

PROVIDENT FINANCIAL HOLDINGS INC
Form 10-K
September 01, 2017
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K
(Mark one)
ANNUAL
REPORT
PURSUANT
TO SECTION
 13 OR 15(d)
OF THE
SECURITIES
EXCHANGE
ACT OF 1934

For the fiscal year ended June 30, 2017 OR
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934

Commission File Number: 000-28304
PROVIDENT FINANCIAL HOLDINGS, INC.
(Exact name of registrant as specified in its charter)
Delaware 33-0704889
(State or other jurisdiction of incorporation (I.R.S. Employer
or organization) Identification Number)

3756 Central Avenue, Riverside, California 92506
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (951) 686-6060
Securities registered pursuant to Section 12(b) of the Act:
Common Stock, par value \$.01 per share The NASDAQ Stock Market LLC
(Title of Each Class) (Name of Each Exchange on Which Registered)

Securities registered pursuant to Section 12(g) of the Act: None
Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
YES NO .
Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the
Act. YES NO .
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
 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

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to submit and post such files). YES NO .

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

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

Large accelerated filer Accelerated filer
Non-accelerated filer (Do
not check if a smaller reporting
company) Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. []

Indicate by check mark whether the Registrant is a shell company (as defined in Exchange Act Rule 12b-2).
YES NO .

The Registrant's common stock is listed on the NASDAQ Global Select Market under the symbol "PROV." The aggregate market value of the common stock held by non affiliates of the Registrant, based on the closing sales price of the Registrant's common stock as quoted on the NASDAQ Global Select Market on December 31, 2016, was \$145.6 million. As of August 25, 2017, there were 7,695,552 shares of the Registrant's common stock issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of the Annual Report to Shareholders are incorporated by reference into Part II.
 2. Portions of the definitive Proxy Statement for the fiscal 2017 Annual Meeting of Shareholders ("Proxy Statement") are incorporated by reference into Part III.
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PROVIDENT FINANCIAL HOLDINGS, INC.

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

PART I

Item 1. Business

General

Provident Financial Holdings, Inc. (the "Corporation"), a Delaware corporation, was organized in January 1996 for the purpose of becoming the holding company of Provident Savings Bank, F.S.B. (the "Bank") upon the Bank's conversion from a federal mutual to a federal stock savings bank ("Conversion"). The Conversion was completed on June 27, 1996. The Corporation is regulated by the Federal Reserve Board ("FRB"). At June 30, 2017, the Corporation had consolidated total assets of \$1.20 billion, total deposits of \$926.5 million and stockholders' equity of \$128.2 million. The Corporation has not engaged in any significant activity other than holding the stock of the Bank. Accordingly, the information set forth in this Annual Report on Form 10-K ("Form 10-K"), including the audited consolidated financial statements and related data, relates primarily to the Bank and its subsidiaries.

The Bank, founded in 1956, is a federally chartered stock savings bank headquartered in Riverside, California. 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 ("FHLB") – San Francisco since 1956.

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

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

On June 22, 2006, the Bank established the Provident Savings Bank Charitable Foundation ("Foundation") in order to further its commitment to the local community. The specific purpose of the Foundation is to promote and provide for the betterment of youth, education, housing and the arts in the Bank's primary market areas of Riverside and San Bernardino counties. The Foundation was funded with a \$500,000 charitable contribution made by the Bank in the fourth quarter of fiscal 2006. The Bank contributed \$40,000 annually to the Foundation in fiscal 2017, 2016 and 2015.

Subsequent Events:

On July 31, 2017, the Corporation announced that the Corporation's Board of Directors declared a cash dividend of \$0.14 per share, reflecting an eight percent increase from the \$0.13 per share paid on June 9, 2017. Shareholders of the Corporation's common stock at the close of business on August 21, 2017 were entitled to receive the cash dividend, payable on September 11, 2017.

Market Area

The Bank is headquartered in Riverside, California and operates 13 full-service banking offices in Riverside County and one full-service banking office in San Bernardino County. Management considers Riverside and Western San Bernardino counties to be the Bank's primary market for deposits. Through the operations of PBM, the Bank has expanded its mortgage lending market to include most of Southern California and some of Northern California. The Bank is the largest independent community bank headquartered in Riverside County and it has the eighth largest deposit market share of all banks and the fourth largest of community banks in Riverside County. PBM operates two wholesale loan production offices located in Pleasanton and Rancho Cucamonga, California and nine retail loan production offices located in Atascadero, Brea, Escondido, Glendora, Rancho Cucamonga, Riverside (3) and Roseville, California.

The large geographic area encompassing Riverside and San Bernardino counties is referred to as the "Inland Empire." According to the 2010 Census Bureau population statistics, Riverside and San Bernardino Counties have the fourth and fifth largest populations in California, respectively. The Bank's market area consists primarily of suburban and urban communities. Western Riverside and San Bernardino counties are relatively densely populated and are within the greater Los Angeles metropolitan area. According to the United States of America ("U.S.") Department of Labor, Bureau of Labor Statistics, the unemployment rate in the Inland Empire in June 2017 was 5.5%, compared to 4.7% in California and 4.4% nationwide, an improvement compared to the unemployment data reported in June 2016, which was 6.6% in the Inland Empire, 5.4% in California and 4.9% nationwide.

In 2017, the Inland Empire economy is estimated to gain 46,600 jobs (3.3%), after adding 47,500 in 2016 (3.5%). The expansion will continue partly because of the area's traditional advantages for blue collar/technical sectors (available land, modestly priced labor, growing population), as well as continued growth in health care, and a small addition of jobs in higher paying sectors. As these sectors add workers, they should bring dollars to the area that circulate through its population serving sectors causing them to expand as well. In addition, 33.0% of growth is forecasted for lower paying sectors and 67.0% in moderate and better paying jobs. That is generally considered a good mix as 50% - 50% is a more normal distribution. If 2017 performs as forecasted, the share of lower paying jobs for the full 2011 - 2017 period shows the Inland Empire (40.0%) with a smaller share than California as a whole (45.7%). This is largely due to the importance of its blue collar/technical sectors in its job growth mix (Source: Inland Empire Quarterly Economic Reports - April 2017).

In the height of the spring home buying season, California's housing market were not affected by housing shortages as sales and median home prices bound higher in June 2017. Existing single-family home sales totaled 443,150 in June 2017 on a seasonally adjusted annualized rate, up 3.3% from May 2017 and 2.4% from June 2016. California's median home price in June 2017 was \$555,150, up 0.9% from May 2017 and up 7.0% from June 2016. The median number of days on the market fell to 22.4 days in June 2017 from 27.1 days a year ago, the fastest pace since May 2004, when it took 21.9 days to sell a home. At the regional level, the San Francisco Bay Area, Inland Empire, and Los Angeles metro area all registered year-to-year sales increases of 6.1%, 10.4%, and 8.3%, respectively (Source: California Association of Realtors - July 17, 2017 News Release).

Competition

The Bank faces significant competition in its market area in originating real estate loans and attracting deposits. The population growth in the Inland Empire has attracted numerous financial institutions to the Bank's market area. The Bank's primary competitors are large national and regional commercial banks as well as other community-oriented banks and savings institutions. The Bank also faces competition from credit unions and a large number of mortgage companies that operate within its market area. Many of these institutions are significantly larger than the Bank and

therefore have greater financial and marketing resources than the Bank. The Bank's mortgage banking operations also face competition from mortgage bankers, brokers and other financial institutions. This competition may limit the Bank's growth and profitability in the future.

Personnel

As of June 30, 2017, the Bank had 464 full-time equivalent employees, which consisted of 409 full-time, 54 prime-time and one part-time employee. The employees are not represented by a collective bargaining unit and management believes that its relationship with employees is good.

Segment Reporting

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

Internet Website

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

Lending Activities

General. The lending activity of the Bank is predominately comprised of the origination of first mortgage loans secured by single-family residential properties to be held for sale and, to a lesser extent, to be held for investment. The Bank also originates multi-family and commercial real estate loans and, to a lesser extent, construction, commercial business, consumer and other mortgage loans to be held for investment. The Bank's net loans held for investment were \$904.9 million at June 30, 2017, representing 75.4% of consolidated total assets. This compares to \$840.0 million, or 71.7% of consolidated total assets, at June 30, 2016.

At June 30, 2017, the maximum amount that the Bank could have loaned to any one borrower and the borrower's related entities under applicable regulations was \$18.9 million, or 15% of the Bank's unimpaired capital and surplus. At June 30, 2017, the Bank had no loans or group of loans to related borrowers with outstanding balances in excess of this amount. The Bank's five largest lending relationships at June 30, 2017 consisted of: three multi-family loans totaling \$8.1 million to one group of borrowers; one commercial real estate loan totaling \$6.1 million to one group of borrowers; one multi-family loan totaling \$5.2 million to one group of borrowers; one multi-family loan totaling \$4.9 million to one group of borrowers; and one commercial real estate loan totaling \$4.5 million to one group of borrowers. The real estate collateral for these loans is located in Southern California, except for one property which is located in Northern California. At June 30, 2017, all of these loans were performing in accordance with their repayment terms.

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

	At June 30,		2016		2015		2014		2013	
	2017									
(Dollars In Thousands)	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Mortgage loans:										
Single-family	\$322,197	35.16 %	\$324,497	37.93 %	\$365,961	44.47 %	\$377,824	48.43 %	\$404,154	53.09 %
Multi-family	479,959	52.37	415,627	48.59	347,020	42.17	301,191	38.60	262,268	34.45
Commercial real estate	97,562	10.65	99,528	11.63	100,897	12.26	96,781	12.40	92,423	12.14
Construction	16,009	1.75	14,653	1.71	8,191	0.99	2,869	0.37	292	0.04
Other	—	—	332	0.04	—	—	—	—	—	—
Total mortgage loans	915,727	99.93	854,637	99.90	822,069	99.89	778,665	99.80	759,137	99.72
Commercial business loans	576	0.06	636	0.08	666	0.08	1,237	0.16	1,687	0.22
Consumer loans	129	0.01	203	0.02	244	0.03	306	0.04	437	0.06
Total loans held for investment, gross	916,432	100.00 %	855,476	100.00 %	822,979	100.00 %	780,208	100.00 %	761,261	100.00 %
Undisbursed loan funds	(9,015)		(11,258)		(3,360)		(1,090)		(292)	
Advance payments of escrows	61		56		199		215		300	
Deferred loan costs, net	5,480		4,418		3,140		2,552		2,063	
Allowance for loan losses	(8,039)		(8,670)		(8,724)		(9,744)		(14,935)	
Total loans held for investment, net	\$904,919		\$840,022		\$814,234		\$772,141		\$748,397	

Maturity of Loans Held for Investment. The following table sets forth information at June 30, 2017 regarding the dollar amount of principal payments becoming contractually due during the periods indicated for loans held for investment. Demand loans, loans having no stated schedule of principal payments, loans having no stated maturity, and overdrafts are reported as becoming due within one year. The table does not include any estimate of prepayments, which can significantly shorten the average life of loans held for investment and may cause the Bank's actual principal

payment experience to differ materially from that shown below:

(In Thousands)	Within One Year	After One Year Through 3 Years	After 3 Years Through 5 Years	After 5 Years Through 10 Years	Beyond 10 Years	Total
Mortgage loans:						
Single-family	\$23	\$ 91	\$ 369	\$5,655	\$316,059	\$322,197
Multi-family	2,209	2,118	3,967	7,398	464,267	479,959
Commercial real estate	1,111	170	2,861	77,402	16,018	97,562
Construction	11,856	4,153	—	—	—	16,009
Commercial business loans	139	140	—	—	297	576
Consumer loans	129	—	—	—	—	129
Total loans held for investment, gross	\$15,467	\$ 6,672	\$ 7,197	\$90,455	\$796,641	\$916,432

The following table sets forth the dollar amount of all loans held for investment due after June 30, 2018 which have fixed and floating or adjustable interest rates:

(Dollars In Thousands)	Fixed-Rate % ⁽¹⁾		Floating or Adjustable % ⁽¹⁾ Rate	
Mortgage loans:				
Single-family	\$ 14,062	4 %	\$ 308,112	96 %
Multi-family	1,520	— %	476,230	100 %
Commercial real estate	—	— %	96,451	100 %
Construction	—	— %	4,153	100 %
Commercial business loans	412	94 %	25	6 %
Total loans held for investment, gross	\$ 15,994	2 %	\$ 884,971	98 %

⁽¹⁾ As a percentage of each category.

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

Single-Family Mortgage Loans. The Bank's predominant lending activity is the origination by PBM of loans secured by first mortgages on owner-occupied, single-family (one to four units) residences in the communities where the Bank has established full service branches and loan production offices. At June 30, 2017, total single-family loans held for investment decreased to \$322.2 million, or 35.2% of the total loans held for investment, from \$324.5 million, or 37.9% of the total loans held for investment, at June 30, 2016. The slight decrease in the single-family loans in fiscal 2017 was primarily attributable to loan principal payments and real estate owned acquired in the settlement of loans, partly offset by new loans originated for investment.

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

The Bank has underwriting standards that require verified documentation of income and assets from borrowers and our underwriting conforms to agency mandated credit score requirements. Generally, mortgage insurance is required on all loans exceeding 80% loan-to-value based on the lower of purchase price or appraised value. Loan-to-value ("LTV") is the ratio derived by dividing the original loan balance by the lower of the original appraised value or purchase price of the real estate collateral. The maximum allowable loan-to-value is 97% on a purchase transaction for

conventional financing with mortgage insurance and 96.5% loan-to-value for FHA financing with mortgage insurance. Second home purchases and rate and term refinance transactions are capped at 90% loan-to-value with mortgage insurance. Non-owner occupied purchase and rate and term refinance transactions are capped at 80% loan-to-value while non-owner occupied refinance cash-out transactions are capped at 75% loan-to-value. We manage our underwriting standards, loan-to-value ratios and credit standards to the currently required agency and investor policies and guidelines. These standards may change at any time, given changes in real estate market conditions, secondary mortgage market requirements and changes to investor policies and guidelines.

The Bank offers closed-end, fixed-rate home equity loans that are secured by the borrower's primary residence. These loans do not exceed 80% of the appraised value of the residence and have terms of up to 15 years requiring monthly payments of principal

and interest. At June 30, 2017, home equity loans amounted to \$13.3 million or 4.1% of single-family loans held for investment, as compared to \$9.9 million or 3.0% of single-family loans held for investment at June 30, 2016.

The Bank offers adjustable rate mortgage (“ARM”) loans at rates and terms competitive with market conditions. Substantially all of the ARM loans originated by the Bank meet the underwriting standards of the secondary market. The Bank offers several ARM products, which adjust monthly, semi-annually, or annually after an initial fixed period ranging from one month to seven years subject to a limitation on the annual increase of one to two percentage points and an overall limitation of three to six percentage points. The following indexes, plus a margin of 2.00% to 3.25%, are used to calculate the periodic interest rate changes; the London Interbank Offered Rate (“LIBOR”), the FHLB Eleventh District cost of funds (“COFI”), the 12-month average U.S. Treasury (“12 MAT”) or the weekly average yield on one year U.S. Treasury securities adjusted to a constant maturity of one year (“CMT”). Loans based on the LIBOR index constitute a majority of the Bank’s loans held for investment. The majority of the ARM loans held for investment have three or five-year fixed periods prior to the first adjustment (“3/1 or 5/1 hybrids”) and provide for interest and fully amortizing loan payments throughout the term of the loan. Loans of this type have embedded interest rate risk if interest rates should rise during the initial fixed rate period.

The Bank offered interest-only ARM loans in the past, which typically had a fixed interest rate for the first three to five years, followed by a periodic adjustable interest rate, coupled with an interest only payment of three to ten years, followed by a fully amortizing loan payment for the remaining term. As of June 30, 2017 and 2016, interest-only, first trust deed, ARM loans were \$17.6 million and \$64.6 million, or 5.7% and 7.6%, respectively, of the single-family, first trust deed, loans held for investment. As of June 30, 2017, \$17.0 million of interest-only ARM loans begin to fully amortize in the next 12 months and \$578,000 begin to fully amortize between one year and five years. The reset of interest rates on ARM loans, primarily interest-only single-family loans, to fully-amortizing status may create a payment shock for some borrowers primarily because the majority of loans are repricing at 2.75% over six-month LIBOR, which may result in a higher interest rate than the borrower’s pre-adjustment interest rate.

In fiscal 2006, during the Bank’s 50th Anniversary, the Bank offered 50-year single-family ARM loans. At June 30, 2017, the Bank had 21 loans with 50-year terms with \$6.9 million outstanding, compared to 25 loans for \$8.5 million at June 30, 2016.

As of June 30, 2017, the Bank had \$9.0 million in negative amortization mortgage loans (a loan in which accrued interest exceeding the required monthly loan payment may be added to the loan principal), originated prior to 2008, which consisted of \$6.2 million of multi-family loans, \$2.7 million of single-family loans and \$110,000 of commercial real estate loans. This compares to \$10.2 million at June 30, 2016, which consisted of \$6.9 million of multi-family loans, \$3.1 million of single-family loans and \$170,000 of commercial real estate loans. Negative amortization involves a greater risk to the Bank because the credit risk exposure increases when the loan incurs negative amortization and the value of the property serving as collateral for the loan does not increase proportionally. Negative amortization is only permitted up to a specific level, typically up to 115% of the original loan amount, and the payment on such loans is subject to increased payments when the level is reached, adjusting periodically as provided in the loan documents and potentially resulting in a higher payment by the borrower. The adjustment of these loans to higher payment requirements can be a substantial factor in higher delinquency levels because the borrower may not be able to make the higher payments. Also, real estate values may decline and credit standards may tighten in concert with the higher payment requirement, making it difficult for borrowers to sell their properties or refinance their mortgages to pay off their mortgage obligation.

Borrower demand for ARM loans versus fixed-rate mortgage loans is a function of the level of interest rates, the expectations of changes in the level of interest rates and the difference between the initial interest rates and fees charged for each type of loan. The relative amount of fixed-rate mortgage loans and ARM loans that can be originated at any time is largely determined by the demand for each product in a given interest rate and competitive

environment. Given the recent market environment, the production of ARM loans has been lower as compared to fixed rate mortgages.

The retention of ARM loans, rather than fixed-rate loans, helps to reduce the Bank's exposure to changes in interest rates. There is, however, unquantifiable credit risk resulting from the potential of increased interest charges to be paid by the borrower as a result of increases in interest rates or the expiration of interest-only periods. It is possible that, during periods of rising interest rates, the risk of default on ARM loans may increase as a result of the increase in the required payment from the borrower. Furthermore, the risk of default may increase because ARM loans originated by the Bank occasionally provide, as a marketing incentive, for initial rates of interest below those rates that would apply if the adjustment index plus the applicable margin were initially used for pricing. Because of these characteristics, ARM loans are subject to increased risks of default or delinquency. Additionally, while ARM loans allow the Bank to decrease the sensitivity of its assets as a result of changes in interest rates, the extent of this interest sensitivity is limited by the periodic and lifetime interest rate adjustment limits. Furthermore, because loan indexes may not respond perfectly to changes in market interest rates, upward adjustments on loans may occur more slowly than increases in the Bank's cost of interest-bearing liabilities, especially during periods of rapidly increasing interest

rates. Because of these characteristics, the Bank has no assurance that yields on ARM loans will be sufficient to offset increases in the Bank's cost of funds.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") requires lenders to make a reasonable, good faith determination of a borrower's ability to repay any consumer closed-end credit transaction secured by a dwelling and to limit prepayment penalties. Increased risks of legal challenge, private right of action and regulatory enforcement actions result from these rules. The Bank originates an immaterial number of loans that do not meet the definition of a "qualified mortgage" ("QM"). To mitigate the risks involved with non-QM loans, the Bank has implemented systems, processes, procedural and product changes, and maintains its underwriting standards, to ensure that the "ability-to-repay" requirements of the new rules are adequately addressed.

