mature in one year or less were $171.3 million and total time deposits with a principal amount of $100,000 or higher were $179.0 million. Historically, the Corporation has been able to retain a significant percentage of its time deposits as they mature by adjusting deposit rates to the current interest rate environment.

The Corporation must maintain an adequate level of liquidity to ensure the availability of sufficient funds to support loan growth and deposit withdrawals, to satisfy financial commitments and to take advantage of investment opportunities. The Corporation generally maintains sufficient cash and cash equivalents to meet short-term liquidity needs. At December 31, 2014, total cash and cash equivalents were $32.1 million, or three percent of total assets. Depending on market conditions and the pricing of deposit products and FHLB – San Francisco advances, the Bank may rely on FHLB – San Francisco advances for part of its liquidity needs. As of December 31, 2014, total borrowings were $41.4 million and the financing availability at FHLB – San Francisco was limited to 35 percent of total assets; the remaining borrowing facility was $338.5 million and the remaining available collateral was $647.9 million. In addition, the Bank has secured a $13.2 million discount window facility at the Federal Reserve Bank of San Francisco, collateralized by investment securities with a fair market value of $14.0 million. As of December 31, 2014, there was no outstanding borrowing under this facility.

Regulations require thrifts to maintain adequate liquidity to assure safe and sound operations. The Bank's average liquidity ratio (defined as the ratio of average qualifying liquid assets to average deposits and borrowings) for the quarter ended December 31, 2014 decreased to 30.8 percent from 33.0 percent for the quarter ended June 30, 2014.

The Bank is required to maintain specific amounts of capital pursuant to OCC requirements. Under the OCC prompt corrective action provisions, a minimum of 5.0 percent for Tier 1 Leverage Capital, 6.0 percent for Tier 1 Risk-Based Capital and 10.0 percent for Total Risk-Based Capital is required to be deemed “well capitalized.” As of December 31, 2014, the Bank exceeded all regulatory capital requirements to be deemed “well capitalized.” The Bank’s actual and required capital amounts and ratios as of December 31, 2014 were as follows:

| (Dollars In Thousands) | Amount | Percent | |
|---|---|---|---|
| Tier 1 leverage capital | $118,968 | 10.70 | % |
| Requirement to be “Well Capitalized” | 55,583 | 5.00 | |
| Excess over requirement | $63,385 | 5.70 | % |
| Tier 1 risk-based capital | $118,968 | 15.15 | % |
| Requirement to be “Well Capitalized” | 47,131 | 6.00 | |
| Excess over requirement | $71,837 | 9.15 | % |
| Total risk-based capital | $127,741 | 16.26 | % |
| Requirement to be “Well Capitalized” | 78,552 | 10.00 | |
| Excess over requirement | $49,189 | 6.26 | % |

The ability of the Corporation to pay dividends to stockholders depends primarily on the ability of the Bank to pay dividends to the Corporation. The Bank may not declare or pay a cash dividend if the effect thereof would cause its net worth to be reduced below the regulatory capital requirements imposed by federal regulation. In the second quarter of fiscal 2015, the Bank did not declare any cash dividend to the Corporation; while the Corporation paid $1.0 million of cash dividends to its shareholders. For the first six months of fiscal 2015, the Bank paid a cash dividend of $25.0 million to the Corporation; while the Corporation paid $2.0 million of cash dividends to its shareholders.

Supplemental Information

| | At December 31, 2014 | At June 30, 2014 | At December 31, 2013 |
|---|---|---|---|
| Loans serviced for others (in thousands) | $80,813 | $82,734 | $87,346 |
| Book value per share | $16.05 | $15.66 | $15.47 |

ITEM 3 – Quantitative and Qualitative Disclosures about Market Risk.

