

PROVIDENT FINANCIAL HOLDINGS INC
Form 10-Q
May 08, 2018
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
(Mark One)

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

For the quarterly period ended March 31, 2018

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

For the transition period from _____ to _____

Commission File Number 000-28304

PROVIDENT FINANCIAL HOLDINGS, INC.
(Exact name of registrant as specified in its charter)
Delaware 33-0704889
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

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

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions 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 Smaller reporting company
Emerging growth company

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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 Rule 12b-2 of the Exchange Act).

Yes No .

APPLICABLE ONLY TO CORPORATE ISSUERS

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

Title of class:	As of April 30, 2018
Common stock, \$ 0.01 par value, per share	7,460,804 shares

PROVIDENT FINANCIAL HOLDINGS, INC.

Table of Contents

PART 1 - FINANCIAL INFORMATION

Financial Statements. The Unaudited Interim Condensed
 ITEM 1 - Consolidated Financial Statements of Provident Financial Holdings,
 Inc. filed as a part of the report are as follows:

	Page
<u>Condensed Consolidated Statements of Financial Condition</u> as of March 31, 2018 and June 30, 2017	<u>1</u>
<u>Condensed Consolidated Statements of Operations</u> for the Quarters and Nine Months Ended March 31, 2018 and 2017	<u>2</u>
<u>Condensed Consolidated Statements of Comprehensive Income</u> for the Quarters and Nine Months Ended March 31, 2018 and 2017	<u>3</u>
<u>Condensed Consolidated Statements of Stockholders' Equity</u> for the Quarters and Nine Months Ended March 31, 2018 and 2017	<u>4</u>
<u>Condensed Consolidated Statements of Cash Flows</u> for the Nine Months Ended March 31, 2018 and 2017	<u>6</u>
<u>Notes to Unaudited Interim Condensed Consolidated Financial Statements</u>	<u>7</u>

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

<u>General</u>	<u>46</u>
<u>Safe-Harbor Statement</u>	<u>47</u>
<u>Critical Accounting Policies</u>	<u>48</u>
<u>Executive Summary and Operating Strategy</u>	<u>48</u>
<u>Off-Balance Sheet Financing Arrangements and Contractual Obligations</u>	<u>49</u>
Comparison of Financial Condition at March 31, 2018 and June 30, 2017	<u>50</u>
<u>Comparison of Operating Results</u> for the Quarters and Nine Months Ended March 31, 2018 and 2017	<u>51</u>
<u>Asset Quality</u>	<u>61</u>
<u>Loan Volume Activities</u>	<u>69</u>
<u>Liquidity and Capital Resources</u>	<u>70</u>
<u>Supplemental Information</u>	<u>72</u>

ITEM 3 - Quantitative and Qualitative Disclosures about Market Risk 72

ITEM 4 - Controls and Procedures 75

PART II - OTHER INFORMATION

ITEM 1 - Legal Proceedings 76

ITEM 1A - Risk Factors 77

ITEM 2 - Unregistered Sales of Equity Securities and Use of Proceeds 78

ITEM 3 - Defaults Upon Senior Securities 78

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ITEM 4 - <u>Mine Safety Disclosures</u>	<u>78</u>
ITEM 5 - <u>Other Information</u>	<u>78</u>
ITEM 6 - <u>Exhibits</u>	<u>78</u>
<u>SIGNATURES</u>	<u>81</u>

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

	March 31, 2018	June 30, 2017
Assets		
Cash and cash equivalents	\$50,574	\$72,826
Investment securities – held to maturity, at cost	95,724	60,441
Investment securities – available for sale, at fair value	8,002	9,318
Loans held for investment, net of allowance for loan losses of \$7,531 and \$8,039, respectively; includes \$4,996 and \$6,445 at fair value, respectively	894,167	904,919
Loans held for sale, at fair value	89,823	116,548
Accrued interest receivable	3,100	2,915
Real estate owned, net	787	1,615
Federal Home Loan Bank (“FHLB”) – San Francisco stock	8,108	8,108
Premises and equipment, net	8,734	6,641
Prepaid expenses and other assets	17,583	17,302
Total assets	\$1,176,602	\$1,200,633
Liabilities and Stockholders’ Equity		
Liabilities:		
Non interest-bearing deposits	\$87,520	\$77,917
Interest-bearing deposits	834,979	848,604
Total deposits	922,499	926,521
Borrowings	111,176	126,226
Accounts payable, accrued interest and other liabilities	22,327	19,656
Total liabilities	1,056,002	1,072,403
Commitments and Contingencies		
Stockholders’ equity:		
Preferred stock, \$.01 par value (2,000,000 shares authorized; none issued and outstanding)	—	—
Common stock, \$.01 par value (40,000,000 shares authorized; 18,033,115 and 17,949,365 shares issued; 7,460,804 and 7,714,052 shares outstanding, respectively)	180	180
Additional paid-in capital	94,719	93,209
Retained earnings	190,301	192,754
Treasury stock at cost (10,572,311 and 10,235,313 shares, respectively)	(164,786)	(158,142)
Accumulated other comprehensive income, net of tax	186	229
Total stockholders’ equity	120,600	128,230

Total liabilities and stockholders' equity	\$1,176,602	\$1,200,633
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The accompanying notes are an integral part of these condensed consolidated financial statements.