The following table describes certain credit risk characteristics of the Bank's single-family, first trust deed, mortgage loans held for investment as of June 30, 2017:

(Dollars In Thousands)	Outstanding			
	Balance ⁽¹⁾	Weighted-Average FICO ⁽²⁾	Weighted-Average LTV ⁽³⁾	Weighted-Average Seasoning ⁽⁴⁾
Interest only	\$ 17,586	731	76%	9.55 years
Stated income ⁽⁵⁾	\$ 100,328	730	62%	11.49 years
FICO less than or equal to 660	\$ 9,497	644	63%	9.04 years
Over 30-year amortization	\$ 10,156	730	64%	11.76 years

The outstanding balance presented on this table may overlap more than one category. Of the outstanding balance, (1) \$451,000 of "interest only," \$5.2 million of "stated income," \$346,000 of "FICO less than or equal to 660," and \$220,000 of "over 30-year amortization" balances were non-performing.

The FICO score represents the creditworthiness of a borrower based on the borrower's credit history, as reported by (2) 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 derived by dividing the current loan balance by the lower of the original appraised value or purchase price of the real estate collateral at the time of loan origination.

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

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

The following table summarizes the amortization schedule of the Bank's interest only single-family, first trust deed, mortgage loans held for investment, including the percentage of those which are identified as non-performing or 30 – 89 days delinquent as of June 30, 2017:

(Dollars In Thousands)	30 - 89 Days	
	Balance Non-Performing ⁽¹⁾	Delinquent ⁽¹⁾
Fully amortize in the next 12 months	\$ 17,008	3%
Fully amortize between 1 year and 5 years	578	—%
Fully amortize after 5 years	—	—%
Total	\$ 17,586	3%

(1) As a percentage of each category.

The following table summarizes the interest rate reset (repricing) schedule of the Bank's stated income single-family, first trust deed, mortgage loans held for investment, including the percentage of those which are identified as non-performing or 30 – 89 days delinquent as of June 30, 2017:

(Dollars In Thousands)	Balance (1)	Non-Performing ⁽¹⁾	30 - 89 Days Delinquent ⁽¹⁾
Interest rate reset in the next 12 months	\$99,685	5%	—%
Interest rate reset between 1 year and 5 years	643	12%	—%
Total	\$ 100,328	5%	—%

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

A decline in real estate values subsequent to the time of origination of our real estate secured loans could result in higher loan delinquency levels, foreclosures, provisions for loan losses and net charge-offs. Real estate values and real estate markets are beyond the Bank's control and are generally affected by changes in national, regional or local economic conditions and other factors. These factors include fluctuations in interest rates and the availability of loans to potential purchasers, changes in tax laws and other governmental statutes, regulations and policies and acts of nature, such as earthquakes and other natural disasters particular to California where substantially all of our real estate collateral is located. If real estate values decline from the levels at the time of loan origination, the value of our real estate collateral securing the loans could be significantly reduced. The Bank's ability to recover on defaulted loans by foreclosing and selling the real estate collateral would then be diminished and it would be more likely to suffer losses on defaulted loans. Additionally, the Bank does not periodically update the LTV ratios on its loans held for investment by obtaining new appraisals or broker price opinions unless a specific loan has demonstrated deterioration or the Bank receives a loan modification request from a borrower. Therefore, it is reasonable to assume that the LTV ratios disclosed in the following table may be understated in comparison to the current LTV ratios as a result of the year of origination, the subsequent general decline in real estate values that may have occurred prior to 2012 to the extent not fully recovered and the specific location of the individual properties. The Bank cannot quantify the current LTV ratios on its loans held for investment or quantify the impact of the decline in real estate values to the original LTV ratios on its loans held for investment by loan type, geography, or other subsets.

The following table provides a detailed breakdown of the Bank's single-family, first trust deed, mortgage loans held for investment by the calendar year of origination and geographic location as of June 30, 2017:

(Dollars In Thousands)	Calendar Year of Origination									
	2009 & Prior	2010	2011	2012	2013	2014	2015	2016	YTD June 30, 2017	Total
Loan balance	\$175,283	\$118	\$968	\$3,124	\$2,733	\$10,529	\$15,338	\$45,754	\$54,612	\$308,459
Weighted average LTV ⁽¹⁾	63	%66	%61	%57	%45	%66	%69	%67	%74	%66
Weighted average age (in years)	11.54	6.62	5.92	4.93	3.99	2.87	2.04	0.97	0.44	7.09
Weighted average FICO ⁽²⁾	730	700	711	741	755	749	740	744	744	736
Number of loans	578	1	4	15	22	25	22	80	83	830

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Geographic
breakdown (%):

Inland Empire	34	% 100	% 57	% 11	% 43	% 45	% 21	% 24	% 32	% 32	%
Southern California (other than Inland Empire)	53	%—	% 43	% 38	% 28	% 27	% 51	% 42	% 47	% 49	%
Other California	12	%—	%—	% 51	% 29	% 28	% 28	% 34	% 21	% 19	%
Other states	1	%—	%—	%—	%—	%—	%—	%—	%—	%—	%
	100	% 100	% 100	% 100	% 100	% 100	% 100	% 100	% 100	% 100	%

(1) LTV is the ratio derived by dividing the current loan balance by the lower of the original appraised value or purchase price of the real estate collateral at the time of loan origination.

(2) At time of loan origination.

Multi-Family and Commercial Real Estate Mortgage Loans. At June 30, 2017, multi-family mortgage loans were \$480.0 million and commercial real estate loans were \$97.6 million, or 52.3% and 10.7%, respectively, of loans held for investment. This compares to multi-family mortgage loans of \$415.6 million and commercial real estate loans of \$99.5 million, or 48.6% and 11.6%, respectively, of loans held for investment at June 30, 2016. Consistent with its strategy to diversify the composition of loans held for investment, the Bank has made the origination and purchase of multi-family and commercial real estate loans a priority. During fiscal 2017 the Bank originated \$99.5 million and purchased \$42.2 million of multi-family and commercial real estate loans, all of which were underwritten in accordance with the Bank's origination guidelines. This compares to loan originations of \$116.0 million and loan purchases of \$43.7 million during fiscal 2016. At June 30, 2017, the Bank had 639 multi-family and 130 commercial real estate loans in loans held for investment.

Multi-family mortgage loans originated by the Bank are predominately adjustable rate loans, including 1/1, 3/1, 5/1 and 7/1 hybrids, with a term to maturity of 10 to 30 years and a 25 to 30 year amortization schedule. Commercial real estate loans originated by the Bank are also predominately adjustable rate loans, including 1/1, 3/1, 5/1 and 7/1 hybrids, with a term to maturity of 10 years and a 25 year amortization schedule. Rates on multi-family and commercial real estate ARM loans generally adjust monthly, quarterly, semi-annually or annually at a specific margin over the respective interest rate index, subject to annual interest rate caps and life-of-loan interest rate caps. At June 30, 2017, \$427.7 million, or 89.1%, of the Bank's multi-family loans were secured by five to 36 unit projects. The Bank's commercial real estate loan portfolio generally consists of loans secured by small office buildings, light industrial centers, warehouses and small retail centers. Properties securing multi-family and commercial real estate loans are primarily located in Los Angeles, Orange, Riverside, San Bernardino, San Diego, San Francisco and Alameda counties. The Bank originates multi-family and commercial real estate loans in amounts typically ranging from \$350,000 to \$6.0 million. At June 30, 2017, the Bank had 66 commercial real estate and multi-family loans with principal balances greater than \$1.5 million totaling \$158.1 million. The Bank obtains appraisals on all properties that secure multi-family and commercial real estate loans. Underwriting of multi-family and commercial real estate loans includes, among other considerations, a thorough analysis of the cash flows generated by the property to support the debt service and the financial resources, experience and the income level of the borrowers and guarantors.

Multi-family and commercial real estate loans afford the Bank an opportunity to price the loans with higher interest rates than those generally available from single-family mortgage loans. However, loans secured by such properties are generally greater in amount, more difficult to evaluate and monitor and are more susceptible to default as a result of general economic conditions and, therefore, involve a greater degree of risk than single-family residential mortgage loans. Because payments on loans secured by multi-family and commercial real estate properties are often dependent on the successful operation and management of the properties, repayment of such loans may be impacted by adverse conditions in the real estate market or the economy. During fiscal 2017, the Bank had net recoveries of \$18,000 in non-performing multi-family and commercial real estate loans, as compared to net recoveries of \$1.4 million during fiscal 2016. At June 30, 2017, total non-performing multi-family and commercial real estate loans were \$201,000, net of allowances and charge-offs, and none were past due 30 to 89 days. Non-performing loans and/or delinquent loans may increase if there is a general decline in California real estate markets and in the event poor general economic conditions prevail.

The following table summarizes the interest rate reset or maturity schedule of the Bank's multi-family loans held for investment, including the percentage of those which are identified as non-performing, 30 – 89 days delinquent or not fully amortizing as of June 30, 2017:

(Dollars In Thousands)	Balance	Non-Performing ⁽¹⁾	30 - 89 Days Delinquent ⁽¹⁾	Percentage Not Fully Amortizing ⁽¹⁾
Interest rate reset or mature in the next 12 months	\$94,653	—%	—%	8%

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Interest rate reset or mature between 1 year and 5 years	360,412	—%	—%	5%
Interest rate reset or mature after 5 years	24,894	—%	—%	3%
Total	\$479,959	—%	—%	5%

(1) As a percentage of each category.

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The following table summarizes the interest rate reset or maturity schedule of the Bank's commercial real estate loans held for investment, including the percentage of those which are identified as non-performing, 30 – 89 days delinquent or not fully amortizing as of June 30, 2017:

(Dollars In Thousands)	Non- Balance Performing ⁽¹⁾	30 - 89 Days Delinquent ⁽¹⁾	Percentage Not Fully Amortizing ⁽¹⁾
Interest rate reset or mature in the next 12 months	\$22,787 1%	—%	69%
Interest rate reset or mature between 1 year and 5 years	73,175 —%	—%	88%
Interest rate reset or mature after 5 years	1,600 —%	—%	100%
Total	\$97,562 —%	—%	84%

⁽¹⁾ As a percentage of each category.

The following table provides a detailed breakdown of the Bank's multi-family mortgage loans held for investment by the calendar year of origination and geographic location as of June 30, 2017:

(Dollars In Thousands)	Calendar Year of Origination									YTD June 30, 2017	Total
	2009 & Prior	2010	2011	2012	2013	2014	2015	2016	2017		
Loan balance	\$24,669	\$ —	\$6,827	\$21,490	\$70,485	\$81,348	\$85,904	\$133,951	\$55,285	\$479,959	
Weighted average LTV ⁽¹⁾	42	% —	% 53	% 52	% 54	% 54	% 54	% 49	% 54	% 52	%
Weighted average debt coverage ratio ⁽²⁾	1.58x	—	1.57x	1.75x	1.68x	1.66x	1.62x	1.66x	1.62x	1.65x	
Weighted average age (in years)	12.11	—	5.74	4.82	3.91	2.96	1.99	0.99	0.20	2.65	
Weighted average FICO ⁽²⁾	695	—	768	722	764	764	757	756	751	753	
Number of loans	56	—	9	24	95	99	125	153	78	639	
Geographic breakdown (%):											
Inland Empire	32	% —	% 7	% 16	% 30	% 12	% 17	% 9	% 19	% 17	%
Southern California (other than Inland Empire)	48	% —	% 78	% 50	% 49	% 54	% 64	% 65	% 65	% 59	%
	9	% —	% 15	% 34	% 21	% 34	% 19	% 26	% 16	% 23	%

Other

California

Other states	11	%—%	—	%—	%—	%—	%—	%—	%—	%1	%
	100	%—%	100	%100	%100	%100	%100	%100	%100	%100	%

- (1) LTV is the ratio derived by dividing the current loan balance by the lower of the original appraised value or purchase price of the real estate collateral at the time of loan origination.
- (2) At time of loan origination.

The following table provides a detailed breakdown of the Bank's commercial real estate mortgage loans held for investment by the calendar year of origination and geographic location as of June 30, 2017:

(Dollars In Thousands)	Calendar Year of Origination									YTD June 30, 2017	Total ⁽³⁾⁽⁴⁾
	2009 & Prior	2010	2011	2012	2013	2014	2015	2016	2017		
Loan balance	\$1,506	\$342	\$ —	\$12,879	\$13,288	\$22,441	\$22,180	\$17,815	\$7,111	\$97,562	
Weighted average LTV ⁽¹⁾	27	%54	%—	%47	%46	%44	%42	%51	%39	%45	%
Weighted average debt coverage ratio ⁽²⁾	1.87x	1.25x	—	1.89x	1.66x	1.94x	1.79x	1.58x	2.11x	1.80x	
Weighted average age (in years)	15.48	7.10	—	4.74	3.93	2.90	1.96	1.10	0.25	2.76	
Weighted average FICO ⁽²⁾	729	703	—	752	759	756	755	759	745	755	
Number of loans	7	2	—	11	19	28	28	23	12	130	
Geographic breakdown (%):											
Inland Empire	77	%50	%—	%74	%23	%36	%28	%11	%16	%32	%
Southern California (other than Inland Empire)	23	%50	%—	%26	%47	%45	%32	%62	%54	%43	%
Other California	—	%—	%—	%—	%30	%19	%40	%27	%30	%25	%
Other states	—	%—	%—	%—	%—	%—	%—	%—	%—	%—	%
	100	%100	%—	%100	%100	%100	%100	%100	%100	%100	%

(1) LTV is the ratio derived by dividing the current loan balance by the lower of the original appraised value or purchase price of the real estate collateral at the time of loan origination.

(2) At time of loan origination.

(3) Comprised of the following: \$41.9 million in mixed use; \$14.5 million in retail; \$10.4 million in mobile home park; \$10.1 million in office; \$6.0 million in warehouse; \$5.0 million in medical/dental office; \$3.7 million in mini-storage; \$2.6 million in restaurant/fast food; \$1.8 million in light industrial/manufacturing; and \$1.6 million in automotive - non gasoline.

(4) Consists of \$91.8 million or 94.1% in investment properties and \$5.8 million or 5.9% in owner occupied properties.

Construction Mortgage Loans. The Bank originates from time to time two types of construction loans: short-term construction loans and construction/permanent loans. During fiscal 2017 and 2016, the Bank originated a total of \$12.1 million and \$14.7 million of construction loans, respectively. As of June 30, 2017 and 2016, the Bank had \$16.0 million and \$14.7 million of construction loans, respectively, of which \$9.0 million and \$11.3 million, respectively, was undisbursed.

The composition of the Bank's construction loan portfolio is as follows:

At June 30,

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	2017		2016	
	Amount	Percent	Amount	Percent
(Dollars In Thousands)				
Short-term construction	\$ 16,009	100.00%	\$ 14,175	96.74 %
Construction/permanent	—	— %	478	3.26 %
	\$ 16,009	100.00%	\$ 14,653	100.00%

Short-term construction loans include three types of loans: custom construction, tract construction, and speculative construction. Additionally, from time to time, the Bank makes short-term (18 to 36 month) lot loans to facilitate land acquisition prior to the start of construction. For additional information on lot loans, see “Other Mortgage Loans” below. The Bank provides construction financing for single-family, multi-family and commercial real estate properties. Custom construction loans are made to individuals who, at the time of application, have a contract executed with a builder to construct their residence. Custom construction loans are generally originated for a term of 12 months, with fixed interest rates at the prime lending rate plus a margin and with loan-to-value ratios of up to 75% of the appraised value of the completed property. The owner secures long-term permanent financing

at the completion of construction.

The Bank makes tract construction loans to subdivision builders. These subdivisions are usually financed and built in phases. A thorough analysis of market trends and demand within the area are reviewed for feasibility. Tract construction may include the building and financing of model homes under a separate loan. The terms for tract construction loans are generally 12 months with interest rates fixed at a margin above the prime lending rate. At June 30, 2017, there were no tract construction loans.

Speculative construction loans are made to home builders and are termed “speculative” because the home builder does not have, at the time of loan origination, a signed sale contract with a home buyer who has a commitment for permanent financing with either the Bank or another lender for the finished home. The home buyer may be identified during or after the construction period. The builder may be required to debt service the speculative construction loan for a significant period of time after the completion of construction until the homebuyer is identified. At June 30, 2017, there were six single-family speculative construction loans of \$5.4 million with \$2.6 million of undisbursed funds.

Construction/permanent loans automatically roll from the construction to the permanent phase. The construction phase of a construction/permanent loan generally lasts nine to 12 months and the interest rate charged is generally fixed at a margin above prime rate and with a loan-to-value ratio of up to 75% of the appraised value of the completed property. At June 30, 2017, there were no construction/permanent loans.

Construction loans under \$1.0 million are approved by Bank personnel specifically designated to approve construction loans. The Bank’s Loan Committee, comprised of the Chief Executive Officer, Chief Lending Officer, Chief Financial Officer and Vice President - Loan Administration, approves all construction loans over \$1.0 million. Prior to approval of any construction loan, an independent fee appraiser inspects the site and the Bank reviews the existing or proposed improvements, identifies the market for the proposed project, and analyzes the pro-forma data and assumptions on the project. In the case of a tract or speculative construction loan, the Bank reviews the experience and expertise of the builder. The Bank obtains credit reports, financial statements and tax returns on the borrowers and guarantors, an independent appraisal of the project, and any other expert report necessary to evaluate the proposed project. In the event of cost overruns, the Bank requires the borrower to deposit their own funds into a loan-in-process account, which the Bank disburses consistent with the completion of the subject property pursuant to a revised disbursement schedule.

The construction loan documents require that construction loan proceeds be disbursed in increments as construction progresses. Disbursements are based on periodic on-site inspections by independent fee inspectors and Bank personnel. At inception, the Bank also requires borrowers to deposit funds into the loan-in-process account covering the difference between the actual cost of construction and the loan amount. The Bank regularly monitors the construction loan portfolio, economic conditions and housing inventory. The Bank’s property inspectors perform periodic inspections. The Bank believes that the internal monitoring system helps reduce many of the risks inherent in its construction loans.

Construction loans afford the Bank the opportunity to achieve higher interest rates and fees with shorter terms to maturity than its single-family mortgage loans. Construction loans, however, are generally considered to involve a higher degree of risk than single-family mortgage loans because of the inherent difficulty in estimating both a property’s value at completion of the project and the cost of the project. The nature of these loans is such that they are generally more difficult to evaluate and monitor. If the estimate of construction costs proves to be inaccurate, the Bank may be required to advance funds beyond the amount originally committed to permit completion of the project. If the estimate of value upon completion proves to be inaccurate, the Bank may be confronted with a project whose value is insufficient to assure full repayment. Projects may also be jeopardized by disagreements between borrowers

and builders and by the failure of builders to pay subcontractors. Loans to builders to construct homes for which no purchaser has been identified carry additional risk because the payoff for the loan depends on the builder's ability to sell the property prior to the time that the construction loan matures. The Bank has sought to address these risks by adhering to strict underwriting policies, disbursement procedures and monitoring practices. In addition, because the Bank's construction lending is in its primary market area, changes in the local or regional economy and real estate market could adversely affect the Bank's construction loans held for investment.

Other Mortgage Loans. There were no other mortgage loans at June 30, 2017 as compared to \$332,000 at June 30, 2016. The Bank makes land loans from time to time, primarily lot loans, to accommodate borrowers who intend to build on the land within a specified period of time.