One of the Corporation’s principal financial objectives is to achieve long-term profitability while reducing its exposure to fluctuating interest rates. The Corporation has sought to reduce the exposure of its earnings to changes in interest rates by attempting to manage the repricing mismatch between interest-earning assets and interest-bearing liabilities. The principal element in achieving this objective is to increase the interest-rate sensitivity of the Corporation’s interest-earning assets by retaining for its portfolio new loan originations with interest rates subject to periodic adjustment to market conditions and by selling fixed-rate, single-family mortgage loans. In addition, the Corporation maintains an investment portfolio, which is largely in U.S. government agency MBS and U.S. government sponsored enterprise MBS with contractual maturities of up to 30 years that reprice frequently. The Corporation relies on retail deposits as its primary source of funds while utilizing FHLB – San Francisco advances as a secondary source of funding. Management believes retail deposits, unlike brokered deposits, reduces the effects of interest rate fluctuations



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because they generally represent a more stable source of funds. As part of its interest rate risk management strategy, the Corporation promotes transaction accounts and time deposits with terms up to five years.

Through the use of an internal interest rate risk model, the Corporation is able to analyze its interest rate risk exposure by measuring the change in net portfolio value ("NPV") over a variety of interest rate scenarios. NPV is defined as the net present value of expected future cash flows from assets, liabilities and off-balance sheet contracts. The calculation is intended to illustrate the change in NPV that would occur in the event of an immediate change in interest rates of -100, +100, +200, +300 and +400 basis points ("bp") with no effect given to steps that management might take to counter the effect of the interest rate movement. The current federal funds rate is 0.25 percent making an immediate change of -200 and -300 basis points improbable.

The following table is derived from the internal interest rate risk model and represents the NPV based on the indicated changes in interest rates as of December 31, 2014 (dollars in thousands).

| Basis Points ("bp") Change in Rates | Net Portfolio Value | NPV Change[(1)] | Portfolio Value of Assets | NPV as Percentage of Portfolio Value Assets[(2)] | Sensitivity Measure[(3)] |
|---|---|---|---|---|---|
| +400 bp | $231,953 | $81,648 | $1,207,007 | 19.22% | +615 bp |
| +300 bp | $217,366 | $67,061 | $1,198,342 | 18.14% | +507 bp |
| +200 bp | $199,745 | $49,440 | $1,186,310 | 16.84% | +377 bp |
| +100 bp | $177,375 | $27,070 | $1,170,572 | 15.15% | +208 bp |
| 0 bp | $150,305 | $— | $1,150,160 | 13.07% | - bp |
| -100 bp | $138,561 | $(11,744) | $1,144,162 | 12.11% | -96 bp |

(1) Represents the increase (decrease) of the NPV at the indicated interest rate change in comparison to the NPV at December 31, 2014 ("base case").
(2) Calculated as the NPV divided by the portfolio value of total assets.
(3) Calculated as the change in the NPV ratio from the base case amount assuming the indicated change in interest rates (expressed in basis points).

The following table is derived from the internal interest rate risk model and represents the change in the NPV at a -100 basis point rate shock at December 31, 2014 and June 30, 2014.

| | At December 31, 2014 (-100 bp rate shock) | At June 30, 2014 (-100 bp rate shock) |
|---|---|---|
| Pre-Shock NPV Ratio: NPV as a % of PV Assets | 13.07% | 14.94% |
| Post-Shock NPV Ratio: NPV as a % of PV Assets | 12.11% | 13.55% |
| Sensitivity Measure: Change in NPV Ratio | -96 bp | -139 bp |
| TB 13a Level of Risk | Minimal | Minimal |

The pre-shock NPV ratio declined 187 basis points to 13.07% at December 31, 2014 from 14.94% at June 30, 2014 and the post-shock NPV ratio declined 144 basis points to 12.11% at December 31, 2014 from 13.55% at June 30, 2014. The decline of the NPV ratios was primarily attributable to a $25.0 million cash dividend distribution from the Bank to the Corporation in September 2014, partly offset by the net income in the first six months of fiscal 2015.