1

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

	Quarter Ended March 31,		Nine Months Ended March 31,	
	2018	2017	2018	2017
Interest income:				
Loans receivable, net	\$9,933	\$9,704	\$29,825	\$30,300
Investment securities	382	142	958	354
FHLB – San Francisco stock	144	184	428	827
Interest-earning deposits	233	250	591	406
Total interest income	10,692	10,280	31,802	31,887
Interest expense:				
Checking and money market deposits	96	90	311	293
Savings deposits	147	144	445	434
Time deposits	613	686	1,877	2,189
Borrowings	712	713	2,176	2,151
Total interest expense	1,568	1,633	4,809	5,067
Net interest income	9,124	8,647	26,993	26,820
Recovery from the allowance for loan losses	(505)	(165)	(347)	(665)
Net interest income, after recovery from the allowance for loan losses	9,629	8,812	27,340	27,485
Non-interest income:				
Loan servicing and other fees	493	362	1,173	939
Gain on sale of loans, net	3,597	5,395	12,761	19,869
Deposit account fees	529	562	1,623	1,664
Loss on sale and operations of real estate owned acquired in the settlement of loans, net	(19)	(74)	(81)	(240)
Card and processing fees	372	338	1,126	1,063
Other	238	208	701	580
Total non-interest income	5,210	6,791	17,303	23,875
Non-interest expense:				
Salaries and employee benefits	8,808	10,370	26,710	32,033
Premises and occupancy	1,255	1,241	3,829	3,765
Equipment	442	352	1,179	1,054
Professional expenses	400	436	1,441	1,571
Sales and marketing expenses	213	421	717	970
Deposit insurance premiums and regulatory assessments	189	189	591	614
Other ⁽¹⁾	1,132	759	6,919	4,061
Total non-interest expense	12,439	13,768	41,386	44,068
Income before income taxes	2,400	1,835	3,257	7,292
Provision for income taxes ⁽²⁾	667	690	2,526	3,049
Net income	\$1,733	\$1,145	\$731	\$4,243

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Basic earnings per share	\$0.23	\$0.14	\$0.10	\$0.53
Diluted earnings per share	\$0.23	\$0.14	\$0.09	\$0.52
Cash dividends per share	\$0.14	\$0.13	\$0.42	\$0.39

..

(1) Includes \$3.4 million of litigation settlement expenses for the nine months ended March 31, 2018.

(2) Includes a net tax charge of \$1.9 million resulting from the revaluation of net deferred tax assets consistent with the Tax Cuts and Jobs Act for the nine months ended March 31, 2018.

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

2

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

	For the Quarters Ended March 31,		For the Nine Months Ended March 31,	
	2018	2017	2018	2017
Net income	\$1,733	\$1,145	\$731	\$4,243
Change in unrealized holding loss on securities available for sale	(35	)(28	)(113	)(112)
Reclassification adjustment for net loss on securities available for sale included in net income	(2	)—	43	—
Other comprehensive loss, before income tax benefit	(37	)(28	)(70	)(112)
Income tax benefit	(13	)(12	)(27	)(47)
Other comprehensive loss	(24	)(16	)(43	)(65)
Total comprehensive income	\$1,709	\$1,129	\$688	\$4,178

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

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

For the Quarters Ended March 31, 2018 and 2017:

	Common Stock Shares	Additional Paid-In Capital Amount	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss), Total Net of Tax		
Balance at December 31, 2017	7,474,776	\$ 180	\$ 94,011	\$ 189,610	\$(163,311)	\$ 210	\$ 120,700
Net income			1,733				1,733
Other comprehensive loss					(24)		(24)
Purchase of treasury stock ⁽¹⁾	(80,972)			(1,475)			(1,475)
Exercise of stock options	56,500	416					416
Distribution of restricted stock	10,500						—
Amortization of restricted stock		167					167
Stock options expense		125					125
Cash dividends ⁽²⁾			(1,042)				(1,042)
Balance at March 31, 2018	7,460,804	\$ 180	\$ 94,719	\$ 190,301	\$(164,786)	\$ 186	\$ 120,600

⁽¹⁾ Includes the repurchase of 3,291 shares of distributed restricted stock in settlement of employee withholding tax obligations.