Participation Loan Purchases and Sales. In an effort to expand production and diversify risk, the Bank purchases loans and loan participations, with collateral primarily in California, which allows for greater geographic distribution outside of the Bank's primary lending areas. The Bank generally purchases between 50% and 100% of the total loan amount. When the Bank purchases a participation loan, the lead lender will usually retain a servicing fee, thereby decreasing the loan yield. This servicing fee

approximates the expense the Bank would incur if the Bank were to service the loan. All properties serving as collateral for loan participations are inspected by an employee of the Bank or a third party inspection service prior to being approved by the Loan Committee and the Bank relies upon the same underwriting criteria required for those loans originated by the Bank. The Bank purchased \$61.7 million of loans to be held for investment (primarily multi-family loans) in fiscal 2017, compared to \$45.9 million of purchased loans to be held for investment (primarily multi-family loans) in fiscal 2016. As of June 30, 2017, total loans serviced by other financial institutions were \$23.3 million, as compared to \$807,000 at June 30, 2016. As of June 30, 2017, all loans serviced by others were performing according to their contractual payment terms.

The Bank also sells participating interests in loans when it has been determined that it is beneficial to diversify the Bank's risk. Participation sales enable the Bank to maintain acceptable loan concentrations and comply with the Bank's loans to one borrower policy. Generally, selling a participating interest in a loan increases the yield to the Bank on the portion of the loan that is retained. In fiscal 2017, the Bank sold one construction loan participation interest of \$2.57 million, where \$206,000 was disbursed in fiscal 2017 and none were sold in fiscal 2016.

Commercial Business Loans. The Bank has a Business Banking Department that primarily serves businesses located within the Inland Empire. Commercial business loans allow the Bank to diversify its lending and increase the average loan yield. As of June 30, 2017, commercial business loans were \$576,000, or 0.1% of loans held for investment, a decrease of \$60,000, or 9%, during fiscal 2017 from \$636,000, or 0.1% of loans held for investment at June 30, 2016. These loans represent secured and unsecured lines of credit and term loans secured by business assets.

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

Commercial business loans involve greater risk than residential mortgage loans and involve risks that are different from those associated with residential and commercial real estate loans. Real estate loans are generally considered to be collateral based lending with loan amounts based on predetermined loan to collateral value and liquidation of the underlying real estate collateral is viewed as the primary source of repayment in the event of borrower default. Although commercial business loans are often collateralized by equipment, inventory, accounts receivable or other business assets including real estate, the liquidation of collateral in the event of a borrower default is often an insufficient source of repayment because accounts receivable may not be collectible and inventories and equipment may be obsolete or of limited use. Accordingly, the repayment of a commercial business loan depends primarily on the creditworthiness of the borrower (and any guarantors), while liquidation of collateral is secondary and oftentimes an insufficient source of repayment. At June 30, 2017, the Bank had \$65,000 of non-performing commercial business loans, net of allowances and charge-offs, down 14% from \$76,000 at June 30, 2016. During fiscal 2017, the Bank had a \$75,000 net recovery on commercial business loans, as compared to an \$85,000 net recovery during fiscal 2016.

Consumer Loans. At June 30, 2017, the Bank's consumer loans were \$129,000, or less than 0.1% of the Bank's loans held for investment, a decrease of \$74,000, or 36%, from \$203,000, or less than 0.1% of the Bank's loans held for investment at June 30, 2016. The Bank offers open-ended lines of credit on either a secured or unsecured basis. The Bank offers secured savings lines of credit which have an interest rate that is four percentage points above the COFI, which adjusts monthly. Secured savings lines of credit at June 30, 2017 and 2016 were \$18,000 and \$77,000, respectively, and were included in consumer loans.

Consumer loans potentially have a greater risk than residential mortgage loans, particularly in the case of loans that are unsecured. Consumer loan collections are dependent on the borrower's ongoing financial stability, and thus are more likely to be adversely affected by job loss, illness or personal bankruptcy. Furthermore, the application of various federal and state laws, including federal and state bankruptcy and insolvency laws, may limit the amount that can be recovered on such loans. The Bank had no consumer loans at June 30, 2017 as compared to one consumer loan on a non-performing basis that was fully reserved at June 30, 2016. During fiscal 2017, the Bank had \$10,000 of net recoveries on consumer loans, as compared to net charge-offs of \$1,000 during fiscal 2016.

Mortgage Banking Activities

General. Mortgage banking involves the origination and sale of single-family mortgages (first and second trust deeds), including equity lines of credit, by PBM for the purpose of generating gains on sale of loans and fee income on the origination of loans. PBM also originates single-family loans to be held for investment. Due to the recent economic and real estate conditions and consistent with the Bank's short-term strategy, PBM has been primarily originating loans and, to a lesser extent, purchasing loans for sale to investors. Given current pricing in the mortgage markets, the Bank sells the majority of its loans on a servicing-released basis. Generally, the level of loan sale activity and, therefore, its contribution to the Bank's profitability depends on maintaining a sufficient volume of loan originations. Changes in the level of interest rates and the California economy affect the number of loans originated by PBM and, thus, the amount of loan sales, gain on sale of loans, net interest income and loan fees earned. The origination and purchase of loans, primarily fixed rate loans, was \$1.99 billion, \$2.00 billion and \$2.52 billion during fiscal 2017, 2016 and 2015, respectively, including \$76.5 million, \$36.6 million and \$40.2 million, respectively, of loans originated and purchased for investment. The total loan origination volume in fiscal 2017 was slightly lower than fiscal 2016, primarily as a result of a decrease in refinance activity, partly offset by an increase in loans originated for home purchases.

Loan Solicitation and Processing. The Bank's mortgage banking operations consist of both wholesale and retail loan originations. The Bank's wholesale loan production utilizes a network of approximately 500 loan brokers approved by the Bank who originate and submit loans at a markup over the Bank's daily published price. Accepted loans are funded and sold by the Bank. Wholesale loans originated and purchased for sale in fiscal 2017, 2016 and 2015 were \$915.9 million, \$940.6 million and \$1.30 billion, respectively. PBM has two regional wholesale lending offices: one in Pleasanton and one in Rancho Cucamonga, California, housing wholesale originators, underwriters and processors.

PBM's retail loan production operations utilize loan officers, underwriters and processors. PBM's loan officers generate retail loan originations primarily through referrals from realtors, builders, employees and customers. As of June 30, 2017, PBM operated nine stand-alone retail loan production offices in Atascadero, Brea, Escondido, Glendora, Rancho Cucamonga, Riverside (3) and Roseville, California. Generally, the cost of retail operations exceeds the cost of wholesale operations as a result of the additional employees needed for retail operations. The revenue per mortgage for retail originations is, however, generally higher since the origination fees are retained by the Bank instead of the wholesale loan broker. Retail loans originated and purchased for sale in fiscal 2017, 2016 and 2015 were \$997.1 million, \$1.02 billion and \$1.18 billion, respectively.

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

Loan Commitments and Rate Locks. The Bank issues commitments for residential mortgage loans conditioned upon the occurrence of certain events. Such commitments are made with specified terms and conditions. Interest rate locks are generally offered to prospective borrowers for up to a 60-day period. The borrower may lock in the rate at any time from application until the time they wish to close the loan. Occasionally, borrowers obtaining financing in new home developments are offered rate locks for up to 120 days from application. The Bank's outstanding commitments to originate loans to be held for sale at June 30, 2017 and 2016 were \$92.7 million and \$181.8 million, respectively. For additional information, see Note 15 of the Notes to Consolidated Financial Statements contained in Item 8 of this Form 10-K. When the Bank issues a loan commitment to a borrower, there is a risk to the Bank that a rise in interest rates will reduce the value of the mortgage before it can be closed and sold. To control the interest rate risk caused by mortgage banking activities, the Bank uses loan sale commitments and over-the-counter put and call option contracts related to mortgage-backed securities. If the Bank is unable to reasonably predict the amount of loan commitments

which may not fund (fallout), the Bank may enter into “best-efforts” loan sale commitments. For additional information, see “Derivative Activities” below.

Loan Origination and Other Fees. The Bank may receive origination points and loan fees. Origination points are a percentage of the principal amount of the mortgage loan, which is charged to a borrower for funding a loan. The amount of points charged by the Bank ranges from 0% to 2.5%. Current accounting standards require points and fees received for originating loans held for investment (net of certain loan origination costs) to be deferred and amortized into interest income over the contractual life of the loan. Origination costs and fees for loans held for sale and loans held for investment recorded at fair value are recognized in non-interest income under gain (loss) on sale of loans, net, as incurred and not deferred. At June 30, 2017 and 2016, the Bank had \$5.5 million and \$4.4 million of unamortized deferred loan origination costs (net) in loans held for investment, respectively.

Loan Originations, Sales and Purchases. The Bank’s mortgage originations include loans insured by the FHA and VA as well as conventional loans. Except for loans originated as held for investment, loans originated through mortgage banking activities

are intended for eventual sale into the secondary market. As such, these loans must meet the origination and underwriting criteria established by secondary market investors. The Bank sells a large percentage of the mortgage loans that it originates as whole loans to investors. The Bank also sells conforming whole loans to Fannie Mae and Freddie Mac. For additional information, see "Derivative Activities" on the following page.

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

(In Thousands)	Year Ended June 30,		
	2017	2016	2015
Loans originated and purchased for sale:			
Retail originations	\$997,142	\$1,022,296	\$1,175,413
Wholesale originations	915,896	940,573	1,305,302
Total loans originated and purchased for sale ⁽¹⁾	1,913,038	1,962,869	2,480,715
Loans sold:			
Servicing released	(1,935,349)	(1,948,423)	(2,392,251)
Servicing retained	(38,250)	(45,798)	(17,663)
Total loans sold ⁽²⁾	(1,973,599)	(1,994,221)	(2,409,914)
Loans originated for investment:			
Mortgage loans:			
Single-family	80,280	39,177	41,317
Multi-family	87,511	91,988	83,016
Commercial real estate	11,989	24,061	26,948
Construction	12,123	14,654	6,825
Other	—	332	—
Commercial business loans	45	—	372
Consumer loans	1	1	1
Total loans originated for investment ⁽³⁾	191,949	170,213	158,479
Loans purchased for investment:			
Mortgage loans:			
Single-family	19,516	2,233	303
Multi-family	42,188	41,741	16,302
Commercial real estate	—	1,950	—
Total loans purchased for investment ⁽³⁾	61,704	45,924	16,605
Loan principal repayments	(196,993)	(187,017)	(134,175)
Real estate acquired in the settlement of loans	(1,845)	(6,347)	(3,044)
Decrease in other items, net ⁽⁴⁾	(2,267)	(890)	(741)
Net (decrease) increase in loans held for investment and loans held for sale at fair value	\$(8,013)	\$(9,469)	\$107,925

(1) Includes PBM loans originated and purchased for sale during fiscal 2017, 2016 and 2015 totaling \$1.91 billion, \$1.96 billion and \$2.48 billion, respectively.

(2) Includes PBM loans sold during fiscal 2017, 2016 and 2015 totaling \$1.97 billion, \$1.99 billion and \$2.41 billion, respectively.

(3) Includes PBM loans originated and purchased for investment during fiscal 2017, 2016 and 2015 totaling \$76.5 million, \$36.6 million, and \$40.2 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 investment, fair value of loans held for sale, advance payments of escrows and repurchases.

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

Loans previously sold by the Bank to the FHLB – San Francisco under its Mortgage Partnership Finance (“MPF”) program have a recourse provision. The FHLB – San Francisco absorbs the first four basis points of loss, and a credit scoring process is used to calculate the credit enhancement or recourse amount to the Bank once the first four basis points is exhausted. All losses above this calculated recourse amount are the responsibility of the FHLB – San Francisco in addition to the first four basis points of loss. The FHLB – San Francisco pays the Bank a credit enhancement fee on a monthly basis to compensate the Bank for accepting the recourse obligation. As of June 30, 2017 and 2016, the Bank serviced \$15.1 million and \$20.4 million, respectively, of loans under this program and has established a recourse liability of \$105,000 and \$242,000, respectively. In fiscal 2017, 2016 and 2015, a net (recovery) loss of \$0, \$(15,000) and \$32,000, respectively, was realized under this program.

Occasionally, the Bank is required to repurchase loans sold to Fannie Mae, Freddie Mac or other investors if it is determined that such loans do not meet the credit requirements of the investor, or if one of the parties involved in the loan misrepresented pertinent facts, committed fraud, or if such loans were 30 days past due within 120 days of the loan funding date. During fiscal 2017, 2016 and 2015, the Bank repurchased \$1.7 million, \$1.7 million and \$1.6 million of single-family mortgage loans, respectively. However, additional repurchase requests were settled for an aggregate of \$11,000, \$470,000 and \$22,000 in fiscal 2017, 2016 and 2015, respectively, that did not result in the repurchase of the loan itself. In fiscal 2016, the Bank entered into a global settlement with one of the Bank's legacy loan investors, which eliminated all past, current and future repurchase claims from this particular investor, in exchange for a one-time \$400,000 payment.

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

Under mandatory loan sale commitments, usually with Fannie Mae, Freddie Mac or other investors, the Bank is obligated to sell certain dollar amounts of mortgage loans that meet specific underwriting and legal criteria before the expiration of the commitment period. These terms include the maturity of the individual loans, the yield to the purchaser, the servicing spread to the Bank (if servicing is retained) and the maximum principal amount of the individual loans. The mandatory loan sale commitments protect loan sale prices from interest rate fluctuations that may occur from the time the interest rate of the loan is established to the time of its sale. The amount of and delivery date of the loan sale commitments are based upon management's estimates as to the volume of loans that will close and the length of the origination commitments. The mandatory loan sale commitments do not provide complete interest-rate protection, however, because of the possibility of loans which may not fund during the origination process. Differences between the estimated volume and timing of loan originations and the actual volume and timing

of loan originations can expose the Bank to significant losses. If the Bank is unable to deliver the mortgage loans during the appropriate delivery period, the Bank may be required to pay a non-delivery fee or repurchase the commitments at current market prices. Similarly, if the Bank has too many loans to deliver, the Bank must execute additional loan sale commitments at current market prices, which may be unfavorable to the Bank. Generally, the Bank seeks to maintain loan sale commitments equal to the funded loans held for sale at fair value, plus those applications that the Bank has rate locked and/or committed to close, adjusted by the projected fallout. The ultimate accuracy of such projections will directly bear upon the amount of interest rate risk incurred by the Bank.

The activities described above are managed continually as markets change; however, there can be no assurance that the Bank will be successful in its effort to eliminate the risk of interest rate fluctuations between the time origination commitments are issued and the ultimate sale of the loan. The Bank completes a daily analysis, which reports the Bank's interest rate risk position with respect to its loan origination and sale activities. The Bank's interest rate risk management activities are conducted in accordance with a written policy that has been approved by the Bank's Board of Directors which covers objectives, functions, instruments to

be used, monitoring and internal controls. The Bank does not enter into option positions for trading or speculative purposes and does not enter into option contracts that could generate a financial obligation beyond the initial premium paid. The Bank does not apply hedge accounting to its derivative financial instruments; therefore, all changes in fair value are recorded in earnings.

At June 30, 2017, the Bank had call and put option contracts outstanding with a notional value of \$2.0 million and \$5.0 million, respectively. This compares to put option contracts outstanding with a notional value of \$5.0 million and no call option contracts outstanding at June 30, 2016. At June 30, 2017 and 2016, the Bank had outstanding mandatory loan sale commitments of \$21.8 million and \$4.7 million, respectively; outstanding TBA MBS trades of \$158.0 million and \$298.0 million, respectively; outstanding best-efforts loan sale commitments of \$17.2 million and \$29.6 million, respectively; and commitments to originate loans to be held for sale of \$92.7 million and \$181.8 million, respectively. For additional information, see Note 15 of the Notes to Consolidated Financial Statements contained in Item 8 of this Form 10-K. Additionally, as of June 30, 2017 and 2016, the Bank's loans held for sale at fair value were \$116.5 million and \$189.5 million, respectively, which were also covered by the loan sale commitments described above. For fiscal 2017 and 2016, the Bank had a net loss of \$3.4 million and a net gain of \$742,000, respectively, attributable to the underlying derivative financial instruments used to mitigate the interest rate risk of its mortgage banking activities and the fair-value adjustment on loans held for sale.

Loan Servicing

The Bank receives fees from a variety of investors in return for performing the traditional services of collecting individual loan payments on loans sold by the Bank to such investors. At June 30, 2017, the Bank was servicing \$119.3 million of loans for others, an increase from \$105.5 million at June 30, 2016. The increase was primarily attributable to loans sold with servicing retained during fiscal 2017, partly offset by loan prepayments. Loan servicing includes processing payments, accounting for loan funds and collecting and paying real estate taxes, hazard insurance and other loan-related items such as private mortgage insurance. After the Bank receives the gross mortgage payment from individual borrowers, it remits to the investor a predetermined net amount based on the loan sale agreement for that mortgage.

Servicing assets are amortized in proportion to and over the period of the estimated net servicing income and are carried at the lower of cost or fair value. The fair value of servicing assets is determined by calculating the present value of the estimated net future cash flows consistent with contractually specified servicing fees. The Bank periodically evaluates servicing assets for impairment, which is measured as the excess of cost over fair value. This review is performed on a disaggregated basis, based on loan type and interest rate. Generally, loan servicing becomes more valuable when interest rates rise (as prepayments typically decrease) and less valuable when interest rates decline (as prepayments typically increase). In estimating fair values at June 30, 2017 and 2016, the Bank used a weighted average Constant Prepayment Rate ("CPR") of 17.02% and 19.68%, respectively, and a weighted-average discount rate of 9.11% and 9.07%, respectively. The required impairment reserve against servicing assets at June 30, 2017 and 2016 was \$158,000 and \$168,000, respectively. In aggregate, servicing assets had a carrying value of \$739,000 and a fair value of \$811,000 at June 30, 2017, compared to a carrying value of \$627,000 and a fair value of \$627,000 at June 30, 2016.

Rights to future income from serviced loans that exceed contractually specified servicing fees are recorded as interest-only strips. Interest-only strips are carried at fair value, utilizing the same assumptions used to calculate the value of the underlying servicing assets, with any unrealized gain or loss, net of tax, recorded as a component of accumulated other comprehensive income (loss). Interest-only strips had a fair value of \$31,000, gross unrealized gains of \$31,000 and no amortized cost at June 30, 2017, compared to a fair value of \$47,000, gross unrealized gains of \$47,000 and no amortized cost at June 30, 2016.

Delinquencies and Classified Assets

Delinquent Loans. When a mortgage loan borrower fails to make a required payment when due, the Bank initiates collection procedures. In most cases, delinquencies are cured promptly; however, if the loan remains delinquent on the 120th day for single-family loans or the 90th day for other loans, or sooner if the borrower is chronically delinquent, and after all reasonable means of obtaining the payment have been exhausted, foreclosure proceedings, according to the terms of the security instrument and applicable law, are initiated. Interest income is reduced by the full amount of accrued and uncollected interest on such loans.

The following tables identify the Corporation's total recorded investment in non-performing loans by type at the dates and for the periods indicated. Generally, a loan is placed on non-accrual status when it becomes 90 days past due as to principal or interest or if the loan is deemed impaired, after considering economic and business conditions and collection efforts, where the borrower's financial condition is such that collection of the contractual principal or interest on the loan is doubtful. In addition, interest income is not recognized on any loan where management has determined that collection is not reasonably assured. A non-performing loan may be restored to accrual status when delinquent principal and interest payments are brought current and future monthly principal and interest payments are expected to be collected on a timely basis. Loans with a related allowance reserve have been individually evaluated for impairment using either a discounted cash flow analysis or, for collateral dependent loans, current appraised value less the costs to sell to establish realizable value. These analysis may identify a specific impairment amount needed or may conclude that no reserve is needed. Loans that are not individually evaluated for impairment are included in pools of homogeneous loans for evaluation of related allowance reserves.