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

The Corporation also models the sensitivity of net interest income for the 12-month period subsequent to any given month-end assuming a dynamic balance sheet (accounting for the Corporation's current balance sheet, 12-month business plan, embedded options, rate floors, periodic caps, lifetime caps, and loan, investment, deposit and borrowing cash flows, among others), and immediate, permanent and parallel movements in interest rates of plus 400, 300, 200 and 100 and minus 100 basis points. The following table describes the results of the analysis at December 31, 2014 and June 30, 2014.

| At December 31, 2014 | | At June 30, 2014 | |
|---|---|---|---|
| Basis Point (bp) Change in Rates | Change in Net Interest Income | Basis Point (bp) Change in Rates | Change in Net Interest Income |
| +400 bp | 6.98% | +400 bp | 6.74% |
| +300 bp | 13.78% | +300 bp | 12.62% |
| +200 bp | 11.25% | +200 bp | 10.53% |
| +100 bp | 7.56% | +100 bp | 6.07% |
| -100 bp | (9.16)% | -100 bp | (19.30)% |

At both December 31, 2014 and June 30, 2014, the Corporation was asset sensitive as its interest-earning assets are expected to reprice more quickly than its interest-bearing liabilities during the subsequent 12-month period. Therefore, in a rising interest rate environment, the model projects an increase in net interest income over the subsequent 12-month period. In a falling interest rate environment, the results project a decrease in net interest income over the subsequent 12-month period.

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

## ITEM 4 – Controls and Procedures.

a) An evaluation of the Corporation's disclosure controls and procedures (as defined in Section 13a-15(e) or 15d-15(e) of the Securities Exchange Act of 1934 (the "Act")) was carried out under the supervision and with the participation of the Corporation's Chief Executive Officer, Chief Financial Officer and the Corporation's Disclosure Committee as of the end of the period covered by this quarterly report. In designing and evaluating the Corporation's disclosure controls and procedures, management recognizes that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Also, because of the inherent limitations in all control procedures, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Corporation have been detected. Additionally, in designing disclosure controls and procedures, management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any disclosure controls and procedures is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Based on their evaluation, the Corporation's Chief Executive Officer and Chief Financial Officer concluded that the Corporation's disclosure controls and procedures as of December 31, 2014 are effective, at the reasonable assurance level, in ensuring that the information required to be disclosed by the Corporation in the reports it files or submits under the Act is (i) accumulated and communicated to the Corporation's management (including the Chief Executive Officer and Chief Financial Officer) in a timely manner, and (ii) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

b) There have been no changes in the Corporation's internal control over financial reporting (as defined in Rule 13a-15(f) of the Act) that occurred during the quarter ended December 31, 2014, that has materially affected, or is reasonably likely to materially affect, the Corporation's internal control over financial reporting. The Corporation does not expect that its internal control over financial reporting will prevent all error and all fraud. A control procedure, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control procedure are met. Because of the inherent limitations in all control procedures, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Corporation have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any control procedure is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control procedure, misstatements due to error or fraud may occur and not be detected.

## PART II – OTHER INFORMATION

### Item 1. Legal Proceedings.

From time to time, the Corporation or its subsidiaries are engaged in legal proceedings in the ordinary course of business, none of which are currently considered to have a material impact on the Corporation's financial position or results of operations, except as previously disclosed in Part I, Item 3 of the Corporation's Annual Report on Form 10-K for the year ended June 30, 2014 .

### Item 1A. Risk Factors.

There have been no material changes in the risk factors previously disclosed in Part I, Item 1A of the Corporation's Annual Report on Form 10-K for the year ended June 30, 2014.

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

The table below represents the Corporation's purchases of its equity securities for the second quarter of fiscal 2015.

| Period | (a) Total Number of Shares Purchased | (b) Average Price Paid per Share | (c) Total Number of Shares Purchased as Part of Publicly Announced Plan | (d) Maximum Number of Shares that May Yet Be Purchased Under the Plan [1] |
|---|---|---|---|---|
| October 1 – 31, 2014 | — | $— | — | 87,823 |
| November 1 – 30, 2014 | 26,600 | 15.04 | 26,600 | 61,223 |
| December 1 – 31, 2014 | 130,316 | 15.23 | 130,316 | 384,119 |
| Total | 156,916 | $15.20 | 156,916 | 384,119 |

(1) On October 30, 2014, the Corporation announced a new stock repurchase plan of up to five percent of the Corporation's outstanding common stock, or approximately 453,212 shares, which was effective in December 2014 upon the completion of the May 2014 stock repurchase plan. The October 2014 stock repurchase plan will be expired on October 30, 2015.