⁽²⁾ Cash dividends of \$0.14 per share were paid in the quarter ended March 31, 2018.

	Common Stock Shares	Additional Paid-In Capital Amount	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss), Total Net of Tax		
Balance at December 31, 2016	7,915,116	\$ 179	\$ 92,215	\$ 192,699	\$(152,802)	\$ 264	\$ 132,555
Net income			1,145				1,145
Other comprehensive loss					(16)		(16)
Purchase of treasury stock	(89,819)			(1,678)			(1,678)
Exercise of stock options	60,250	524					524
Amortization of restricted stock		139					139
Awards of restricted stock		(53)		53			—
Stock options expense		115					115
Tax effect from stock-based compensation		(165)					(165)
Cash dividends ⁽¹⁾			(1,028)				(1,028)
Balance at March 31, 2017	7,885,547	\$ 179	\$ 92,775	\$ 192,816	\$(154,427)	\$ 248	\$ 131,591

⁽¹⁾ Cash dividends of \$0.13 per share were paid in the quarter ended March 31, 2017.

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

4

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For the Nine Months Ended March 31, 2018 and 2017:

	Common Stock Shares	Amount	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss), Net of Tax	Total
Balance at June 30, 2017	7,714,052	\$ 180	\$ 93,209	\$ 192,754	\$(158,142)	\$ 229	\$ 128,230
Net income				731			731
Other comprehensive loss						(43)	(43)
Purchase of treasury stock ⁽¹⁾	(347,498)				(6,627)		(6,627)
Exercise of stock options	83,750		677				677
Distribution of restricted stock	10,500						—
Amortization of restricted stock			458				458
Forfeitures of restricted stock			17		(17)		—
Stock options expense			358				358
Cash dividends ⁽²⁾				(3,184)			(3,184)
Balance at March 31, 2018	7,460,804	\$ 180	\$ 94,719	\$ 190,301	\$(164,786)	\$ 186	\$ 120,600

⁽¹⁾ Includes the repurchase of 3,291 shares of distributed restricted stock in settlement of employee withholding tax obligations.

⁽²⁾ Cash dividends of \$0.42 per share were paid in the nine months ended March 31, 2018.

	Common Stock Shares	Amount	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss), Net of Tax	Total
Balance at June 30, 2016	7,975,250	\$ 178	\$ 90,802	\$ 191,666	\$(149,508)	\$ 313	\$ 133,451
Net income				4,243			4,243
Other comprehensive loss						(65)	(65)
Purchase of treasury stock ⁽¹⁾	(261,453)				(4,999)		(4,999)
Exercise of stock options	84,000	1	808				809
Distribution of restricted stock	87,750						—
Amortization of restricted stock			634				634
Awards of restricted stock			(214)		214		—
Forfeitures of restricted stock			134		(134)		—
Stock options expense			597				597
Tax effect from stock-based compensation			14				14
Cash dividends ⁽²⁾				(3,093)			(3,093)
Balance at March 31, 2017	7,885,547	\$ 179	\$ 92,775	\$ 192,816	\$(154,427)	\$ 248	\$ 131,591

- (1) Includes the repurchase of 25,598 shares of distributed restricted stock in settlement of employee withholding tax obligations.
- (2) Cash dividends of \$0.39 per share were paid in the nine months ended March 31, 2017.

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

5

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

	Nine Months Ended March 31,	
	2018	2017
Cash flows from operating activities:		
Net income	\$731	\$4,243
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,229	1,948
Recovery from the allowance for loan losses	(347)	(665)
(Recovery) provision of losses on real estate owned	(552)	145
Gain on sale of loans, net	(12,761)	(19,869)
Loss (gain) on sale of real estate owned, net	564	(84)
Stock-based compensation	816	1,231
(Benefit) provision for deferred income taxes	(28)	1,335
Tax effect from stock based compensation	—	(14)
Increase in accounts payable, accrued interest and other liabilities	3,294	1,507
Increase in prepaid expenses and other assets	(482)	(572)
Loans originated for sale	(944,349)	(1,507,162)
Proceeds from sale of loans	983,504	1,609,636
Net cash provided by operating activities	32,619	91,679
Cash flows from investing activities:		
Decrease (increase) in loans held for investment, net	8,956	(42,052)
Principal payments from investment securities held to maturity	18,082	9,398
Principal payments from investment securities available for sale	1,252	1,434
Purchase of investment securities held to maturity	(54,147)	(10,970)
Proceeds from sale of real estate owned	2,223	1,497
Purchase of premises and equipment	(2,713)	(991)
Net cash used for investing activities	(26,347)	(41,684)
Cash flows from financing activities:		
(Decrease) increase in deposits, net	(4,022)	11,922
Repayments of short-term borrowings, net	(15,000)	—
Proceeds from long-term borrowings	10,000	20,000
Repayments of long-term borrowings	(10,050)	(55)
Exercise of stock options	677	809
Withholding taxes on stock based compensation	(318)	(501)
Tax effect from stock based compensation	—	14
Cash dividends	(3,184)	(3,093)
Treasury stock purchases	(6,627)	(4,999)
Net cash (used for) provided by financing activities	(28,524)	24,097
Net (decrease) increase in cash and cash equivalents	(22,252)	74,092
Cash and cash equivalents at beginning of period	72,826	51,206
Cash and cash equivalents at end of period	\$50,574	\$125,298
Supplemental information:		