(In Thousands)	At or For the Year Ended June 30, 2017						Interest Income Recognized
	Unpaid Principal Balance	Related Charge-offs	Recorded Investment	Allowance ⁽¹⁾	Net Recorded Investment	Average Recorded Investment	
Mortgage loans:							
Single-family:							
With a related allowance	\$ 1,821	\$ —	\$ 1,821	\$ (325)	) \$ 1,496	\$ 1,702	\$ 82
Without a related allowance ⁽²⁾	7,119	(886)	) 6,233	—	6,233	7,726	249
Total single-family	8,940	(886)	) 8,054	(325)	) 7,729	9,428	331
Multi-family:							
With a related allowance	—	—	—	—	—	140	21
Without a related allowance ⁽²⁾	—	—	—	—	—	312	29
Total multi-family	—	—	—	—	—	452	50
Commercial real estate:							
Without a related allowance ⁽²⁾	201	—	201	—	201	84	2
Total commercial real estate	201	—	201	—	201	84	2
Commercial business loans:							
With a related allowance	80	—	80	(15)	) 65	87	6
Total commercial business loans	80	—	80	(15)	) 65	87	6
Total non-performing loans	\$9,221	\$ (886)	) \$ 8,335	\$ (340)	) \$ 7,995	\$ 10,051	\$ 389

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

(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 loan balance.

(In Thousands)	At or For the Year Ended June 30, 2016				Net Recorded Investment	Average Recorded Investment	Interest Income Recognized
	Unpaid Principal Balance	Related Charge-offs	Recorded Investment	Allowance ⁽¹⁾			
Mortgage loans:							
Single-family:							
With a related allowance	\$3,328	\$ —	\$ 3,328	\$ (773)	) \$ 2,555	\$ 2,514	\$ 85
Without a related allowance ⁽²⁾	8,339	(1,370)	) 6,969	—	) 6,969	8,344	63
Total single-family	11,667	(1,370)	) 10,297	(773)	) 9,524	10,858	148
Multi-family:							
With a related allowance	468	—	468	(141)	) 327	196	15
Without a related allowance ⁽²⁾	400	(18)	) 382	—	) 382	1,804	568
Total multi-family	868	(18)	) 850	(141)	) 709	2,000	583
Commercial real estate:							
Without a related allowance ⁽²⁾	—	—	—	—	—	589	28
Total commercial real estate	—	—	—	—	—	589	28
Commercial business loans:							
With a related allowance	96	—	96	(20)	) 76	101	7
Total commercial business loans	96	—	96	(20)	) 76	101	7
Consumer loans:							
Without a related allowance ⁽²⁾	13	(13)) —	—	—	—	—
Total consumer loans	13	(13)) —	—	—	—	—
Total non-performing loans	\$ 12,644	\$ (1,401)	) \$ 11,243	\$ (934)	) \$ 10,309	\$ 13,548	\$ 766

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

(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 loan balance.

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

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

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

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

property value and modified payment schedule, among other considerations, to determine if the borrower qualifies.

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

(Dollars In Thousands)	At June 30,		2016		2015	
	2017		30 - 89		30 - 89	
	30 - 89	Non-performing	30 - 89	Non-performing	30 - 89	Non-performing
	Days	Loans	Days	Loans	Days	Loans
	Principal	Number	Principal	Number	Principal	Number
	of Balance	of Loans	of Balance	of Loans	of Balance	of Loans
	of Loans	of Loans	of Loans	of Loans	of Loans	of Loans
Mortgage loans:						
Single-family	3 \$ 1,035	27 \$ 8,016	4 \$ 1,644	35 \$ 10,258	3 \$ 1,335	34 \$ 10,542
Multi-family	—	—	—	2 850	—	4 2,246
Commercial real estate	—	1 201	—	—	—	5 1,699
Commercial business loans	—	1 80	—	1 96	—	1 109
Consumer loans	—	—	1 —	1 —	1 —	—
Total	3 \$ 1,035	29 \$ 8,297	5 \$ 1,644	39 \$ 11,204	4 \$ 1,335	44 \$ 14,596

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

(Dollars In Thousands)	At June 30,					
	2017	2016	2015	2014	2013	
Loans on non-performing status (excluding restructured loans):						
Mortgage loans:						
Single-family	\$4,668	\$6,292	\$7,010	\$7,442	\$8,129	
Multi-family	—	709	653	1,333	1,236	
Commercial real estate	201	—	680	1,552	3,218	
Commercial business loans	—	—	—	—	7	
Total	4,869	7,001	8,343	10,327	12,590	
Accruing loans past due 90 days or more	—	—	—	—	—	
Restructured loans on non-performing status:						
Mortgage loans:						
Single-family	3,061	3,232	2,902	2,957	5,094	
Multi-family	—	—	1,593	1,760	2,521	
Commercial real estate	—	—	1,019	800	1,354	
Commercial business loans	65	76	89	92	123	
Total	3,126	3,308	5,603	5,609	9,092	
Total non-performing loans	7,995	10,309	13,946	15,936	21,682	
Real estate owned, net	1,615	2,706	2,398	2,467	2,296	
Total non-performing assets	\$9,610	\$13,015	\$16,344	\$18,403	\$23,978	
Non-performing loans as a percentage of loans held for investment, net	0.88	% 1.23	% 1.71	% 2.06	% 2.90	%
Non-performing loans as a percentage of total assets	0.67	% 0.88	% 1.19	% 1.44	% 1.79	%
Non-performing assets as a percentage of total assets	0.80	% 1.11	% 1.39	% 1.66	% 1.98	%

The following table describes the non-performing loans, net of allowance for loan losses and fair value adjustments, by the calendar year of origination as of June 30, 2017:

(Dollars In Thousands)	Calendar Year of Origination								YTD June 30, 2017 Total
	2009 & Prior	2010	2011	2012	2013	2014	2015	2016	
Mortgage loans:									
Single-family	\$7,640	\$	\$	\$ 89	\$	\$	\$	\$	\$7,729
Commercial real estate	201	—	—	—	—	—	—	—	201

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Commercial business loans	65	—	—	—	—	—	—	—	65
Total		\$7,906	\$	\$ 89	\$	\$	\$	\$	\$7,995

The following table describes the non-performing loans, net of allowance for loan losses and fair value adjustments, by the geographic location as of June 30, 2017:

(Dollars In Thousands)	Inland Empire	Southern California ⁽¹⁾	Other California ⁽²⁾	Other States	Total
Mortgage loans:					
Single-family	\$ 2,221	\$ 4,409	\$ 1,099	\$ —	\$ 7,729
Commercial real estate	201	—	—	—	201
Commercial business loans	65	—	—	—	65
Total	\$ 2,487	\$ 4,409	\$ 1,099	\$ —	\$ 7,995

⁽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 June 30, 2017		At June 30, 2016	
	Balance	Count	Balance	Count
Special mention loans:				
Mortgage loans:				
Single-family	\$3,443	9	\$4,896	14
Multi-family	272	1	3,974	4
Total special mention loans	3,715	10	8,870	18
Substandard loans:				
Mortgage loans:				
Single-family	7,729	29	9,524	37
Multi-family	—	—	709	2
Commercial real estate	201	1	—	—
Commercial business loans	65	1	76	1
Consumer loans	—	—	—	1
Total substandard loans	7,995	31	10,309	41
Total classified loans	11,710	41	19,179	59
Real estate owned:				
Single-family	1,615	2	2,706	4
Total real estate owned	1,615	2	2,706	4
Total classified assets	\$13,325	43	\$21,885	63

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

evaluated allowance and charges off those loans or portions of loans deemed uncollectible.

During the fiscal years ended June 30, 2017 and 2016, there were no newly restructured loans. Additionally, during the fiscal year ended June 30, 2017, one restructured loan with a total balance of \$85,000 had its modification extended beyond the initial maturity of the modification; while in fiscal 2016, there was no restructured loan whose modification was extended beyond the initial maturity of the modification. As of June 30, 2017, the outstanding balance of restructured loans was \$3.6 million, comprised of 10 loans. These restructured loans are classified as follows: one loan is classified as special mention and remains on accrual status (\$506,000) and nine loans are classified as substandard on non-performing status (\$3.1 million). As of June 30, 2017, 46%, or \$1.7 million of the restructured loans have a current payment status, consistent with their modified terms. The Bank upgrades restructured single-family loans to the pass category if the borrower has demonstrated satisfactory contractual payments for at least six consecutive months or 12 months for those loans that were restructured more than once and there is a reasonable assurance that the payments will continue. Once the borrower has demonstrated satisfactory contractual payments beyond 12 consecutive months, the loan is no longer categorized as a restructured loan.

The following table shows the restructured loans by type, net of allowance for loan losses, at June 30, 2017 and 2016 :

(In Thousands)	At June 30, 2017				Net Recorded Investment
	Unpaid Principal Balance	Related Charge-offs	Recorded Investment	Allowance ⁽¹⁾	
Mortgage loans:					
Single-family:					
With a related allowance	\$485	\$ —	\$ 485	\$ (97	) \$ 388
Without a related allowance ⁽²⁾	3,618	(439	) 3,179	—	3,179
Total single-family	4,103	(439	) 3,664	(97	) 3,567
Commercial business loans:					
With a related allowance	80	—	80	(15	) 65
Total commercial business loans	80	—	80	(15	) 65
Total restructured loans	\$4,183	\$ (439	) \$ 3,744	\$ (112	) \$ 3,632

⁽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 loan balance.

(In Thousands)	At June 30, 2016				
	Unpaid Principal Balance	Related Charge-offs	Recorded Investment	Allowance ⁽¹⁾	Net Recorded Investment
Mortgage loans:					
Single-family					
With a related allowance	\$999	\$ —	\$ 999	\$ (200)	) \$ 799
Without a related allowance ⁽²⁾	4,507	(784)	) 3,723	—	) 3,723
Total single-family	5,506	(784)	) 4,722	(200)	) 4,522
Commercial business loans:					
With a related allowance	96	—	96	(20)	) 76
Total commercial business loans	96	—	96	(20)	) 76
Total restructured loans	\$5,602	\$ (784)	) \$ 4,818	\$ (220)	) \$ 4,598

(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 loan balance.

As of June 30, 2017, total non-performing assets, net of allowance for loan losses and fair value adjustments, were \$9.6 million, or 0.80% of total assets, which was primarily comprised of: 27 single-family loans (\$7.7 million); one commercial real estate loan (\$201,000); one commercial business loan (\$65,000); and real estate owned comprised of two single-family properties (\$1.6 million). As of June 30, 2017, 47%, or \$3.7 million of non-performing loans had a current payment status. This compares to total non-performing assets, net of allowance for loan losses and fair value adjustments, of \$13.0 million, or 1.11% of total assets, with \$6.1 million, or 59%, of non-performing loans with a current payment status at June 30, 2016.

Foregone interest income, which would have been recorded for the fiscal years ended June 30, 2017 and 2016 had the non-performing loans been current in accordance with their original terms, amounted to \$68,000 and \$118,000, respectively, and was not included in the results of operations for the fiscal years ended June 30, 2017 and 2016 .

Other Loans of Concern. As of June 30, 2017, \$3.7 million of loans which were not disclosed as non-performing loans were classified as special mention because known information about possible credit problems of the borrowers causes management to have some doubt as to the ability of such borrowers to comply with present loan repayment terms. Of these loans, \$3.4 million were single-family mortgage loans and \$272,000 was a multi-family mortgage loan. As of June 30, 2016, \$8.9 million of loans which were not disclosed as non-performing loans were classified by the Bank as special mention for the same reasons. In addition, as of June 30, 2017 and 2016, all substandard loans were disclosed above as non-performing loans.

Foreclosed Real Estate. Real estate acquired by the Bank as a result of foreclosure or by deed-in-lieu of foreclosure is classified as real estate owned until it is sold. When a property is acquired, it is recorded at its market value less the estimated cost of sale. Subsequent declines in value are charged to operations. As of June 30, 2017, the real estate owned balance was \$1.6 million (two single-family properties), located in California and Arizona, compared to \$2.7 million (four single-family properties) at June 30, 2016, of which three are located in California and one property is located in Arizona. In managing the real estate owned properties for quick disposition, the Bank completes the necessary repairs and maintenance to the individual properties before listing for sale, obtains new appraisals and broker price opinions (“BPO”) to determine current market listing prices, and engages local realtors who are most

familiar with real estate sub-markets, among other techniques, which generally results in the quick disposition of real estate owned.

Asset Classification. The OCC has adopted various regulations regarding the problem assets of savings institutions. The regulations require that each institution review and classify its assets on a regular basis. In addition, in connection with examinations of institutions, OCC examiners have the authority to identify problem assets and, if appropriate, require them to be classified. There are three classifications for problem assets: substandard, doubtful and loss. Substandard assets have one or more defined weaknesses and are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not

corrected. Doubtful assets have the weaknesses of substandard assets with the additional characteristic that the weaknesses make collection or liquidation in full on the basis of currently existing facts, conditions and values questionable, and there is a high possibility of loss. An asset classified as a loss is considered uncollectible and of such little value that continuance as an asset of the institution is not warranted. If an asset or portion thereof is classified as loss, the institution establishes an individually evaluated allowance and may subsequently charge-off the amount of the asset classified as loss. A portion of the allowance for loan losses established to cover probable losses related to assets classified substandard or doubtful may be included in determining an institution's regulatory capital. Assets that do not currently expose the institution to sufficient risk to warrant classification in one of the aforementioned categories but possess weaknesses are designated as special mention and are closely monitored by the Bank.

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

(Dollars In Thousands)	At June 30,		
	2017	2016	
Special mention loans	\$3,715	\$8,870	
Substandard loans	7,995	10,309	
Total classified loans	11,710	19,179	
Real estate owned, net	1,615	2,706	
Total classified assets	\$13,325	\$21,885	
Total classified assets as a percentage of total assets	1.11	% 1.87	%

Classified assets decreased at June 30, 2017 from the June 30, 2016 level primarily due to loan classification upgrades, disposition of real estate owned properties and a general improvement in the real estate market, resulting in fewer delinquent loans. The classified assets are primarily located in Southern California.

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

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

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

methodology for assessing the appropriateness of the allowance consists of several key elements.

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

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

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

At June 30, 2017, the Bank had an allowance for loan losses of \$8.0 million, or 0.88% of gross loans held for investment, compared to an allowance for loan losses at June 30, 2016 of \$8.7 million, or 1.02% of gross loans held for investment. A \$1.0 million recovery from the allowance for loan losses was recorded in fiscal 2017, compared to a \$1.7 million recovery from the allowance for loan losses in fiscal 2016. Although management believes the best information available is used to make such (recovery) provision, future adjustments to the allowance for loan losses may be necessary and results of operations could be significantly and adversely affected if circumstances differ substantially from the assumptions used in making the determinations.

A portion of the Bank's portfolio of first trust deed, single-family mortgage loans held for investment contains certain non-traditional underwriting characteristics (e.g. interest only, stated income, negative amortization, FICO less than or equal to 660, and/or over 30-year amortization schedule) as described in the section above entitled "Single-Family Mortgage Loans" in this Form 10-K. These loans may have a greater risk of default in comparison to single-family mortgage loans that have been underwritten with more stringent requirements. As a result, the Bank may experience

higher future levels of non-performing single-family loans that may require additional allowances for loan losses and may adversely affect the Bank's financial condition and results of operations.

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

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

(Dollars In Thousands)	Year Ended June 30,					
	2017	2016	2015	2014	2013	
Allowance at beginning of period	\$8,670	\$8,724	\$9,744	\$14,935	\$21,483	
Recovery from the allowance for loan losses	(1,042)	(1,715)	(1,387)	(3,380)	(1,499)	
Recoveries:						
Mortgage Loans:						
Single-family	507	539	635	562	754	
Multi-family	18	1,228	360	345	6	
Commercial real estate	—	216	—	—	—	
Construction	—	—	—	20	—	
Commercial business loans	75	85	—	—	—	
Consumer loans	13	1	1	2	2	
Total recoveries	613	2,069	996	929	762	
Charge-offs:						
Mortgage loans:						
Single-family	(199)	(406)	(552)	(965)	(5,136)	
Multi-family	—	—	(4)	(1,762)	(244)	
Commercial real estate	—	—	(73)	—	(265)	
Other	—	—	—	—	(159)	
Commercial business loans	—	—	—	(9)	—	
Consumer loans	(3)	(2)	—	(4)	(7)	
Total charge-offs	(202)	(408)	(629)	(2,740)	(5,811)	
Net recoveries (charge-offs)	411	1,661	367	(1,811)	(5,049)	
Allowance at end of period	\$8,039	\$8,670	\$8,724	\$9,744	\$14,935	
Allowance for loan losses as a percentage of gross loans held for investment	0.88	% 1.02	% 1.06	% 1.25	% 1.96	%
Net (recoveries) charge-offs as a percentage of average loans receivable, net, during the period	(0.04)	%(0.17)	%(0.04)	%0.21	%0.51	%

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

(Dollars In Thousands)	At June 30, 2017		2016		2015		2014		2013	
	Amount	% of Loans in Each Category to Total Loans	Amount	% of Loans in Each Category to Total Loans	Amount	% of Loans in Each Category to Total Loans	Amount	% of Loans in Each Category to Total Loans	Amount	% of Loans in Each Category to Total Loans
Mortgage loans:										
Single-family	\$3,601	35.16 %	\$4,933	37.93 %	\$5,280	44.47 %	\$5,476	48.43 %	\$9,062	53.09 %
Multi-family	3,420	52.37	2,800	48.59	2,616	42.17	3,142	38.60	4,689	34.45
Commercial real estate	879	10.65	848	11.63	734	12.26	989	12.40	1,053	12.14
Construction	96	1.75	31	1.71	42	0.99	35	0.37	—	0.04
Other	—	—	7	0.04	—	—	—	—	—	—
Commercial business loans	36	0.06	43	0.08	43	0.08	92	0.16	119	0.22
Consumer loans	7	0.01	8	0.02	9	0.03	10	0.04	12	0.06
Total allowance for loan losses	\$8,039	100.00%	\$8,670	100.00%	\$8,724	100.00%	\$9,744	100.00%	\$14,935	100.00%

Investment Securities Activities

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

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

At June 30, 2017 and 2016, the Bank's investment securities portfolio was \$69.8 million and \$51.5 million, respectively, which primarily consisted of federal agency and government sponsored enterprise obligations. The Bank's investment securities portfolio was classified as held to maturity and available for sale. The Corporation purchased held to maturity mortgage-backed securities totaling \$34.5 million and \$41.7 million during fiscal 2017 and 2016, respectively.

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

(Dollars In Thousands)	At June 30, 2017			2016			2015		
	Amortized Cost	Estimated Fair Value	Percent	Amortized Cost	Estimated Fair Value	Percent	Amortized Cost	Estimated Fair Value	Percent
Held to maturity securities:									
U.S. government sponsored enterprise MBS ⁽¹⁾	\$59,841	\$60,029	85.82 %	\$39,179	\$39,638	76.25 %	\$—	\$—	— %
Certificates of deposits	600	600	0.86	800	800	1.54	800	800	5.35
Total investment securities - held to maturity	\$60,441	\$60,629	86.68 %	\$39,979	\$40,438	77.79 %	\$800	\$800	5.35 %
Available for sale securities:									
U.S. government agency MBS ⁽¹⁾	\$5,197	\$5,383	7.69 %	\$6,308	\$6,572	12.64 %	\$7,613	\$7,906	52.84 %
U.S. government sponsored enterprise MBS ⁽¹⁾	3,301	3,474	4.97	3,998	4,223	8.13	5,083	5,387	36.01
Private issue CMO ⁽²⁾	456	461	0.66	598	601	1.16	708	717	4.79
Common stock ⁽³⁾	—	—	—	147	147	0.28	250	151	1.01
Total investment securities - available for sale	\$8,954	\$9,318	13.32 %	\$11,051	\$11,543	22.21 %	\$13,654	\$14,161	94.65 %
Total investment securities	\$69,395	\$69,947	100.00 %	\$51,030	\$51,981	100.00 %	\$14,454	\$14,961	100.00 %

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

(2) Collateralized mortgage obligations ("CMO")

(3) Common stock of a community development financial institution

As of June 30, 2017, the Bank held investments with an unrealized loss position of \$77,000 for less than a 12-month period. There were no other than temporary impairments at June 30, 2017.