During the quarter ended December 31, 2014, the Corporation purchased 156,916 shares of the Corporation’s common stock at an average cost of $15.20 per share. For the six months ended December 31, 2014, the Corporation purchased 319,120 shares of the Corporation's common stock at an average cost of $14.99 per share. The May 2014 stock repurchase plan which authorized 476,960 shares was completed during the period May 2014 through December 2014 with an average cost of $14.72 per share. As of December 31, 2014, a total of 69,093 shares or 15 percent of the shares authorized in the October 2014 stock repurchase plan have been purchased at an average cost of $15.27 per share, leaving 384,119 shares available for future purchases. During the quarter ended December 31, 2014, the Corporation did not sell any securities that were not registered under the Securities Act of 1933.

Item 3. Defaults Upon Senior Securities.

Not applicable.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

Not applicable.

Item 6. Exhibits.

Exhibits:

| | |
|---|---|
| 3.1 (a) | Certificate of Incorporation of Provident Financial Holdings, Inc. (incorporated by reference to Exhibit 3.1 to the Corporation's Registration Statement on Form S-1 (File No. 333-2230)) |
| 3.1 (b) | Certificate of Amendment to Certificate of Incorporation of Provident Financial Holdings, Inc. as filed with the Delaware Secretary of State on November 24, 2009 |
| 3.1 (c) | Bylaws of Provident Financial Holdings, Inc. (incorporated by reference to Exhibit 3.1 to the Corporation's Current Report on Form 8-K filed on December 1, 2014) |
| 10.1 | Employment Agreement with Craig G. Blunden (incorporated by reference to Exhibit 10.1 to the Corporation's Form 8-K dated December 19, 2005) |
| 10.2 | Post-Retirement Compensation Agreement with Craig G. Blunden (incorporated by reference to Exhibit 10.2 to the Corporation's Form 8-K dated December 19, 2005) |
| 10.3 | 1996 Stock Option Plan (incorporated by reference to Exhibit A to the Corporation's proxy statement dated December 12, 1996) |
| 10.4 | 1996 Management Recognition Plan (incorporated by reference to Exhibit B to the Corporation's proxy statement dated December 12, 1996) |
| 10.5 | Form of Severance Agreement with Richard L. Gale, Kathryn R. Gonzales, Lilian Salter, Donavon P. Ternes and David S. Weiant (incorporated by reference to Exhibit 10.1 and 10.2 in the Corporation's Form 8-K dated February 24, 2012) |
| 10.6 | 2003 Stock Option Plan (incorporated by reference to Exhibit A to the Corporation's proxy statement dated October 21, 2003) |
| 10.7 | Form of Incentive Stock Option Agreement for options granted under the 2003 Stock Option Plan (incorporated by reference to Exhibit 10.13 to the Corporation's Annual Report on Form 10-K for the fiscal year June 30, 2005). |

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|---|---|
| 10.8 | Form of Non-Qualified Stock Option Agreement for options granted under the 2003 Stock Option Plan (incorporated by reference to Exhibit 10.14 to the Corporation's Annual Report on Form 10-K for the fiscal year June 30, 2005). |
| 10.9 | 2006 Equity Incentive Plan (incorporated by reference to Exhibit A to the Corporation's proxy statement dated October 12, 2006) |