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Cash paid for interest	\$4,816	\$5,043
Cash paid for income taxes	\$2,400	\$2,384
Transfer of loans held for sale to held for investment	\$1,122	\$2,280
Real estate acquired in the settlement of loans	\$1,659	\$1,845

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

6

PROVIDENT FINANCIAL HOLDINGS, INC.

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2018

Note 1: Basis of Presentation

The unaudited interim condensed consolidated financial statements included herein reflect all adjustments which are, in the opinion of management, necessary to present a fair statement of the results of operations for the interim periods presented. All such adjustments are of a normal, recurring nature. The condensed consolidated statement of financial condition at June 30, 2017 is derived from the audited consolidated financial statements of Provident Financial Holdings, Inc. and its wholly-owned subsidiary, Provident Savings Bank, F.S.B. (the "Bank") (collectively, the "Corporation"). Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been omitted pursuant to the rules and regulations of the United States Securities and Exchange Commission ("SEC") with respect to interim financial reporting. It is recommended that these unaudited interim condensed consolidated financial statements be read in conjunction with the audited consolidated financial statements and notes thereto included in the Corporation's Annual Report on Form 10-K for the year ended June 30, 2017. The results of operations for the quarter and nine months ended March 31, 2018 are not necessarily indicative of results that may be expected for the entire fiscal year ending June 30, 2018.

Note 2: Accounting Standard Updates ("ASU")

There have been no accounting standard updates or changes in the status of their adoption that are applicable to the Corporation as previously disclosed in Note 1 of the Corporation's Annual Report on Form 10-K for the year ended June 30, 2017, except the adoption of ASU 2016-09, "Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting," beginning in fiscal 2018 which did not have a material impact on its condensed consolidated financial statements.

Note 3: Earnings Per Share

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

As of March 31, 2018 and 2017, there were outstanding options to purchase 529,000 shares and 683,250 shares of the Corporation's common stock, respectively. Of those shares, as of March 31, 2018 and 2017, there were 26,000 shares and 76,000 shares, respectively, which were excluded from the diluted EPS computation as their effect was anti-dilutive. As of March 31, 2018, there were outstanding restricted stock awards of 98,500 shares which had a dilutive effect in the third quarter of fiscal 2018; and as of March 31, 2017, there were outstanding restricted stock awards of 111,000 shares which had a dilutive effect in the third quarter of fiscal 2017.

The following table provides the basic and diluted EPS computations for the quarters and nine months ended March 31, 2018 and 2017, respectively.

(In Thousands, Except Earnings Per Share)	For the Quarters Ended March 31, 2018		For the Nine Months Ended March 31, 2017		
Numerator:					
Net income – numerator for basic earnings per share and diluted earnings per share - available to common stockholders	\$1,733	\$1,145	\$731	\$4,243	
Denominator:					
Denominator for basic earnings per share:					
Weighted-average shares	7,457	7,926	7,573	7,943	
Effect of dilutive shares:					
Stock options	97	142	111	153	
Restricted stock	62	26	53	30	
Denominator for diluted earnings per share:					
Adjusted weighted-average shares and assumed conversions	7,616	8,094	7,737	8,126	
Basic earnings per share	\$0.23	\$0.14	\$0.10	\$0.53	
Diluted earnings per share	\$0.23	\$0.14	\$0.09	\$0.52	

Note 4: Operating Segment Reports

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

The following tables set forth condensed consolidated statements of operations and total assets for the Corporation’s operating segments for the quarters and nine months ended March 31, 2018 and 2017, respectively.