(In Thousands)	Unrealized Holding Losses Less Than 12 Months		Unrealized Holding Losses 12 Months or More		Unrealized Holding Losses Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
U.S. government sponsored enterprise MBS	\$28,722	\$ 77	\$ —	\$ —	—\$28,722	\$ 77
Total	\$28,722	\$ 77	\$ —	\$ —	—\$28,722	\$ 77

The following table sets forth the outstanding balance, maturity and weighted average yield of the investment securities at June 30, 2017:

(Dollars in Thousands)	Due in One Year or Less		Due After One to Five Years		Due After Five to Ten Years		Due After Ten Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
Held to maturity securities:										
U.S. government sponsored enterprise MBS	\$—	— %	\$4,698	1.86 %	\$41,404	1.74 %	\$13,739	2.30 %	\$59,841	1.88 %
Certificates of deposits	600	1.13	—	—	—	—	—	—	600	1.13
Total investment securities held to maturity	\$600	1.13 %	\$4,698	1.86 %	\$41,404	1.74 %	\$13,739	2.30 %	\$60,441	1.87 %
Available for sale securities:										
U.S. government agency MBS	\$—	— %	\$—	— %	\$—	— %	\$5,383	2.21 %	\$5,383	2.21 %
U.S. government sponsored enterprise MBS	—	—	—	—	—	—	3,474	3.00	3,474	3.00
Private issue CMO	—	—	—	—	—	—	461	3.00	461	3.00
Total investment securities available for sale	\$—	— %	\$—	— %	\$—	— %	\$9,318	2.54 %	\$9,318	2.54 %
Total investment securities	\$600	1.13 %	\$4,698	1.86 %	\$41,404	1.74 %	\$23,057	2.40 %	\$69,759	1.96 %

The actual maturity and yield for MBS and CMO may differ from the stated maturity and stated yield due to scheduled amortization, loan prepayments and acceleration of premium amortization or discount accretion.

Deposit Activities and Other Sources of Funds

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

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

The Bank generally offers time deposits for terms not exceeding seven years. As illustrated in the following table, time deposits represented 29% of the Bank's deposit portfolio at June 30, 2017, compared to 33% at June 30, 2016. As of June 30, 2017, total brokered deposits were \$1.6 million with a weighted average interest rate of 3.88% and

remaining maturities within two years. At June 30, 2016, total brokered deposits were \$1.6 million with a weighted average interest rate of 3.88% and remaining maturities within three years. The Bank attempts to reduce the overall cost of its deposit portfolio and to increase its franchise value by emphasizing transaction accounts, which are subject to a heightened degree of competition. For additional information, see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Form 10-K.

The following table sets forth information concerning the Bank's weighted-average interest rate of deposits at June 30, 2017:

Weighted Average Interest Rate	Original Term	Deposit Account Type	Minimum Amount	Balance (In Thousands)	Percentage of Total Deposits
Transaction accounts:					
—%	N/A	Checking accounts – non interest-bearing	\$ —	\$ 77,917	8.41 %
0.11%	N/A	Checking accounts – interest-bearing	\$ —	259,437	28.00
0.20%	N/A	Savings accounts	\$ 10	285,967	30.86
0.27%	N/A	Money market accounts	\$ —	35,323	3.81
Time deposits:					
0.05%	30 days or less	Fixed-term, fixed rate	\$ 1,000	23	—
0.13%	31 to 90 days	Fixed-term, fixed rate	\$ 1,000	6,051	0.65
0.14%	91 to 180 days	Fixed-term, fixed rate	\$ 1,000	8,024	0.87
0.22%	181 to 365 days	Fixed-term, fixed rate	\$ 1,000	46,341	5.00
0.54%	Over 1 to 2 years	Fixed-term, fixed rate	\$ 1,000	61,418	6.63
0.82%	Over 2 to 3 years	Fixed-term, fixed rate	\$ 1,000	21,542	2.33
1.52%	Over 3 to 5 years	Fixed-term, fixed rate	\$ 1,000	109,675	11.84
2.08%	Over 5 to 10 years	Fixed-term, fixed rate	\$ 1,000	14,803	1.60
0.39%				\$ 926,521	100.00 %

The following table indicates the aggregate dollar amount of the Bank's time deposits with balances of \$100,000 or more differentiated by time remaining until maturity as of June 30, 2017:

Maturity Period (In Thousands)	Amount
Three months or less	\$ 17,501
Over three to six months	19,009
Over six to twelve months	16,300
Over twelve months	80,338
Total	\$ 133,148

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

(Dollars In Thousands)	At June 30, 2017			2016		
	Amount	Percent of Total	Increase (Decrease)	Amount	Percent of Total	Increase (Decrease)
Checking accounts – non interest-bearing	\$77,917	8.41	% \$ 6,759	\$71,158	7.68	% \$ 3,620
Checking accounts – interest-bearing	259,437	28.00	21,458	237,979	25.69	13,889
Savings accounts	285,967	30.86	10,657	275,310	29.72	20,220
Money market accounts	35,323	3.81	2,241	33,082	3.57	1,410
Time deposits:						
Fixed-term, fixed rate which mature:						
Within one year	113,946	12.30	(34,921)	148,867	16.07	(25,138)
Over one to two years	64,749	6.99	7,989	56,760	6.13	(23,185)
Over two to five years	78,815	8.51	(13,533)	92,348	9.97	602
Over five years	10,367	1.12	(513)	10,880	1.17	10,880
Total	\$926,521	100.00	% \$ 137	\$926,384	100.00	% \$ 2,298

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

(Dollars In Thousands)	At June 30,		
	2017	2016	2015
Below 1.00%	\$143,133	\$146,226	\$169,743
1.00 to 1.99%	115,555	151,240	160,218
2.00 to 2.99%	7,622	9,822	12,667
3.00 to 3.99%	1,567	1,567	3,068
Total	\$267,877	\$308,855	\$345,696

Time Deposits by Maturities. The following table sets forth the aggregate dollar amount of time deposits at June 30, 2017 differentiated by interest rates and maturity:

(Dollars In Thousands)	One Year or Less	Over	Over	Over	After Four Years	Total
		One to Two Years	Two to Three Years	Three to Four Years		
Below 1.00%	\$98,083	\$31,255	\$13,620	\$169	\$6	\$143,133
1.00 to 1.99%	15,784	30,908	35,148	17,392	16,323	115,555
2.00 to 2.99%	79	1,019	850	—	5,674	7,622
3.00 to 3.99%	—	1,567	—	—	—	1,567
Total	\$113,946	\$64,749	\$49,618	\$17,561	\$22,003	\$267,877

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

(In Thousands)	At or For the Year Ended June		
	30, 2017	2016	2015
Beginning balance	\$926,384	\$924,086	\$897,870
Net (withdrawals) deposits before interest credited	(3,671)	(2,099)	21,455
Interest credited	3,808	4,397	4,761
Net increase in deposits	137	2,298	26,216
Ending balance	\$926,521	\$926,384	\$924,086

Borrowings. The FHLB – San Francisco functions as a central reserve bank providing credit for member financial institutions. As a member, the Bank is required to own capital stock in the FHLB – San Francisco and is authorized to apply for advances using such stock and certain of its mortgage loans and other assets (principally investment securities) as collateral, provided certain creditworthiness standards have been met. Advances are made pursuant to several different credit programs. Each credit program has its own interest rate, maturity, terms and conditions. Depending on the program, limitations on the amount of advances are based on the financial condition of the member institution and the adequacy of collateral pledged to secure the credit. The Bank utilizes advances from the FHLB – San Francisco as an alternative to deposits to supplement its supply of lendable funds, to meet deposit withdrawal requirements and to help manage interest rate risk. The FHLB – San Francisco has, from time to time, served as the Bank’s primary borrowing source. As of June 30, 2017 and 2016, the FHLB – San Francisco borrowing capacity was limited to 35% of the Bank’s total assets at both dates. Advances from the FHLB – San Francisco are typically secured by the Bank’s single-family residential, multi-family and commercial real estate mortgage loans. Total mortgage loans pledged to the FHLB – San Francisco were \$733.4 million at June 30, 2017 as compared to \$776.5 million at June 30, 2016. In addition, the Bank pledged investment securities totaling \$451,000 at June 30, 2017 as compared to \$591,000 at June 30, 2016 to collateralize its FHLB – San Francisco advances under the Securities-Backed Credit (“SBC”) facility. At June 30, 2017 and 2016, the Bank had \$126.2 million and \$91.3 million of borrowings, respectively, from the FHLB – San Francisco with a weighted-average interest rate of 2.39% and 2.78%, respectively. At June 30, 2017, the outstanding borrowings mature between 2017 and 2025 with a weighted average maturity of 51 months. In addition to the total borrowings mentioned above, the Bank utilized its borrowing facility for letters of credit and MPF credit enhancement. The outstanding letters of credit at June 30, 2017 and 2016 was \$7.0 million and \$8.0 million, respectively; and the outstanding MPF credit enhancement was \$2.5 million at both dates. For additional information, see Note 8 to the Corporation's audited financial statements included in Item 8 of this Form 10-K. As of June 30, 2017 and 2016, the remaining financing availability was \$284.1 million and \$309.0 million, respectively, with remaining available collateral of \$500.9 million and \$586.9 million, respectively. In addition, as of June 30, 2017 and 2016, the Bank had secured a discount window facility of \$63.5 million and \$46.4 million, respectively, at the Federal Reserve Bank of San Francisco, collateralized by investment securities with a fair market value of \$67.6 million and \$49.4 million, respectively. The Bank also has a federal funds facility with its correspondent bank for \$17.0 million which matures on June 30, 2018. As of June 30, 2017, there were no outstanding borrowings under the discount window facility or the federal funds facility with the correspondent bank.

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

(Dollars In Thousands)	At or For the Year Ended June 30,			
	2017	2016	2015	
Balance outstanding at the end of period:				
FHLB – San Francisco advances	\$ 126,226	\$ 91,299	\$ 91,367	
Weighted average rate at the end of period:				
FHLB – San Francisco advances	2.39	% 2.78	% 2.78	%
Maximum amount of borrowings outstanding at any month end:				
FHLB – San Francisco advances	\$ 181,287	\$ 91,362	\$ 131,384	
Average short-term borrowings during the period with respect to: ⁽¹⁾				
FHLB – San Francisco advances	\$ 14,022	\$—	\$ 6,800	
Weighted average short-term borrowing rate during the period with respect to: ⁽¹⁾				
FHLB – San Francisco advances	0.45	%—	% 0.22	%

⁽¹⁾ Borrowings with a remaining term of 12 months or less.

As a member of the FHLB – San Francisco, the Bank is required to maintain a minimum investment in FHLB – San Francisco stock. The Bank held the required investment of \$8.1 million with no excess investment at June 30, 2017, as compared to the required investment of \$7.8 million and a \$321,000 excess investment at June 30, 2016. The Bank purchased \$14,000 of FHLB - San Francisco stock in fiscal 2017 to support additional borrowings and did not purchase any addition FHLB-San Francisco stock in fiscal 2016 or 2015. Also in fiscal 2017, 2016 and 2015, the Bank received cash dividends on the FHLB – San Francisco stock of \$967,000, \$721,000 and \$796,000, respectively. The cash dividends received on the FHLB - San Francisco stock in fiscal 2017 and 2015 included a special cash dividend.

Subsidiary Activities

Federal savings institutions generally may invest up to 3% of their assets in service corporations, provided that at least one-half of any amount in excess of 1% is used primarily for community, inner-city and community development projects. The Bank’s investment in its service corporations did not exceed these limits at June 30, 2017 and 2016 .

The Bank has three wholly owned subsidiaries: Provident Financial Corp (“PFC”), Profed Mortgage, Inc., and First Service Corporation. PFC’s current activities include: (i) acting as trustee for the Bank’s real estate transactions and (ii) holding real estate for investment, if any. Profed Mortgage, Inc., which formerly conducted the Bank’s mortgage banking activities, and First Service Corporation are currently inactive. At June 30, 2017 and 2016, the Bank’s investment in its subsidiaries was \$44,000 and \$57,000, respectively.

REGULATION

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

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

The Dodd-Frank Act has significantly changed the bank regulatory structure and is affecting the lending, investment, trading and operating activities of depository institutions and their holding companies. The Dodd-Frank Act eliminated the Office of Thrift Supervision, the Bank's former federal banking regulator, and responsibility for the supervision and regulation of federal savings associations such as the Bank was transferred to the OCC July 21, 2011. The OCC is the agency that is primarily responsible for the regulation and supervision of national banks. Among other changes, the Dodd-Frank Act established the CFPB as an independent bureau of the Federal Reserve Board. The CFPB assumed responsibility for the implementation of the federal financial consumer protection and fair lending laws and regulations and has authority to impose new requirements. The Bank is subject to consumer protection regulations issued by the CFPB with respect to our compliance with consumer financial protection laws and CFPB regulations.

Many aspects of the Dodd-Frank Act are subject to delayed effective dates and/or rulemaking by the federal banking agencies. Their impact on operations cannot yet be fully assessed. However, it is likely that the Dodd-Frank Act will increase the regulatory burden, compliance costs and interest expense for the Corporation, the Bank and the financial services industry more generally.

General

The Bank, as a federally chartered savings institution, is subject to extensive regulation, examination and supervision by the OCC, as its primary federal regulator, and the FDIC, as its insurer of deposits. The Bank's relationship with its depositors and borrowers is regulated by federal consumer protection laws, and the CFPB issues regulations under those laws, which must be complied with by the Bank. The Bank is a member of the FHLB System and its deposits are insured up to applicable limits by the FDIC. The Bank must file reports with the OCC concerning its activities and financial condition in addition to obtaining regulatory approvals prior to entering into certain transactions such as mergers with, or acquisitions of, other financial institutions. There are periodic examinations by the OCC to evaluate the Bank's safety and soundness and compliance with various regulatory requirements. Under certain circumstances, the FDIC may also examine the Bank. This regulatory structure establishes a comprehensive framework of activities in which the Bank may engage and is intended primarily for the protection of the insurance fund and depositors. The regulatory structure also gives the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to the classification of assets and the establishment of adequate loan loss allowances for regulatory purposes. Any change in such policies, whether by the OCC, the FDIC or Congress, could have a material adverse impact on the Corporation and the Bank and their operations. The Corporation, as a savings and loan holding company, is required to file certain reports with, is subject to examination by, and otherwise must comply with the rules and regulations of the Federal Reserve Board, its primary regulator. The Corporation is also subject to the rules and regulations of the SEC under the federal securities laws. For additional information, see "Savings and Loan Holding Company Regulations" below in this Form 10-K.

Federal Regulation of Savings Institutions

Office of the Comptroller of the Currency. The OCC has extensive authority over the operations of federally chartered savings institutions. As part of this authority, the Bank is required to file periodic reports with the OCC and is subject to periodic examinations by the OCC. The OCC also has extensive enforcement authority over all federally chartered savings institutions, including the Bank. This enforcement authority includes, among other things, the

ability to assess civil money penalties, issue cease-and-desist orders and initiate injunctive actions. In general, these enforcement actions may be initiated for violations of laws and regulations and unsafe or unsound practices. Other actions or inactions may provide the basis for enforcement action, including misleading or untimely reports filed with the OCC. Except under certain circumstances, public disclosure of final enforcement actions by the OCC is required by law.

All savings institutions must pay assessments to the OCC, to fund the agency's operations. The general assessments, paid on a semi-annual basis, are determined based on the savings institution's total assets, including consolidated subsidiaries. The Bank's OCC annual assessment for the fiscal years ended June 30, 2017, 2016 and 2015 was \$279,000, \$275,000 and \$263,000, respectively.

Federal law provides that federally chartered savings institutions are generally subject to the national bank limit on loans to one borrower. A federally chartered savings institution may not make a loan or extend credit to a single or related group of borrowers

in excess of 15% of its unimpaired capital and surplus. An additional amount may be lent, equal to 10% of unimpaired capital and surplus, if secured by specified readily marketable collateral. The Bank's limit on loans to one borrower or group of related borrowers was \$18.9 million and \$19.4 million, at June 30, 2017 and 2016, respectively. At June 30, 2017, the Bank's largest lending relationship to a single borrower or group of borrowers were three multi-family loans totaling \$8.1 million, which were performing according to their original payment terms.

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

The OCC's oversight of the Bank includes reviewing its compliance with the customer privacy requirements imposed by the Gramm-Leach-Bliley Act of 1999 ("GLBA") and the anti-money laundering provisions of the USA Patriot Act of 2001 and regulations thereunder. The GLBA privacy requirements place limitations on the sharing of consumer financial information with unaffiliated third parties. They also require each financial institution offering financial products or services to retail customers to provide such customers with its privacy policy and with the opportunity to "opt out" of the sharing of their personal information with unaffiliated third parties. The USA Patriot Act significantly expands the responsibilities of financial institutions in preventing the use of the United States financial system to fund terrorist activities. Its anti-money laundering provisions require financial institutions operating in the United States to develop anti-money laundering compliance programs and due diligence policies and controls to ensure the detection and reporting of money laundering. These compliance programs are intended to supplement existing compliance requirements under the Bank Secrecy Act and the Office of Foreign Assets Control Regulations.

Federal Home Loan Bank System. The Bank is a member of the FHLB – San Francisco, which is one of 11 regional FHLBs that administer the home financing credit function of member financial institutions. Each FHLB serves as a reserve or central bank for its members within its assigned region. It is funded primarily from proceeds derived from the sale of consolidated obligations of the FHLB System. It makes loans or advances to members in accordance with policies and procedures, established by the Board of Directors of the FHLB, which are subject to the oversight of the Federal Housing Finance Agency. All advances from the FHLB are required to be fully secured by sufficient collateral as determined by the FHLB. In addition, all long-term advances are required to provide funds for residential home financing. At June 30, 2017 and 2016, the Bank had \$126.2 million and \$91.3 million of outstanding advances, respectively, from the FHLB – San Francisco with a remaining available credit facility of \$284.1 million and \$309.0 million, respectively, based on 35% of total assets for both dates, which is limited to available collateral. For additional information, see "Business – Deposit Activities and Other Sources of Funds – Borrowings" above in this Form 10-K.

As a member of the FHLB - San Francisco, the Bank is required to purchase and maintain stock in the FHLB – San Francisco. At June 30, 2017 and 2016, the Bank held \$8.1 million of FHLB-San Francisco stock at both dates which was in compliance with this membership requirement. During fiscal 2017 and 2016, there was no excess capital redemption. In fiscal 2017, 2016 and 2015, the FHLB – San Francisco distributed \$967,000, \$721,000 and \$796,000 of cash dividends, respectively, to the Bank. There is no guarantee in the future that the FHLB – San Francisco will pay cash dividends or redeem excess capital stock held by its members.