| | |
|---|---|
| 10.10 | Form of Incentive Stock Option Agreement for options granted under the 2006 Equity Incentive Plan (incorporated by reference to Exhibit 10.10 in the Corporation's Form 10-Q for the quarter ended December 31, 2006) |
| 10.11 | Form of Non-Qualified Stock Option Agreement for options granted under the 2006 Equity Incentive Plan (incorporated by reference to Exhibit 10.11 in the Corporation's Form 10-Q for the quarter ended December 31, 2006) |
| 10.12 | Form of Restricted Stock Agreement for restricted shares awarded under the 2006 Equity Incentive Plan (incorporated by reference to Exhibit 10.12 in the Corporation's Form 10-Q for the quarter ended December 31, 2006) |
| 10.13 | 2010 Equity Incentive Plan (incorporated by reference to Exhibit A to the Corporation's proxy statement dated October 28, 2010) |
| 10.14 | Form of Incentive Stock Option Agreement for options granted under the 2010 Equity Incentive Plan (incorporated by reference to Exhibit 10.1 in the Corporation's Form 8-K dated November 30, 2010) |
| 10.15 | Form of Non-Qualified Stock Option Agreement for options granted under the 2010 Equity Incentive Plan (incorporated by reference to Exhibit 10.2 in the Corporation's Form 8-K dated November 30, 2010) |
| 10.16 | Form of Restricted Stock Agreement for restricted shares awarded under the 2010 Equity Incentive Plan (incorporated by reference to Exhibit 10.3 in the Corporation's Form 8-K dated November 30, 2010) |
| 10.17 | Post-Retirement Compensation Agreement with Donavon P. Ternes (incorporated by reference to Exhibit 10.13 to the Corporation's Form 8-K dated July 7, 2009) |
| 10.18 | 2013 Equity Incentive Plan (incorporated by reference to Exhibit A to the Corporation's proxy statement dated October 24, 2013) |
| 10.19 | Form of Incentive Stock Option Agreement for options granted under the 2013 Equity Incentive Plan (incorporated by reference to Exhibit 10.1 in the Corporation's Form 8-K dated November 30, 2013) |
| 10.20 | Form of Non-Qualified Stock Option Agreement for options granted under the 2013 Equity Incentive Plan (incorporated by reference to Exhibit 10.2 in the Corporation's Form 8-K dated November 30, 2013) |
| 10.21 | Form of Restricted Stock Agreement for restricted shares awarded under the 2013 Equity Incentive Plan (incorporated by reference to Exhibit 10.3 in the Corporation's Form 8-K dated November 30, 2013) |
| 14 | Code of Ethics for the Corporation's directors, officers and employees (incorporated by reference to Exhibit 14 in the Corporation's Annual Report on Form 10-K dated September 12, 2007) |
| 31.1 | Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2 | Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.1 | Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 32.2 | Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

| | |
|---|---|
| 101 | The following materials from the Corporation's Quarterly Report on Form 10-Q for the quarter ended December 31, 2014, formatted in Extensible Business Reporting Language (XBRL): (1) Condensed Consolidated Statements of Financial Condition; (2) Condensed Consolidated Statements of Operations; (3) Condensed Consolidated Statements of Comprehensive Income; (4) Condensed Consolidated Statements of Stockholders' Equity; (5) Condensed Consolidated Statements of Cash Flows; and (6) Selected Notes to Condensed Consolidated Financial Statements.* |

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

SIGNATURES

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

Provident Financial Holdings, Inc.

Date: February 9, 2015

/s/ Craig G. Blunden
Craig G. Blunden
Chairman and Chief Executive Officer
(Principal Executive Officer)

Date: February 9, 2015

/s/ Donavon P. Ternes
Donavon P. Ternes
President, Chief Operating Officer and
Chief Financial Officer
(Principal Financial and Accounting Officer)

Exhibit Index

| | |
|---|---|
| 31.1 | Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2 | Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
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| 32.2 | Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 101 | The following materials from the Corporation's Quarterly Report on Form 10-Q for the quarter ended December 31, 2014, formatted in Extensible Business Reporting Language (XBRL): (1) Condensed Consolidated Statements of Financial Condition; (2) Condensed Consolidated Statements of Operations; (3) Condensed Consolidated Statements of Comprehensive Income; (4) Condensed Consolidated Statements of Stockholders' Equity; (5) Condensed Consolidated Statements of Cash Flows; and (6) Selected Notes to Condensed Consolidated Financial Statements.* |
| (*) | Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections. |