(In Thousands)	For the Quarter Ended March 31, 2018		
	Provident Bank	Provident Bank Mortgage	Consolidated Totals
Net interest income	\$8,750	\$374	\$9,124
Recovery from the allowance for loan losses	(505)	)—	(505)
Net interest income, after recovery from the allowance for loan losses	9,255	374	9,629
Non-interest income:			
Loan servicing and other fees ⁽¹⁾	313	180	493
(Loss) gain on sale of loans, net ⁽²⁾	(1)	)3,598	3,597
Deposit account fees	529	—	529
Loss on sale and operations of real estate owned acquired in the settlement of loans, net	(19)	)—	(19)
Card and processing fees	372	—	372
Other	238	—	238
Total non-interest income	1,432	3,778	5,210
Non-interest expense:			
Salaries and employee benefits	4,763	4,045	8,808
Premises and occupancy	842	413	1,255
Operating and administrative expenses	1,050	1,326	2,376
Total non-interest expense	6,655	5,784	12,439
Income (loss) before income taxes	4,032	(1,632)	)2,400
Provision (benefit) for income taxes	1,252	(585)	)667
Net income (loss)	\$2,780	\$(1,047)	)\$1,733
Total assets, end of period	\$1,086,437	\$90,165	\$1,176,602

(1) Includes an inter-company charge of \$222 credited to PBM by the Bank during the period to compensate PBM for originating loans held for investment.

(2) Includes an inter-company charge of \$44 credited to PBM by the Bank during the period to compensate PBM for servicing fees on loans sold on a servicing retained basis.

(In Thousands)	For the Quarter Ended March 31, 2017		
	Provident Bank	Provident Bank Mortgage	Consolidated Totals
Net interest income	\$7,940	\$707	\$8,647
Recovery from the allowance for loan losses	(121)	)(44	)(165)
Net interest income after recovery from the allowance for loan losses	8,061	751	8,812
Non-interest income:			
Loan servicing and other fees ⁽¹⁾	125	237	362
Gain on sale of loans, net ⁽²⁾	1	5,394	5,395
Deposit account fees	562	—	562
Loss on sale and operations of real estate owned acquired in the settlement of loans, net	(68)	)(6	)(74)
Card and processing fees	338	—	338
Other	208	—	208
Total non-interest income	1,166	5,625	6,791
Non-interest expense:			
Salaries and employee benefits	4,662	5,708	10,370
Premises and occupancy	784	457	1,241
Operating and administrative expenses	1,333	824	2,157
Total non-interest expense	6,779	6,989	13,768
Income (loss) before income taxes	2,448	(613	)1,835
Provision (benefit) for income taxes	948	(258	)690
Net income (loss)	\$1,500	\$(355	)\$1,145
Total assets, end of period	\$1,093,715	\$105,730	\$1,199,445

- (1) Includes an inter-company charge of \$173 credited to PBM by the Bank during the period to compensate PBM for originating loans held for investment.
- (2) Includes an inter-company charge of \$48 credited to PBM by the Bank during the period to compensate PBM for servicing fees on loans sold on a servicing retained basis.

(In Thousands)	For the Nine Months Ended March 31, 2018		
	Provident Bank	Provident Bank Mortgage	Consolidated Totals
Net interest income	\$25,517	\$1,476	\$26,993
Recovery from the allowance for loan losses	(347)	)—	(347)
Net interest income, after recovery from the allowance for loan losses	25,864	1,476	27,340
Non-interest income:			
Loan servicing and other fees ⁽¹⁾	468	705	1,173
Gain on sale of loans, net ⁽²⁾	21	12,740	12,761
Deposit account fees	1,623	—	1,623
Loss on sale and operations of real estate owned acquired in the settlement of loans, net	(81)	)—	(81)
Card and processing fees	1,126	—	1,126
Other	701	—	701
Total non-interest income	3,858	13,445	17,303
Non-interest expense:			
Salaries and employee benefits	13,714	12,996	26,710
Premises and occupancy	2,491	1,338	3,829
Operating and administrative expenses ⁽³⁾	4,490	6,357	10,847
Total non-interest expense	20,695	20,691	41,386
Income (loss) before income taxes	9,027	(5,770)	)3,257
Provision (benefit) for income taxes ⁽⁴⁾	4,595	(2,069)	)2,526
Net income (loss)	\$4,432	\$(3,701)	)\$731
Total assets, end of period	\$1,086,437	\$90,165	\$1,176,602

(1) Includes an inter-company charge of \$561 credited to PBM by the Bank during the period to compensate PBM for originating loans held for investment.

(2) Includes an inter-company charge of \$182 credited to PBM by the Bank during the period to compensate PBM for servicing fees on loans sold on a servicing retained basis.

(3) Includes \$3.4 million of litigation settlement expenses for the first nine months of fiscal 2018 with \$2.1 million allocated to PBM.

(4) Includes a net tax charge of \$1.9 million resulting from the revaluation of net deferred tax assets consistent with the Tax Cuts and Jobs Act for the nine months ended March 31, 2018, all charged to the Bank.