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

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

The FDIC imposes an assessment for deposit insurance on all depository institutions. Under the FDIC's risk-based assessment system, insured institutions are assigned to risk categories based on supervisory evaluations, regulatory capital levels and certain other factors. An institution's assessment rate depends upon the category to which it is assigned and certain adjustments specified by FDIC regulations, with institutions deemed less risky paying lower assessments. Currently, assessment rates (inclusive of certain possible adjustments) range from 1.5 to 40 basis points of each institution's total assets less tangible capital (subject to upward adjustment for certain debt). The FDIC may increase or decrease the scale uniformly, except that no adjustment can deviate more than two basis points from the base scale without notice and comment rulemaking. The FDIC's current system represents a change, required by the Dodd-Frank Act, from its prior practice of basing the assessment on an institution's volume of deposits.

The Dodd-Frank Act increased the minimum target Deposit Insurance Fund ratio from 1.15% of estimated insured deposits to 1.35% of estimated insured deposits. The FDIC must achieve the 1.35% ratio by September 30, 2020 with insured institutions with assets of \$10 billion or more funding the increase. The Dodd-Frank Act eliminated the 1.5% maximum fund ratio, instead leaving it to the discretion of the FDIC and the FDIC has exercised that discretion by establishing a long term fund ratio of 2%.

The FDIC has authority to increase insurance assessments. Any significant increases would have an adverse effect on the operating expenses and results of operations of the Bank. No predictions can be made as to what assessment rates will be in the future.

In addition to the assessment for deposit insurance, institutions are required to make payments on bonds issued in the late 1980s by the Financing Corporation to recapitalize a predecessor deposit insurance fund. These assessments, which may be revised based upon the level of DIF deposits, will continue until the bonds mature in the years 2017 through 2019. This payment is established quarterly and during the Financing Corporation's year ending March 31, 2017 averaged 3.58 basis points (annualized) of assessable assets. The Financing Corporation was chartered in 1987 solely for the purpose of functioning as a vehicle for the recapitalization of the deposit insurance system.

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

A savings institution that fails to meet the QTL is subject to certain operating restrictions and the Dodd-Frank Act also specifies that failing the QTL test is a violation of law that could result in an enforcement action and dividend limitations. As of June 30, 2017, the Bank maintained 96.1% of its portfolio assets in qualified thrift investments and, therefore, met the qualified thrift lender test. During fiscal 2017 and 2016, the Bank was in compliance with the QTL tests as of each month end during the stated fiscal years.

Capital Requirements. Federally insured savings institutions, such as the Bank, are required by the OCC to maintain minimum levels of regulatory capital. As required by the Dodd-Frank Act, in July 2013, the OCC and the other federal bank regulatory agencies issued a final rule that revises the comprehensive regulatory capital framework for all U.S. financial institutions and their holding companies including the method for calculating risk-weighted assets to make them consistent with agreements that were reached by the Basel Committee on Banking Supervision. The final rule applies to all depository institutions, top-tier bank holding companies with total consolidated assets of \$1 billion or more and top-tier savings and loan holding companies.

The Bank is subject to the capital requirements adopted by the OCC, and the Corporation is subject to the same capital requirements adopted by the Federal Reserve Board. These requirements include a required ratio for common equity Tier 1 (“CET1”) capital, a leverage ratio and a Tier 1 capital ratio, risk-weightings of assets for purposes of the risk-based capital ratios, an additional capital conservation buffer over the required capital ratios and definitions of what qualifies as capital for purposes of meeting these various capital requirements. Under the capital regulations, to meet the minimum capital ratios plus the capital conservation buffer applicable to the Bank for calendar 2017, the Bank must exceed the following ratios are: (i) a CETI capital ratio of 5.75%; (ii) a Tier 1 capital ratio of 7.25%; (iii) a total capital ratio of 9.25%; and (iv) a Tier 1 leverage ratio of 4%.

Certain changes in what constitutes regulatory capital are subject to transition periods. These changes include the phasing-out of certain instruments as qualifying capital. The Bank does not have any of these instruments. Mortgage servicing rights and deferred tax assets over designated percentages of CET1 are also deducted from capital subject to a transition period ending December 31, 2017. In addition, Tier 1 capital includes accumulated other comprehensive income, which includes all unrealized gains and losses on available for sale debt, equity securities and interest-only strips, subject to a transition period ending December 31, 2017.

Because of our asset size, we were given a one-time option to permanently opt-out of the inclusion of unrealized gains and losses on available for sale debt, equity securities and interest-only strips in our capital calculations. We elected to exercise this option to opt-out in order to reduce the impact of market volatility on our regulatory capital levels.

As noted above, in addition to the minimum CET1, Tier 1 and total capital ratios, the Bank must maintain a capital conservation buffer consisting of additional CET1 capital greater than 2.5% of risk-weighted assets above the required minimum levels in order to avoid limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses based on percentages of eligible retained income that could be utilized for such actions. The phase-in of the capital conservation buffer requirement began in January 2016 at 0.625% of risk-weighted assets and the requirement increases each year until it is fully implemented in January 2019. Failure to maintain the required capital conservation buffer will limit the ability of the Bank to pay dividends, repurchase shares or pay discretionary bonuses. If the Bank does not have the ability to pay dividends to the Corporation, the Corporation may be limited in its ability to pay dividends to its stockholders.

Under the current standards, in order to be considered well-capitalized, the Bank must have a CET1 capital ratio of 6.5%, a Tier 1 capital ratio of 8%, a total capital ratio of 10% and a Tier1 leverage ratio of 5%. As of June 30, 2017, the most recent notification from the OCC categorized the Bank as “well capitalized” under the regulatory framework for prompt corrective action. See Note 10 of the Notes to Consolidated Financial Statements included in Item 8 of this Form 10-K.

Prompt Corrective Action. The OCC is required to take certain supervisory actions against undercapitalized savings institutions, the severity of which depends upon the institution's degree of undercapitalization. Subject to a narrow exception, the OCC is required to appoint a receiver or conservator for a savings institution that is "critically undercapitalized." OCC regulations also require that a capital restoration plan be filed with the OCC within 45 days of the date a savings institution receives notice that it is "undercapitalized," "significantly undercapitalized" or "critically undercapitalized." In addition, numerous mandatory supervisory actions become immediately applicable to an undercapitalized institution, including, but not limited to, increased monitoring by regulators and restrictions on growth, capital distributions and expansion. “Significantly undercapitalized” and “critically undercapitalized” institutions are subject to more extensive mandatory regulatory actions. The OCC also may take any one of a number of discretionary supervisory actions, including the issuance of a capital directive and the replacement of senior executive officers and directors.

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

Activities of Savings Associations and Their Subsidiaries. When a savings institution establishes or acquires a subsidiary or elects to conduct any new activity through a subsidiary that the association controls, the savings

institution must notify the FDIC and the OCC 30 days in advance and provide the required information in connection with such notification. Savings institutions also must conduct the activities of subsidiaries in accordance with existing regulations and orders.

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

Transactions with Affiliates and Insiders. The Bank's authority to engage in transactions with "affiliates" is limited by Sections 23A and 23B of the Federal Reserve Act as implemented by the Federal Reserve Board's Regulation W. The term "affiliates" for

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

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

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

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

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

Regulatory and Criminal Enforcement Provisions. The OCC has primary enforcement responsibility over federally chartered savings institutions and has the authority to bring action against all “institution-affiliated parties,” including stockholders, attorneys, appraisers and accountants who knowingly or recklessly participate in wrongful action likely to have an adverse effect on an insured institution. Formal enforcement action may range from the issuance of a capital directive or cease-and-desist order to removal of officers or directors, receivership, conservatorship or termination of deposit insurance. Civil penalties cover a wide

range of violations and can amount to \$25,000 per day, or \$1.1 million per day in especially egregious cases. The FDIC has the authority to recommend to the OCC that an enforcement action be taken with respect to a particular savings institution. If the OCC does not take action, the FDIC has authority to take such action under certain circumstances. Federal law also establishes criminal penalties for certain violations.

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

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

Other Consumer Protection Laws and Regulations. The Bank is subject to a broad array of federal and state consumer protection laws and regulations that govern almost every aspect of its business relationships with consumers. While the list set forth below is not exhaustive, these include the GLBA, the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (more commonly known as the USA Patriot Act), the Truth-in-Lending Act, the Truth in Savings Act, the Electronic Fund Transfers Act, the Expedited Funds Availability Act, the Equal Credit Opportunity Act, the Fair Housing Act, the Real Estate Settlement Procedures Act, the Home Mortgage Disclosure Act, the Fair Credit Reporting Act, the Right to Financial Privacy Act, the Home Ownership and Equity Protection Act, the Fair Credit Billing Act, the Homeowners Protection Act, the Check Clearing for the 21st Century Act, laws governing flood insurance, laws governing consumer protections in connection with the sale of insurance, federal and state laws prohibiting unfair and deceptive business practices, and various regulations that implement some or all of the foregoing. These laws and regulations mandate certain disclosure requirements and regulate the manner in which financial institutions must deal with customers when taking deposits, making loans, collecting loans, and providing other services. Failure to comply with these laws and regulations can subject the Bank to various penalties, including but not limited to, enforcement actions, injunctions, fines, civil liability, criminal penalties, punitive damages, and the loss of certain contractual rights.

Savings and Loan Holding Company Regulations

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

Capital Requirements. The Corporation is subject to regulatory capital requirements adopted by the Federal Reserve Board, which generally are the same as the capital requirements for the Bank. These capital requirements include provisions that might impact the ability of the Corporation to pay dividends to its stockholders or repurchase its

shares. For a description of the capital regulations, see “Federal Regulation of Savings Institutions - Capital Requirements” above.

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

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

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

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

Acquisition of the Company. Any company, except a bank holding company, that acquires control of a savings association or savings and loan holding company becomes a “savings and loan holding company” subject to registration, examination and regulation by the Federal Reserve and must obtain the prior approval of the Federal Reserve under the Savings and Loan Holding Company Act before obtaining control of a savings association or savings and loan holding company. A bank holding company must obtain the prior approval of the Federal Reserve under the Bank Holding Company Act before obtaining control of a savings association or savings and loan holding company and remains subject to regulation under the Bank Holding Company Act. The term “company” includes corporations, partnerships, associations, and certain trusts and other entities. “Control” of a savings association or savings and loan holding company is deemed to exist if a company has voting control, directly or indirectly of more than 25% of any class of the savings association’s voting stock or controls in any manner the election of a majority of the directors of the savings association or savings and loan holding company, and may be presumed under other circumstances, including, but not limited to, holding 10% or more of a class of voting securities if the institution has a class of registered securities, as the Corporation has. Control may be direct or indirect and may occur through acting in concert with one or more other persons. In addition, a savings and loan holding company must obtain Federal Reserve approval prior to acquiring voting control of more than 5% of any class of voting stock of another savings association or another savings association holding company. A similar provision limiting the acquisition by a bank holding company of 5% or more of a class of voting stock of any company is included in the Bank Holding Company Act. Accordingly, the prior approval of the Federal Reserve Board would be required:

- before any savings and loan holding company or bank holding company could acquire 5% or more of the common stock of the Corporation; and
- before any other company could acquire 25% or more of the common stock of the Corporation, and may be required for an acquisition of as little as 10% of such stock.

In addition, persons that are not companies are subject to the same or similar definitions of control with respect to savings and loan holding companies and savings associations and requirements for prior regulatory approval by the Federal Reserve in the case of control of a savings and loan holding company or by the OCC in the case of control of a savings association not obtained through control of a holding company of such savings association.

Sarbanes-Oxley Act. The Sarbanes-Oxley Act was enacted in 2002 in response to public concerns regarding corporate accountability in connection with certain accounting scandals. The stated goals of the Sarbanes-Oxley Act

were to increase corporate responsibility, to provide for enhanced penalties for accounting and auditing improprieties at publicly traded companies and to protect investors by improving the accuracy and reliability of corporate disclosures pursuant to the securities laws. The Sarbanes-Oxley Act generally applies to all companies that file or are required to file periodic reports with the SEC, under the Securities Exchange Act of 1934, including the Corporation.

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

management and between a board of directors and its committees. As noted above, the Dodd-Frank Act imposes additional disclosure and corporate government requirements and represents further federal involvement in matters historically addressed by state corporate law.

Dividends and Stock Repurchases. The Federal Reserve policy statement on the payment of cash dividends applicable to savings and loan holding companies provides that a savings and loan holding company must maintain an adequate capital position and generally should not pay cash dividends unless the company's net income for the past year is sufficient to fully fund the cash dividends and that the prospective rate of earnings appears consistent with the company's capital needs, asset quality, and overall financial condition. The Federal Reserve policy statement also indicates that it would be inappropriate for a company experiencing serious financial problems to borrow funds to pay dividends. As discussed above, the capital conservation buffer requirements can limit the ability of a savings and loan holding company to pay dividends. In addition, a savings and loan holding company is required to give the Federal Reserve prior written notice of any purchase or redemption of its outstanding equity securities if the gross consideration for the purchase or redemption, when combined with the net consideration paid for all such purchases or redemptions during the preceding twelve months, is equal to 10% or more of its consolidated net worth. The Federal Reserve may disapprove such a purchase or redemption if it determines that the proposal would constitute an unsafe or unsound practice or would violate any law, regulation, Federal Reserve order or any condition imposed by, or written agreement with, the Federal Reserve.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010: On July 21, 2010, the Dodd-Frank Act was signed into law. The Dodd-Frank-Act imposes various restrictions and an expanded framework of regulatory oversight for financial institutions, including depository institutions and implements capital regulations discussed above under "Federal Regulation of Savings Institutions - Capital Requirements." In addition, among other changes, the Dodd-Frank Act requires public companies, such as the Corporation, to (i) provide their shareholders with a non-binding vote (a) at least once every three years on the compensation paid to executive officers and (b) at least once every six years on whether they should have a "say on pay" vote every one, two or three years; (ii) have a separate, non-binding shareholder vote regarding golden parachutes for named executive officers when a shareholder vote takes place on mergers, acquisitions, dispositions or other transactions that would trigger the parachute payments; (iii) provide disclosure in annual proxy materials concerning the relationship between the executive compensation paid and the financial performance of the issuer; and (iv) amend Item 402 of Regulation S-K to require companies to disclose the ratio of the Chief Executive Officer's annual total compensation to the median annual total compensation of all other employees. For certain of provisions of the Act, the implementing regulations have not been promulgated, so the full impact of the Dodd-Frank Act on public companies cannot be determined at this time.

TAXATION

Federal Taxation

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

Tax Bad Debt Reserves. As a result of legislation enacted in 1996, the reserve method of accounting for bad debt reserves was repealed for tax years beginning after December 31, 1995. Due to such repeal, the Bank is no longer able to calculate its deduction for bad debts using the percentage-of-taxable-income or the experience method. Instead, the Bank is permitted to deduct as bad debt expense its specific charge-offs during the taxable

year. In addition, the legislation required savings institutions to recapture into taxable income, over a six-year period, their post 1987 additions to their bad debt tax reserves. As of the effective date of the legislation, the Bank had no post 1987 additions to its bad debt tax reserves. As of June 30, 2017, the Bank's total pre-1988 bad debt reserve for tax purposes was approximately \$9.0 million. Under current law, a savings institution will not be required to recapture its pre-1988 bad debt reserve unless the Bank makes a "non-dividend distribution" as defined below. Currently, the Corporation uses the specific charge-off method to account for bad debt deductions for income tax purposes.

Distributions. In the event that the Bank makes "non-dividend distributions" to the Corporation that are considered as made from the reserve for losses on qualifying real property loans, to the extent the reserve for such losses exceeds the amount that would have been allowed under the experience method or from the supplemental reserve for losses on loans ("Excess Distributions"), then an amount based on the amount distributed will be included in the Bank's taxable income. Non-dividend distributions include distributions in excess of the Bank's current and accumulated earnings and profits, distributions in redemption of stock, and

distributions in partial or complete liquidation. However, dividends paid out of the Bank's current or accumulated earnings and profits, as calculated for federal income tax purposes, will not be considered to result in a distribution from the Bank's bad debt reserve. Thus, any dividends to the Corporation that would reduce amounts appropriated to the Bank's bad debt reserve and deducted for federal income tax purposes would create a tax liability for the Bank. The amount of additional taxable income attributable to an Excess Distribution is an amount that, when reduced by the tax attributable to the income, is equal to the amount of the distribution. Thus, if the Bank makes a "non-dividend distribution," then approximately one and one-half times the amount distributed will be included in taxable income for federal income tax purposes, assuming a 35% corporate income tax rate (exclusive of state and local taxes). For additional information, see "Regulation - Federal Regulation of Savings Institutions - Limitations on Capital Distributions" in this Form 10-K for limits on the payment of dividends by the Bank. The Bank does not intend to pay dividends that would result in a recapture of any portion of its tax bad debt reserve. During fiscal 2017, the Bank declared and paid \$10.0 million of cash dividends to the Corporation while the Corporation declared and paid \$4.1 million of cash dividends to shareholders.

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

Tax Effect from Stock-Based Compensation. During fiscal 2017, there were no shares of restricted common stock distributed to non-employee members of the Corporation's Board of Directors. There were 87,750 shares of restricted common stock distributed to employees, 15,250 shares of restricted common stock that were forfeited, 92,850 shares of non-qualified stock options that expired, 16,010 shares of non-qualified stock options exercised and 33,854 shares of incentive stock options that were exercised as disqualifying dispositions of the Corporation's common stock during fiscal 2017. As a result, there was a \$42,000 federal tax benefit effect from stock-based compensation in fiscal 2017.

Other Matters. The Internal Revenue Service has audited the Bank's income tax returns through 1996 and the California Franchise Tax Board has audited the Bank through 1990. Also, the Internal Revenue Service completed a review of the Corporation's income tax returns for fiscal 2006 and 2007; and the California Franchise Tax Board completed a review of the Corporation's income tax returns for fiscal 2009 and 2010. Fiscal years 2013 and forward remain subject to federal examination, while the California state tax returns for fiscal years 2012 and forward are subject to examination by state taxing authorities.

State Taxation

California. The California franchise tax rate applicable to the Bank, equals the franchise tax rate applicable to corporations generally, plus an "in lieu" rate of 2%, which is approximately equal to personal property taxes and business license taxes paid by such corporations (but not generally paid by banks or financial corporations such as the Corporation). At June 30, 2017 and 2016, the Corporation's net state tax rate was 7.1% and 7.0%, respectively. Bad debt deductions are available in computing California franchise taxes using the specific charge-off method. The Bank and its California subsidiaries file California franchise tax returns on a combined basis. The Corporation will be treated as a general corporation subject to the general corporate tax rate. There was a \$15,000 state tax benefit effect from stock-based compensation in fiscal 2017, as described above in the section entitled "Federal Taxation."

Delaware. As a Delaware holding company not earning income in Delaware, the Corporation is exempted from Delaware corporate income tax, but is required to file an annual report with and pay an annual franchise tax to the State of Delaware. In fiscal 2017, 2016 and 2015, the Corporation paid annual franchise taxes of \$180,000 for each year.

EXECUTIVE OFFICERS

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

Name	Age ⁽¹⁾	Position	
		Corporation	Bank
Craig G. Blunden	69	Chairman and Chief Executive Officer	Chairman and Chief Executive Officer
Robert "Scott" Ritter	48	—	Senior Vice President Provident Bank Mortgage
Donavon P. Ternes	57	President Chief Operating Officer Chief Financial Officer Corporate Secretary	President Chief Operating Officer Chief Financial Officer Corporate Secretary
David S. Weiant	58	—	Senior Vice President Chief Lending Officer
Gwendolyn L. Wertz	51	—	Senior Vice President Retail Banking

⁽¹⁾ As of June 30, 2017.

Biographical Information

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

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

Robert "Scott" Ritter joined the Bank as Senior Vice President of the Provident Bank Mortgage division on September 26, 2016. Prior to joining the Bank, Mr. Ritter was the Chief Operating Officer at California Mortgage Advisors since November 2011 where he was responsible for overseeing all of California Mortgage Advisors' operations, including product development, underwriting, loan processing and information technology. Prior to that, he held positions with increasing responsibilities at mortgage banking firms such as Green Point Financial and its predecessor Headlands Mortgage Company, among others.

Donavon P. Ternes joined the Bank and the Corporation as Senior Vice President and Chief Financial Officer on November 1, 2000 and was appointed Secretary of the Corporation and the Bank in April 2003. Effective January 1, 2008, Mr. Ternes was appointed Executive Vice President and Chief Operating Officer, while continuing to serve as the Chief Financial Officer and Corporate Secretary of the Bank and the Corporation. Effective June 27, 2011, the Board of Directors of the Bank and the Corporation promoted Mr. Ternes to serve as President of the Bank and the

Corporation, while continuing to serve as Chief Operating Officer, Chief Financial Officer and Corporate Secretary. Prior to joining the Bank, Mr. Ternes was the President, Chief Executive Officer, Chief Financial Officer and Director of Mission Savings and Loan Association, located in Riverside, California, holding those positions for over 11 years.

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

Gwendolyn L. Wertz joined the Bank as Senior Vice President of Retail Banking on February 3, 2014. Prior to joining the Bank, Ms. Wertz was with CommerceWest Bank where she was responsible for the management of commercial banking activities, treasury management and specialty banking. Prior to that she was with Opportunity Bank, N.A. where she was responsible for the commercial treasury sales and service team. Ms. Wertz has more than 25 years of experience with financial institutions including the last 10 years in senior management roles. Her experience includes depository growth initiatives, operations, compliance, and deposit acquisition management.

Item 1A. Risk Factors

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

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

As of June 30, 2017, approximately 78% of our real estate loans were secured by collateral and made to borrowers located in Southern California with the balance located predominantly throughout the rest of California. Adverse economic conditions in California may reduce our rate of growth, affect our customers' ability to repay loans and adversely impact our financial condition and earnings. General economic conditions, including inflation, unemployment and money supply fluctuations, also may adversely affect our profitability adversely. Weakness in the global economy has adversely affected many businesses operating in our markets that are dependent upon international trade and it is not known how the recent withdrawal by the United States from the Trans-Pacific Partnership trade agreement may also affect these businesses.

While real estate values and unemployment rates have recently improved, deterioration in economic conditions in the market areas we serve could result in the following consequences, any of which could have a materially adverse impact on our business, financial condition and results of operations:

- an increase in loan delinquencies, problem assets and foreclosures;
- the slowing of sales of foreclosed assets;
- a decline in demand for our products and services;
- a decline in the value of collateral for loans may in turn reduce customers' borrowing power, and the value of assets and collateral associated with existing loans;
- the net worth and liquidity of loan guarantors may decline, impairing their ability to honor commitments to us; and
- a decrease in the amount of our low cost or non interest-bearing deposits.

A decline in Southern California economic conditions may have a greater effect on our earnings and capital than on the earnings and capital of larger financial institutions whose real estate loan portfolios are geographically diverse. If we are required to liquidate a significant amount of collateral during a period of reduced real estate values, our financial condition and profitability could be adversely affected.

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

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

Furthermore, the Board of Governors of the Federal Reserve System, in an attempt to help the overall economy, has, among other things, adjust interest rates through its targeted federal funds rate. The Federal Reserve Board has increased the federal funds rate by 25 basis points to a range of 1.00% to 1.25% in June 2017 and indicated further increases in the federal funds rate in the future.

As the federal funds rate increases, market interest rates will likely rise, which may negatively impact the housing markets and the U.S. economic recovery. In addition, deflationary pressures, while possibly lowering our operating costs, could have a significant negative effect on our borrowers, especially our business borrowers, and the values of underlying collateral securing loans, which could negatively affect our financial performance.

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

At June 30, 2017, \$322.2 million, or 35.2% of our loans held for investment, were secured by single-family residential real property. This type of lending is generally sensitive to regional and local economic conditions that may significantly impact the ability of borrowers to meet their loan payment obligations, making loss levels difficult to predict. Declines in residential real estate values securing these types of loans may increase the level of borrower defaults and losses above our recent charge-off experience on these loans. Jumbo single-family loans which do not conform to secondary market mortgage requirements for our market areas are not immediately saleable in the secondary market and may expose us to increased risk because of their larger balances. Further, many of our residential mortgage loans are secured by liens on mortgage properties in which the borrowers have little or no equity because either we originated a first mortgage with an 80% loan-to-value ratio and a concurrent second mortgage for a combined loan-to-value ratio of up to 100% or because of the decline in home values in our market areas. Residential loans with high loan-to-value ratios will be more sensitive to declining property values than those with lower combined loan-to-value ratios and therefore may experience a higher incidence of default and severity of losses.

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

During the fiscal years ended June 30, 2017 and 2016, we originated \$1.99 billion and \$2.00 billion, respectively, in single-family residential loans. We historically sell the vast majority of the single-family residential loans we originate and purchase and retain the remaining single-family residential loans as held for investment. As a result of our current focus on managing our asset quality, single-family loans originated and purchased for investment were \$99.8 million and \$41.4 million during these same time periods, virtually all of which conform to or satisfy the requirements for sale in the secondary market.

Prior to fiscal 2009, many of the loans we originated for investment consisted of non-traditional single-family residential loans that do not conform to Fannie Mae or Freddie Mac underwriting guidelines as a result of characteristics of the borrower or property, the loan terms, loan size or exceptions from agency underwriting guidelines. In exchange for the additional risk to us associated with these loans, these borrowers generally are required to pay a higher interest rate, and depending on the credit history, a lower loan-to-value ratio was generally required than for a conforming loan. Our non-traditional single-family residential loans include interest-only loans, loans to borrowers who provided limited or no documentation of their income or stated income loans, negative amortization loans (a loan in which accrued interest exceeding the required monthly loan payment is added to loan principal up to 115% of the original loan amount), more than 30-year amortization loans, and loans to borrowers with a FICO score below 660 (these loans are considered subprime by the OCC). Including these low FICO score loans, as of June 30, 2017, our single-family residential borrowers had a weighted average FICO score of 736 at the time of loan origination.

As of June 30, 2017, these non-traditional loans totaled \$113.4 million, comprising 35.2% of total single-family residential loans held for investment and 12.5% of total loans held for investment. At that date, interest-only loans totaled \$17.6 million, stated income loans totaled \$100.3 million, negative amortization loans totaled \$2.7 million, more than 30-year amortization loans totaled \$10.2 million, and low FICO score loans totaled \$9.5 million (the outstanding balances described may overlap more than one category). In the case of interest-only loans, a borrower's monthly payment is subject to change when the loan converts to fully-amortizing status. Of the \$17.6 million of interest-only loans, \$17.0 million begin to fully amortize within one year and \$578,000 begin to fully amortize after

one to five years. Since the borrower's monthly payment may increase by a substantial amount even without an increase in prevailing market interest rates, there is no assurance that the borrower will be able to afford the increased monthly payment at the time of conversion. Additionally, lower prevailing prices for residential real estate may make it difficult for borrowers to sell their homes to pay off their mortgages and tightened underwriting standards may make it difficult for borrowers to refinance their loan prior to the time of conversion to fully-amortizing status. At June 30, 2017, \$451,000 of our interest-only single-family residential loans were non-performing and none were 30-89 days delinquent.

In the case of stated income loans, a borrower may misrepresent his income or source of income (which we have not verified) to obtain the loan. The borrower may not have sufficient income to qualify for the loan amount and may not be able to make the monthly loan payment. At June 30, 2017, \$5.2 million of our stated income single-family residential loans were non-performing and none were 30-89 days delinquent.

In the case of more than 30-year amortization loans, the term of the loan requires many more monthly payments from the borrower (ultimately increasing the cost of the home) and subjects the loan to more interest rate cycles, economic cycles and employment cycles, which increases the possibility that the borrower is negatively impacted by one of these cycles and is no longer willing or able to meet his or her monthly payment obligations. At June 30, 2017, \$220,000 of our more than 30-year amortization single-family residential loans were non-performing and none were 30-89 days delinquent.

Negative amortization involves a greater risk to us because credit risk exposure increases when the loan incurs negative amortization and the value of the home serving as collateral for the loan does not increase proportionally. Negative amortization is only permitted up to a specified level and the payment on such loans is subject to increased payments when the level is reached, adjusting periodically as provided in the loan documents and potentially resulting in higher payments from the borrower. The adjustment of these loans to higher payment requirements can be a substantial factor in higher loan delinquency levels because the borrowers may not be able to make the higher payments. Also, real estate values may decline and credit standards may tighten in concert with the higher payment requirement, making it difficult for borrowers to sell their homes or refinance their mortgages to pay off their mortgage obligation. As of June 30, 2017, the Bank had \$2.7 million of single-family loans which permitted negative amortization as compared to \$3.1 million of single-family loans at June 30, 2016.

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

We originate multi-family residential and commercial real estate loans for individuals and businesses for various purposes, which are secured by residential and non-residential properties. At June 30, 2017, we had \$577.5 million or 63.0% of total loans held for investment in multi-family and commercial real estate mortgage loans. These loans typically involve higher principal amounts than other types of loans, and repayment is dependent upon income generated, or expected to be generated, by the property securing the loan in amounts sufficient to cover operating expenses and debt service, which may be adversely affected by changes in the economy or local market conditions. For example, if the cash flow from the borrower's project is reduced as a result of leases not being obtained or renewed, the borrower's ability to repay the loan may be impaired. Multi-family and commercial real estate loans also expose a lender to greater credit risk than loans secured by single-family residential real estate because the collateral securing these loans typically cannot be sold as easily as single-family residential real estate. In addition, many of our multi-family and commercial real estate loans are not fully amortizing and contain large balloon payments upon maturity. Such balloon payments may require the borrower to either sell or refinance the underlying property to make the payment, which may increase the risk of default or non-payment. In addition, as of June 30, 2017, the Bank had \$6.3 million in negative amortization multi-family and commercial real estate mortgage loans (a loan in which accrued interest exceeding the required monthly loan payment may be added to the loan principal) as compared to \$7.1 million at June 30, 2016. Negative amortization involves a greater risk to the Bank because the credit risk exposure increases when the loan incurs negative amortization and the value of the property serving as collateral for the loan does not increase proportionally.

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

We occasionally purchase loans in bulk or "pools." We may experience lower yields or losses on loan "pools" because the assumptions we use when purchasing loans in bulk may not prove correct.

In order to achieve our loan growth objectives and/or improve earnings, we may purchase loans, either individually, through participations, or in bulk. The Corporation purchased \$61.7 million of loans to be held for investment (primarily multi-family loans) in fiscal 2017, compared to \$45.9 million of purchased loans to be held for investment (primarily multi-family loans) in fiscal 2016. When we determine the purchase price we are willing to pay to purchase loans in bulk, management makes certain assumptions about, among other things, how fast borrowers will prepay their loans, the real estate market, our ability to collect loans successfully and, if necessary, our ability to dispose of any real estate that may be acquired through foreclosure. When we purchase loans in bulk, we perform certain due diligence procedures and typically require customary limited indemnities. To the extent that our underlying assumptions prove to be inaccurate or the basis for those assumptions change, the purchase price paid for “pools” of loans may prove to have been excessive, resulting in a lower yield or a loss of some or all of the loan principal. Our success in growing through purchases of loan “pools” depends on our ability to price loan “pools” properly and on the general economic conditions within the geographic areas where the underlying properties of our loans are located.

We may experience continuing variation in our operating results.

We reported net income of \$5.2 million, \$7.5 million and \$9.8 million for the fiscal years ended June 30, 2017, 2016 and 2015, respectively. Several factors affecting our business can cause significant variations in our quarterly and annual results of operations. In particular, variations in the volume of our loan originations and sales, the differences between our costs of funds and the average interest rates of originated or purchased loans, our inability to complete significant loan sale transactions in a particular quarter and problems generally affecting the mortgage loan industry can result in significant increases or decreases in our revenues from quarter to quarter. A delay in closing a particular loan sale transaction during a quarter or year could postpone recognition of the gain on sale of loans. If we were unable to sell a sufficient number of loans at a premium in a particular reporting period, our revenues for such period could decline, resulting in lower net income and possibly a net loss for such period, which could have a material adverse effect on our results of operations and financial condition.

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

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

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

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

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

The determination of the appropriate level of the allowance for loan losses inherently involves a high degree of subjectivity and requires us to make various assumptions and judgments about the collectability of our loan portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for the repayment of many of our loans. In determining the amount of the allowance for loan losses, we review our loans, losses, and delinquency experience, and evaluate economic conditions and make significant estimates of current credit risks and future trends, all of which may undergo material changes. If our estimates are incorrect, the allowance for loan losses may not be sufficient to cover losses inherent in our loan portfolio, resulting in the need for additions to our allowance through an increase in the provision for loan losses. Deterioration in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside of our control, may require an increase in the provision for loan losses and our allowance for loan losses. Further, included in our single-family residential loan portfolio, which comprised 35.2% of our total loan portfolio at June 30, 2017, were \$113.4 million or 12.5% of total loans held for investment of in non-traditional single-family loans, which include interest-only loans, negative amortization and more than 30-year amortization loans, stated income loans and low FICO score loans, all of which have a higher risk of default and loss than

conforming residential mortgage loans. For additional information, see “Our prior emphasis on non-traditional single-family residential loans exposes us to increased lending risk” above. Management also recognizes that significant new growth in loan portfolios, new loan products and the refinancing of existing loans can result in portfolios comprised of unseasoned loans that may not perform in a historical or projected manner and will increase the risk that our allowance may be insufficient to absorb losses without significant additional provisions. Furthermore, the Financial Accounting Standards Board has adopted a new accounting standard that will be effective for our first fiscal year after December 15, 2019. This standard, referred to as Current Expected Credit Loss, or CECL, will require financial institutions to determine periodic estimates of lifetime expected credit losses on loans, and recognize the expected credit losses as allowances for credit losses. This will change the current method of providing allowances for credit losses that are probable, which may require us to increase our allowance for loan losses, and may greatly increase the types of data we would need to collect and review to determine the appropriate level of the allowance for credit losses. In addition, bank regulatory agencies periodically review our allowance for loan losses and may require an increase in the provision for possible loan losses or the recognition of further loan charge-offs, based on judgments different than those of management. Lastly, if charge-offs in future periods exceed the allowance for loan losses, we will need additional provisions to increase the allowance for loan losses. Any increases in the provision for

loan losses will result in a decrease in net income and may have a material adverse effect on our financial condition, results of operations and capital.

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

At June 30, 2017, 2016 and 2015, our non-performing assets (which consist of non-accrual loans and real estate owned (“REO”)) were \$9.6 million, \$13.0 million and \$16.3 million, respectively, or 0.8%, 1.1% and 1.4% of total assets, respectively. Our non-performing assets adversely affect our net income in various ways:

we record interest income only on a cash basis for non-accrual loans except for non-performing loans under the cost recovery method where interest is applied to the principal of the loan as a recovery of the charge-offs, if any, and we do not record interest income for REO;

we must provide for probable loan losses through a current period charge to the provision for loan losses;

non-interest expense increases when we write down the value of properties in our REO portfolio to reflect changing market values or recognize other-than-temporary impairment (“OTTI”) on non-performing investment securities;

there are legal fees associated with the resolution of problem assets, as well as carrying costs, such as taxes, insurance, and maintenance fees related to our REO; and

the resolution of non-performing assets requires the active involvement of management, which can distract them from more profitable activity.

If additional borrowers become delinquent and do not pay their loans and we are unable to successfully manage our non-performing assets, our losses and troubled assets could increase significantly, which could have a material adverse effect on our financial condition and results of operations.

Our securities portfolio may be negatively impacted by fluctuations in market value and interest rates.

Our securities portfolio may be impacted by fluctuations in market value, potentially reducing accumulated other comprehensive income and/or earnings. Fluctuations in market value may be caused by changes in market interest rates, lower market prices for securities and limited investor demand. Our securities portfolio is evaluated for other-than-temporary impairment. If this evaluation shows impairment to the actual or projected cash flows associated with one or more securities, a potential loss to earnings may occur. Changes in interest rates can also have an adverse effect on our financial condition, as our available-for-sale securities are reported at their estimated fair value, and therefore are impacted by fluctuations in interest rates. We increase or decrease our shareholders' equity by the amount of change in the estimated fair value of the available-for-sale securities, net of taxes. There can be no assurance that the declines in market value will not result in other-than-temporary impairments of these assets, which would lead to accounting charges that could have a material adverse effect on our net income and capital levels.

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

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

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

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

Our mortgage banking operations provide a significant portion of our non-interest income. We generate mortgage revenues primarily from gains on the sale of single-family residential loans pursuant to programs currently offered by Fannie Mae, Freddie Mac and other investors on a servicing released basis. These entities account for a substantial portion of the secondary market in

residential mortgage loans. Any future changes in these programs, our eligibility to participate in such programs, the criteria for loans to be accepted or laws that significantly affect the activity of such entities could, in turn, materially adversely affect our results of operations. Further, in a rising or higher interest rate environment, our originations of mortgage loans may decrease, resulting in fewer loans that are available to be sold to investors. This would result in a decrease in mortgage revenues and a corresponding decrease in non-interest income. In addition, our results of operations are affected by the amount of non-interest expense associated with mortgage banking activities, such as salaries and employee benefits, occupancy, equipment and data processing expense and other operating costs. During periods of reduced loan demand, our results of operations may be adversely affected to the extent that we are unable to reduce expenses commensurate with the decline in loan originations.

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

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

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

We engage in bulk loan sales pursuant to agreements that generally require us to repurchase or substitute loans in the event of a breach of a representation or warranty made by us to the loan purchaser. Any misrepresentation during the mortgage loan origination process or, in some cases, upon any fraud or early payment default on such mortgage loans, may require us to repurchase or substitute loans. Any claims asserted against us in the future by one of our loan purchasers may result in liabilities or legal expenses that could have a material adverse effect on our results of operations and financial condition. During fiscal 2017, 2016 and 2015, the Bank repurchased \$1.7 million, \$1.7 million and \$1.6 million of single-family loans, respectively. However, many additional repurchase requests were settled during the periods that did not result in the repurchase of the loan itself. Aggregate payments of \$11,000, \$470,000 and \$50,000 were made for loan repurchase settlements in fiscal 2017, 2016 and 2015, respectively. The loan repurchase settlement in fiscal 2016 was due primarily to a global settlement with one of the Bank's legacy loan investors, which eliminated all past, current and future repurchase claims from this particular investor, in exchange for a one-time \$400,000 payment.

The CFPB, which was created under the Dodd-Frank Act, has issued a number of final regulations and changes to certain consumer protections under existing laws and continues to issue new rules. These final rules, most of the provisions of which (including the qualified mortgage rule) generally prohibit creditors from extending mortgage loans without regard for the consumer's ability-to-repay and add restrictions and requirements to mortgage origination and servicing practices. In addition, these rules limit prepayment penalties and require the creditor to retain evidence of compliance with the ability-to-repay requirement for three years. Compliance with these rules has increased our overall regulatory compliance costs and may require changes to our underwriting practices with respect to residential mortgage loans. This includes compliance with, The Truth in Lending Act and the Real Estate Settlement Procedures Act Integrated Disclosure (TRID) rule, which combines certain disclosures that consumers receive in connection with applying for and closing a mortgage loan. Moreover, these rules may adversely affect the volume of mortgage loans that we originate for sale and may subject us to increased potential liabilities and/or repurchases if we fail to comply with these rules.

Hedging against interest rate exposure may adversely affect our earnings.