(In Thousands)	For the Nine Months Ended March 31, 2017		
	Provident Bank	Provident Bank Mortgage	Consolidated Totals
Net interest income	\$23,336	\$3,484	\$26,820
Recovery from the allowance for loan losses	(431)	)(234)	)(665)
Net interest income, after recovery from the allowance for loan losses	23,767	3,718	27,485
Non-interest income:			
Loan servicing and other fees ⁽¹⁾	444	495	939
Gain on sale of loans, net ⁽²⁾	39	19,830	19,869
Deposit account fees	1,664	—	1,664
Loss on sale and operations of real estate owned acquired in the settlement of loans, net	(231)	)(9)	)(240)
Card and processing fees	1,063	—	1,063
Other	580	—	580
Total non-interest income	3,559	20,316	23,875
Non-interest expense:			
Salaries and employee benefits	14,198	17,835	32,033
Premises and occupancy	2,432	1,333	3,765
Operating and administrative expenses	3,632	4,638	8,270
Total non-interest expense	20,262	23,806	44,068
Income before income taxes	7,064	228	7,292
Provision for income taxes	2,953	96	3,049
Net income	\$4,111	\$132	\$4,243
Total assets, end of period	\$1,093,715	\$105,730	\$1,199,445

(1) Includes an inter-company charge of \$396 credited to PBM by the Bank during the period to compensate PBM for originating loans held for investment.

(2) Includes an inter-company charge of \$216 credited to PBM by the Bank during the period to compensate PBM for servicing fees on loans sold on a servicing retained basis.

Note 5: Investment Securities

The amortized cost and estimated fair value of investment securities as of March 31, 2018 and June 30, 2017 were as follows:

As of March 31, 2018	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Carrying Value
(In Thousands)					
Held to maturity:					
Certificates of deposit	\$ 600	\$ —	\$ —	\$ 600	\$ 600
U.S. SBA loan pool securities ⁽¹⁾	3,009	—	18	2,991	3,009
U.S. government sponsored enterprise MBS ⁽²⁾	92,115	110	875	91,350	92,115
Total investment securities - held to maturity	\$ 95,724	\$ 110	\$ 893	\$ 94,941	\$ 95,724
Available for sale:					
U.S. government agency MBS	\$ 4,490	\$ 166	\$ —	\$ 4,656	\$ 4,656
U.S. government sponsored enterprise MBS	2,820	131	—	2,951	2,951
Private issue CMO ⁽³⁾	391	4	—	395	395
Total investment securities - available for sale	\$ 7,701	\$ 301	\$ —	\$ 8,002	\$ 8,002
Total investment securities	\$ 103,425	\$ 411	\$ 893	\$ 102,943	\$ 103,726

(1) Small Business Administration ("SBA").

(2) Mortgage-Backed Securities ("MBS").

(3) Collateralized Mortgage Obligations ("CMO").

As of June 30, 2017	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Carrying Value
(In Thousands)					
Held to maturity:					
Certificates of deposit	\$ 600	\$ —	\$ —	\$ 600	\$ 600
U.S. government sponsored enterprise MBS	59,841	265	77	60,029	59,841
Total investment securities - held to maturity	\$ 60,441	\$ 265	\$ 77	\$ 60,629	\$ 60,441
Available for sale:					
U.S. government agency MBS	\$ 5,197	\$ 186	\$ —	\$ 5,383	\$ 5,383
U.S. government sponsored enterprise MBS	3,301	173	—	3,474	3,474
Private issue CMO	456	5	—	461	461
Total investment securities - available for sale	\$ 8,954	\$ 364	\$ —	\$ 9,318	\$ 9,318
Total investment securities	\$ 69,395	\$ 629	\$ 77	\$ 69,947	\$ 69,759

In the third quarters of fiscal 2018 and 2017, the Corporation received MBS principal payments of \$7.6 million and \$3.5 million, respectively, and there were no sales of investment securities during these periods. The Corporation purchased \$12.6 million of U.S. government sponsored enterprise MBS and \$3.0 million of U.S. SBA loan pool securities, to be held to maturity, during the third quarter of fiscal 2018; while the Corporation purchased \$11.0 million of U.S. government sponsored enterprise MBS during the third quarter of fiscal 2017. For the first nine months of fiscal 2018 and 2017, the Corporation received MBS principal payments of \$19.3 million and \$10.8 million, respectively, and there were no sales of investment securities during these periods. For the first nine months of fiscal 2018, the Corporation purchased \$51.1 million in U.S. government sponsored enterprise MBS and \$3.0

million in U.S. SBA loan pool securities, to be held to maturity; while the Corporation purchased \$11.0 million in U.S. government sponsored enterprise MBS during the first nine months of fiscal 2017.