We employ techniques that limit, or “hedge,” the adverse effects of rising interest rates on our loans held for sale, originated interest rate locks and our mortgage servicing asset. Our hedging activity varies based on the level and volatility of interest rates and other changing market conditions. These techniques may include purchasing or selling futures contracts, purchasing put and call options on securities or securities underlying futures contracts, or entering into other mortgage-backed derivatives. There are, however, no perfect hedging strategies, and interest rate hedging may fail to protect us from loss. Moreover, hedging activities could result in losses if the event against which we hedge does not materialize. Additionally, interest rate hedging could fail to protect us or adversely affect us because, among other things:

available interest rate hedging may not correspond directly with the interest rate risk for which protection is sought;
the duration of the hedge may not match the duration of the related liability;
the party owing money in the hedging transaction may default on its obligation to pay;

the credit quality of the party owing money on the hedge may be downgraded to such an extent that it impairs our ability to sell or assign our side of the hedging transaction; the value of derivatives used for hedging may be adjusted from time to time in accordance with accounting rules to reflect changes in fair value; and downward adjustments, or “mark-to-market losses,” would reduce our stockholders' equity.

Fluctuating interest rates can adversely affect our profitability.

Our earnings and cash flows are largely dependent upon our net interest income. Interest rates are highly sensitive to many factors that are beyond our control, including general economic conditions and policies of various governmental and regulatory agencies and, in particular, the Federal Reserve Board.

Changes in monetary policy, including changes in interest rates, could influence not only the interest we receive on loans and investments and the amount of interest we pay on deposits and borrowings, but these changes could also affect (i) our ability to originate loans and obtain deposits, (ii) the fair value of our financial assets and liabilities, which could negatively impact shareholders' equity, and our ability to realize gains from the sale of such assets; (iii) our ability to obtain and retain deposits in competition with other available investment alternatives; (iv) the ability of our borrowers to repay adjustable or variable rate loans; and (v) the average duration of our mortgage-backed securities portfolio and other interest-earning assets. If the interest rates paid on deposits and other borrowings increase at a faster rate than the interest rates received on loans and other investments, our net interest income, and therefore earnings, could be adversely affected.

At June 30, 2017, we had \$113.9 million in time deposits that mature within one year and \$580.7 million in interest-bearing checking, savings and money market accounts. We would incur a higher cost of funds to retain these deposits in a rising interest rate environment. Earnings could also be adversely affected if the interest rates received on loans and other investments fall more quickly than the interest rates paid on deposits and other borrowings. In addition, a substantial majority of our single family residential mortgage loans have adjustable interest rates. As a result, these loans may experience a higher rate of default in a rising interest rate environment.

Although management believes it has implemented effective asset and liability management strategies to reduce the potential effects of changes in interest rates on our results of operations, any substantial, unexpected or prolonged change in market interest rates could have a material adverse effect on our financial condition and results of operations. Further, a prolonged period of exceptionally low market interest rates, such as we are currently experiencing, limits our ability to lower our interest expense, while the average yield on our interest-earning assets may decrease as our loans reprice or are originated at these low market rates. Accordingly, our net interest income may decrease, which may have an adverse effect on our profitability. Also, our interest rate risk modeling techniques and assumptions likely may not fully predict or capture the impact of actual interest rate changes on our balance sheet.

The financial services market is undergoing rapid technological changes, and if we are unable to stay current with those changes, we will not be able to effectively compete.

The financial services market, including mortgage banking services, is undergoing rapid changes with frequent introductions of new technology-driven products and services. Our future success will depend, in part, on our ability to keep pace with the technological changes and to use technology to satisfy and grow customer demand for our products and services and to create additional efficiencies in our operations. We expect that we will need to make substantial investments in our technology and information systems to compete effectively and to stay current with technological changes. Some of our competitors have substantially greater resources to invest in technological improvements and will be able to invest more heavily in developing and adopting new technologies, which may put us

at a competitive disadvantage. We may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to our customers. As a result, our ability to effectively compete to retain or acquire new business may be impaired, and our business, financial condition or results of operations may be adversely affected.

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

Liquidity is essential to our business. An inability to raise funds through deposits, borrowings, the sale of loans or other sources could have a substantial negative effect on our liquidity. Our access to funding sources in amounts adequate to finance our activities or the terms of which are acceptable to us could be impaired by factors that affect us specifically or the financial services industry or economy in general. Factors that could detrimentally impact our access to liquidity sources include a decrease in the level of

our business activity as a result of a downturn in the California markets in which our loans are concentrated or adverse regulatory action against us. Our ability to borrow could also be impaired by factors that are not specific to us, such as a disruption in the financial markets or negative views and expectations about the prospects for the financial services industry. Deposit flows, calls of investment securities and wholesale borrowings, and the prepayment of loans and mortgage-related securities are also strongly influenced by such external factors as the direction of interest rates, whether actual or perceived, and competition for deposits and loans in the markets we serve. Furthermore, changes to the FHLB's underwriting guidelines for wholesale borrowings or lending policies may limit or restrict our ability to borrow, and could therefore have a significant adverse impact on our liquidity. In addition, the need to replace funds in the event of large-scale withdrawals of brokered deposits could require us to pay significantly higher interest rates on retail deposits or other wholesale funding sources, which would have an adverse impact on our net interest income and net income. A decline in available funding could adversely impact our ability to originate loans, invest in securities, meet our expenses, or to fulfill such obligations as repaying our borrowings or meeting deposit withdrawal demands.

Non-compliance with the USA PATRIOT Act, Bank Secrecy Act, or other laws and regulations could result in fines or sanctions and limit our ability to get regulatory approval of acquisitions.

The USA PATRIOT and Bank Secrecy Acts require financial institutions to develop programs to prevent financial institutions from being used for money laundering and terrorist activities. If such activities are detected, financial institutions are obligated to file suspicious activity reports with the U.S. Treasury's Office of Financial Crimes Enforcement Network. These rules require financial institutions to establish procedures for identifying and verifying the identity of customers seeking to open new financial accounts. Failure to comply with these regulations could result in fines or sanctions and limit our ability to get regulatory approval of acquisitions. Recently several banking institutions have received large fines for non-compliance with these laws and regulations. While we have developed policies and procedures designed to assist in compliance with these laws and regulations, no assurance can be given that these policies and procedures will be effective in preventing violations of these laws and regulations.

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

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

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

Our litigation related costs might continue to increase.

The Bank is subject to a variety of legal proceedings that have arisen in the ordinary course of the Bank's business. In the current economic environment, the Bank's involvement in litigation has increased significantly, primarily as a result of employment matters and defaulted borrowers asserting claims to defeat or delay foreclosure proceedings. The Bank believes that it has meritorious defenses in legal actions where it has been named as a defendant and is vigorously defending these suits. Although management, based on discussion with litigation counsel, believes that such proceedings will not have a material adverse effect on the financial condition or operations of the Bank, there can be no assurance that a resolution of any such legal matters will not result in significant liability to the Bank nor have a

material adverse impact on its financial condition and results of operations or the Bank's ability to meet applicable regulatory requirements. Moreover, the expenses of pending legal proceedings will adversely affect the Bank's results of operations until they are resolved. There can be no assurance that the Bank's loan workout and other activities will not expose the Bank to additional legal actions, including lender liability or environmental claims. For further discussion of our pending litigation, see Item 3. "Legal Proceedings" of this Form 10-K.

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

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

We are subject to certain risks in connection with our use of technology.

Our security measures may not be sufficient to mitigate the risk of a cyber attack. Communications and information systems are essential to the conduct of our business, as we use such systems to manage our customer relationships, our general ledger and virtually all other aspects of our business. Our operations rely on the secure processing, storage, and transmission of confidential and other information in our computer systems and networks. Although we take protective measures and endeavor to modify them as circumstances warrant, the security of our computer systems, software, and networks may be vulnerable to breaches, unauthorized access, misuse, computer viruses, or other malicious code and cyber attacks that could have a security impact. If one or more of these events occur, this could jeopardize our or our customers' confidential and other information processed and stored in, and transmitted through, our computer systems and networks, or otherwise cause interruptions or malfunctions in our operations or the operations of our customers or counterparties. We may be required to expend significant additional resources to modify our protective measures or to investigate and remediate vulnerabilities or other exposures, and we may be subject to litigation and financial losses that are either not insured against or not fully covered through any insurance maintained by us. We could also suffer significant reputational damage.

Security breaches in our internet banking activities could further expose us to possible liability and damage our reputation. Any compromise of our security also could deter customers from using our internet banking services that involve the transmission of confidential information. We rely on standard internet security systems to provide the security and authentication necessary to effect secure transmission of data. These precautions may not protect our systems from compromises or breaches of our security measures, and could result in significant legal liability and significant damage to our reputation and our business.

Our security measures may not protect us from system failures or interruptions. While we have established policies and procedures to prevent or limit the impact of systems failures and interruptions, there can be no assurance that such events will not occur or that they will be adequately addressed if they do. In addition, we outsource certain aspects of our data processing and other operational functions to certain third-party providers. If our third-party providers encounter difficulties, or if we have difficulty in communicating with them, our ability to adequately process and account for transactions could be affected, and our business operations could be adversely impacted. Threats to information security also exist in the processing of customer information through various other vendors and their personnel.

The occurrence of any failures or interruptions may require us to identify alternative sources of such services, and there is no assurance that we could negotiate terms that are as favorable to us, or could obtain services with similar functionality as found in our existing systems without the need to expend substantial resources, if at all. Further, the occurrence of any systems failure or interruption could damage our reputation and result in a loss of customers and business, could subject us to additional regulatory scrutiny, or could expose us to legal liability. Any of these occurrences could have a material adverse effect on our financial condition and results of operations.

Managing reputational risk is important to attracting and maintaining customers, investors and employees.

Threats to our reputation can come from many sources, including adverse sentiment about financial institutions generally, unethical practices, employee misconduct, failure to deliver minimum standards of service or quality, compliance deficiencies, and questionable or fraudulent activities of our customers. We have policies and procedures in place to protect our reputation and promote ethical conduct, but these policies and procedures may not be fully effective. Negative publicity regarding our business, employees, or customers, with or without merit, may result in the loss of customers, investors and employees, costly litigation, a decline in revenues and increased governmental regulation.

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

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

Our assets as of June 30, 2017 include a deferred tax asset, the full value of which we may not be able to realize.

We recognize deferred tax assets and liabilities based on differences between the financial statement carrying amounts and the tax basis of assets and liabilities. At June 30, 2017, the net deferred tax asset was approximately \$4.3 million, a decrease from \$5.4 million at the prior fiscal year end. The net deferred tax asset results primarily from our provisions for loan losses recorded for financial reporting purposes, which were in the past significantly larger than net loan charge-offs deducted for tax reporting purposes.

As a result of our follow-on stock offering in December 2009, we may experience an “ownership change” as defined under Section 382 of the Internal Revenue Code of 1986, as amended (which is generally a greater than 50 percentage point increase by certain “5% shareholders” over a rolling three-year period). Section 382 imposes an annual limitation on the utilization of deferred tax assets, such as net operating loss carryforwards and other tax attributes, once an ownership change has occurred. Depending on the size of the annual limitation (which is in part a function of our market capitalization at the time of the ownership change) and the remaining carryforward period of the tax assets (U.S. federal net operating losses generally may be carried forward for a period of 20 years), we could realize a permanent loss of a portion of our U.S. federal and state deferred tax assets and certain built-in losses that have not been recognized for tax purposes.

We regularly review our deferred tax assets for recoverability based on our history of earnings, expectations for future earnings and expected timing of reversals of temporary differences. Realization of deferred tax assets ultimately depends on the existence of sufficient taxable income, including taxable income in prior carryback years, as well as future taxable income. We believe the recorded net deferred tax asset at June 30, 2017 is fully realizable based on our expected future earnings; however, we will not know the impact of the recent ownership change until we complete our fiscal 2017 tax return. Based on our preliminary analysis of the actual impact of the “ownership change” on our deferred tax assets, we believe that the impact on our deferred tax asset is unlikely to be material. This is a preliminary and complex analysis and requires us to make certain judgments in determining the annual limitation. As a result, it is possible that we could ultimately lose a significant portion of our deferred tax assets, which could have a material adverse effect on our results of operations and financial condition.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

At June 30, 2017, the net book value of the Bank’s property (including land and buildings) and its furniture, fixtures and equipment was \$6.6 million. The Bank’s home office is located in Riverside, California. Including the home office, the Bank has 14 retail banking offices, 13 of which are located in Riverside County in the cities of Riverside (5), Moreno Valley, Hemet, Sun City, Rancho Mirage, Corona, Temecula, La Quinta and Blythe. One office is located in Redlands, San Bernardino County, California. The Bank owns six of the retail banking offices and has eight leased retail banking offices. The leases expire from 2018 to 2026. The Bank also leases 10 stand-alone loan production offices, which are located in Atascadero, Brea, Escondido, Glendora, Pleasanton, Rancho Cucamonga (2), Riverside (2) and Roseville, California. The leases expire from 2017 to 2020.

Item 3. Legal Proceedings

Periodically, there have been various claims and lawsuits involving the Corporation, such as claims to enforce liens, condemnation proceedings on properties in which the Corporation holds security interests, claims involving the making and servicing of real property loans, employment matters and other issues in the ordinary course of and incident to the Corporation's business. The Corporation is not a party to any pending legal proceedings that it believes would have a material adverse effect on the financial condition, operations or cash flows of the Corporation, except as set forth below. Additionally, in some actions, it is difficult to assess potential exposure because the Corporation is still in the early stages of the litigation.

On December 17, 2012, a class and collective action lawsuit, by Gina McKeen-Chaplin, individually and on behalf of eight others similarly situated against the Bank was filed in the United States District Court for the Eastern District of California (the "Court") claiming damages, restitution and injunctive relief for alleged misclassification of certain employees as exempt rather than non-

exempt, resulting in a failure to pay appropriate overtime compensation, to provide meal and rest periods, to pay waiting time penalties and to provide accurate wage statements. The plaintiffs seek unspecified monetary relief.

On August 12, 2015, the Court issued an order denying the plaintiffs' motion for summary judgment and granting the Bank's motion for summary judgment affirming that the plaintiffs were properly classified as exempt employees and denying the federal claims. On August 18, 2015, the plaintiffs filed an appeal to the order. On July 5, 2017, the United States Court of Appeals for the Ninth Circuit (the "Ninth Circuit") reversed the Court's ruling granting the Bank's motion for summary judgment, instead ruling the plaintiffs were improperly classified as exempt employees and were entitled to overtime compensation. The Ninth Circuit remanded the case back to the Court with instructions to enter summary judgment in favor of the plaintiffs. The Bank is evaluating its legal options with respect to the Ninth Circuit's decision, including the possible filing of a petition for writ of certiorari to the United States Supreme Court. As a result of the Ninth Circuit's unfavorable ruling, the Corporation recorded an additional litigation accrual of \$1.0 million in the Corporation's Consolidated Statements of Operations for the fiscal year ended June 30, 2017. It is reasonably possible the Management estimate of this litigation accrual could change as more information becomes available during litigation of this matter.

On May 22, 2013, counsel in the McKeen-Chaplin matter filed another class action called Neal versus Provident Savings Bank, F.S.B. in California Superior Court in Alameda County (the "State Court"). The Neal class action is virtually identical to the McKeen-Chaplin class action alleging that mortgage underwriters were misclassified as exempt employees. The plaintiffs in the Neal case filed a motion for class certification on March 12, 2015. The Bank filed an opposition to the motion and the hearing on the motion was held on July 17, 2015. The State Court denied the motion for class certification. The plaintiffs appealed that ruling. The appeal is fully briefed and the Bank is waiting for the California First District Court of Appeal to schedule oral argument. Presently, the Bank cannot assess the potential exposure in the Neal class action because the Bank is still in the early stages of the litigation and the class certification decision is on appeal. The Bank intends to defend this case vigorously.

On August 6, 2015, a former employee, Christina Cannon, filed a lawsuit called Cannon versus Provident Savings Bank, F.S.B. in the California Superior Court for the County of San Bernardino. Cannon seeks to represent a class of all non-exempt employees in a class action lawsuit brought under California's Unfair Competition Law, Business & Professions Code section 17200. The underlying claims include unpaid overtime (including off-the-clock work), meal and rest period violations, minimum wage violations, and failure to reimburse business expenses. Based on the Bank's initial investigation and discovery to date, the Bank does not believe that the plaintiff's claims are generally meritorious. Presently, the Bank cannot assess the potential exposure for this matter because the Bank is still in the early stages of the litigation and the issue of whether the case is appropriate for class treatment has not been litigated. The Bank is unable to predict whether the plaintiff will be able to certify a class, and if so, what the breadth of the class would be. Additionally, it is difficult to quantify at this stage of the case which claims, if any, would be amenable to class treatment and what the potential exposure might be on such claims. The Bank intends to defend this case vigorously.

The Corporation is not a party to any other pending legal proceedings that it believes would have a material adverse effect on the financial condition, operations and cash flows of the Corporation.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

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

The common stock of Provident Financial Holdings, Inc. is listed on the NASDAQ Global Select Market under the symbol PROV. The following table provides the high and low sales prices for Provident Financial Holdings, Inc. common stock during the last two fiscal years by quarter. As of June 30, 2017, there were approximately 300 stockholders of record.

	First (Ended September 30)	Second (Ended December 31)	Third (Ended March 31)	Fourth (Ended June 30)
2017 Quarters:				
High	\$20.00	\$20.66	\$20.25	\$20.35
Low	\$17.72	\$17.68	\$18.20	\$18.32
2016 Quarters:				
High	\$17.20	\$19.19	\$19.01	\$18.50
Low	\$15.51	\$16.05	\$16.73	\$16.81

The Corporation adopted a quarterly cash dividend policy on July 24, 2002. Quarterly dividends paid for the quarters ended September 30, 2016, December 31, 2016, March 31, 2017 and June 30, 2017 were \$0.13 per share for each quarter. By comparison, quarterly dividends paid for the quarters ended September 30, 2015, December 31, 2015, March 31, 2016 and June 30, 2016 were \$0.12 per share for each quarter. Future declarations or payments of dividends will be subject to the approval of the Corporation's Board of Directors, which will take into account the Corporation's financial condition, results of operations, tax considerations, capital requirements, industry standards, economic conditions and other factors, including the regulatory restrictions which affect the payment of dividends by the Bank to the Corporation. In addition, the Corporation's wholly-owned operating subsidiary, the Bank, is required to file a notice and receive the non-objection of the Federal Reserve Board prior to paying any dividends or making any capital distributions to the Corporation. In fiscal 2017 and 2016, the Bank declared and paid cash dividends of \$10.0 million and \$15.0 million, respectively, to the Corporation. For additional information, see Item 1, "Business – Regulation - Federal Regulation of Savings Institutions - Limitations on Capital Distributions" and Item 1A., "Risk Factors - The short-term and long-term impact of the changing regulatory capital requirements and new capital rules is uncertain" in this Form 10-K. Under Delaware law, dividends may be paid either out of surplus or, if there is no surplus, out of net profits for the current fiscal year and/or the preceding fiscal year in which the dividend is declared.

The Corporation repurchases its common stock consistent with Board-approved stock repurchase plans. During fiscal 2017, the Corporation repurchased 425,350 shares with an average cost of \$19.31 per share, of which 28,350 and 397,000 shares were purchased under the October 2015 and May 2016 stock repurchase plans, respectively. In addition, the Corporation purchased 25,598 shares of distributed restricted common stock in settlement of employees' withholding tax obligations. The October 2015 and May 2016 stock repurchase plans were completed in fiscal 2017. On June 19, 2017, the Corporation's Board of Directors authorized the repurchase of up to 5% of outstanding shares, or 385,200 shares. As of June 30, 2017, no shares have been repurchased under this plan.

The table below sets forth information regarding the Corporation's purchases of its common stock during the fourth quarter of fiscal 2017.

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⁾
April 1, 2017 – April 30, 2017	—	\$	—	189,495