The Corporation held investments with an unrealized loss position of \$893,000 at March 31, 2018 and \$77,000 at June 30, 2017. At March 31, 2018 and June 30, 2017, the gross unrealized losses and the fair value for investment securities by investment category aggregated by the length of time that individual securities have been in a continuous unrealized loss position was as follows:

As of March 31, 2018 (In Thousands)	Unrealized Holding Losses Less Than 12 Months		Unrealized Holding Losses 12 Months or More		Unrealized Holding Losses Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Description of Securities						
Held to maturity:						
U.S. SBA loan pool securities	\$2,984	\$ 18	\$ —	\$ —	—\$2,984	\$ 18
U.S. government sponsored enterprise MBS	80,725	875	—	—	80,725	875
Total investment securities	\$83,709	\$ 893	\$ —	\$ —	—\$83,709	\$ 893

As of June 30, 2017 (In Thousands)	Unrealized Holding Losses Less Than 12 Months		Unrealized Holding Losses 12 Months or More		Unrealized Holding Losses Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Description of Securities						
Held to maturity:						
U.S. government sponsored enterprise MBS	\$28,722	\$ 77	\$ —	\$ —	—\$28,722	\$ 77
Total investment securities	\$28,722	\$ 77	\$ —	\$ —	—\$28,722	\$ 77

The Corporation evaluates individual investment securities quarterly for other-than-temporary declines in market value. As of March 31, 2018 and June 30, 2017, the unrealized holding losses were for a term of less than 12 months. The Corporation does not believe that there are any other-than-temporary impairments on the investment securities at March 31, 2018 and 2017; therefore, no impairment losses were recorded for the quarters and nine months ended March 31, 2018 and 2017.

Contractual maturities of investment securities as of March 31, 2018 and June 30, 2017 were as follows:

(In Thousands)	March 31, 2018		June 30, 2017	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Held to maturity:				
Due in one year or less	\$600	\$600	\$600	\$600
Due after one through five years	16,745	16,534	4,698	4,708
Due after five through ten years	35,636	35,139	41,404	41,374
Due after ten years	42,743	42,668	13,739	13,947
Total investment securities - held to maturity	\$95,724	\$94,941	\$60,441	\$60,629
Available for sale:				
Due in one year or less	\$—	\$—	\$—	\$—
Due after one through five years	—	—	—	—
Due after five through ten years	—	—	—	—

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Due after ten years	7,701	8,002	8,954	9,318
Total investment securities - available for sale	\$7,701	\$8,002	\$8,954	\$9,318
Total investment securities	\$103,425	\$102,943	\$69,395	\$69,947

14

Note 6: Loans Held for Investment

Loans held for investment, net of fair value adjustments, consisted of the following at the dates indicated:

(In Thousands)	March 31, June 30,	
	2018	2017
Mortgage loans:		
Single-family	\$ 316,912	\$ 322,197
Multi-family	466,266	479,959
Commercial real estate	106,937	97,562
Construction	10,915	16,009
Commercial business loans	450	576
Consumer loans	130	129
Total loans held for investment, gross	901,610	916,432
Undisbursed loan funds	(5,591)	(9,015)
Advance payments of escrows	160	61
Deferred loan costs, net	5,519	5,480
Allowance for loan losses	(7,531)	(8,039)
Total loans held for investment, net	\$ 894,167	\$ 904,919

The following table sets forth information at March 31, 2018 regarding the dollar amount of loans held for investment that are contractually repricing during the periods indicated, segregated between adjustable rate loans and fixed rate loans. Fixed-rate loans comprised two percent of loans held for investment at both March 31, 2018 and June 30, 2017. Adjustable rate loans having no stated repricing dates that reprice when the index they are tied to reprices (e.g. prime rate index) and checking account overdrafts are reported as repricing within one year. The table does not include any estimate of prepayments which may cause the Corporation's actual repricing experience to differ materially from that shown.

(In Thousands)	Adjustable Rate				Fixed Rate	Total
	Within One Year	After One Year Through 3 Years	After 3 Years Through 5 Years	After 5 Years Through 10 Years		
Mortgage loans:						
Single-family	\$ 140,839	\$ 30,990	\$ 74,783	\$ 57,090	\$ 13,210	\$ 316,912
Multi-family	130,608	166,749	157,761	10,914	234	466,266
Commercial real estate	29,657	40,992	35,740	—	548	106,937
Construction	9,011	—	—	—	1,904	10,915
Commercial business loans	26	—	—	—	424	450
Consumer loans	130	—	—	—	—	130
Total loans held for investment, gross	\$ 310,271	\$ 238,731	\$ 268,284	\$ 68,004	\$ 16,320	\$ 901,610

The Corporation has developed an internal loan grading system to evaluate and quantify the Bank's loans held for investment portfolio with respect to quality and risk. Management continually evaluates the credit quality of the Corporation's loan portfolio and conducts a quarterly review of the adequacy of the allowance for loan losses using quantitative and qualitative methods. The Corporation has adopted an internal risk rating policy in which each loan is rated for credit quality with a rating of pass, special mention, substandard, doubtful or loss. The two primary

components that are used during the loan review process to determine the proper allowance levels are individually evaluated allowances and collectively evaluated allowances. Quantitative loan loss factors are developed by determining the historical loss experience, expected future cash flows, discount rates and collateral fair

values, among other components. Qualitative loan loss factors are developed by assessing general economic indicators such as gross domestic product, retail sales, unemployment rates, employment growth, California home sales and median California home prices. The Corporation assigns individual factors for the quantitative and qualitative methods for each loan category and each internal risk rating.

The Corporation categorizes all of the loans held for investment into risk categories based on relevant information about the ability of the borrower to service their debt such as current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. A description of the general characteristics of the risk grades is as follows:

Pass - These loans range from minimal credit risk to average, but still acceptable, credit risk. The likelihood of loss is considered remote.

Special Mention - A Special Mention asset has potential weaknesses that may be temporary or, if left uncorrected, may result in a loss. While concerns exist, the bank is currently protected and loss is considered unlikely and not imminent.

Substandard - A substandard loan is inadequately protected by the current sound worth and paying capacity of the borrower or of the collateral pledged, if any. Loans so classified must have a well-defined weakness, or weaknesses, that may jeopardize the liquidation of the debt. A substandard loan is characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

Doubtful - A doubtful loan has all of the weaknesses inherent in one classified as substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of the currently existing facts, conditions and values, highly questionable and improbable.

Loss - A loss loan is considered uncollectible and of such little value that continuance as an asset of the institution is not warranted.

The following tables summarize gross loans held for investment, net of fair value adjustments, by loan types and risk category at the dates indicated:

March 31, 2018

(In Thousands)	Single-family	Multi-family	Commercial Real Estate	Construction	Commercial Business	Consumer	Total
Pass	\$306,519	\$466,266	\$106,937	\$9,989	\$377	\$130	\$890,218
Special Mention	1,913	—	—	926	—	—	2,839
Substandard	8,480	—	—	—	73	—	8,553
Total loans held for investment, gross	\$316,912	\$466,266	\$106,937	\$10,915	\$450	\$130	\$901,610

June 30, 2017

(In Thousands)	Single-family	Multi-family	Commercial Real Estate	Construction	Commercial Business	Consumer	Total
Pass	\$310,738	\$479,687	\$97,361	\$16,009	\$496	\$129	\$904,420
Special Mention	3,443	272	—	—	—	—	3,715
Substandard	8,016	—	201	—	80	—	8,297
Total loans held for investment, gross	\$322,197	\$479,959	\$97,562	\$16,009	\$576	\$129	\$916,432

The allowance for loan losses is maintained at a level sufficient to provide for estimated losses based on evaluating known and inherent risks in the loans held for investment and upon management's continuing analysis of the factors

underlying the quality of the loans held for investment. These factors include changes in the size and composition of the loans held for investment, actual loan loss experience, current economic conditions, detailed analysis of individual loans for which full collectability may not be assured, and determination of the realizable value of the collateral securing the loans. The provision (recovery) for (from) the allowance for loan losses is charged (credited) against operations on a quarterly basis, as necessary, to maintain the allowance at

appropriate levels. Although management believes it uses the best information available to make such determinations, there can be no assurance that regulators, in reviewing the Corporation's loans held for investment, will not request a significant increase in its allowance for loan losses. Future adjustments to the allowance for loan losses may be necessary and results of operations could be significantly and adversely affected as a result of economic, operating, regulatory, and other conditions beyond the Corporation's control.

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 derived based on the loan's discounted cash flow fair value (for restructured loans) or collateral fair value less estimated selling costs and if the fair value is higher than the loan balance, no allowance is required.

The following table summarizes the Corporation's allowance for loan losses at March 31, 2018 and June 30, 2017:

	March June	
(In Thousands)	31, 2018	30, 2017
Collectively evaluated for impairment:		
Mortgage loans:		
Single-family	\$2,960	\$3,515
Multi-family	3,312	3,420
Commercial real estate	966	879
Construction	94	96
Commercial business loans	16	21
Consumer loans	7	7
Total collectively evaluated allowance	7,355	7,938
Individually evaluated for impairment:		
Mortgage loans:		
Single-family	161	86
Commercial business loans	15	15
Total individually evaluated allowance	176	101
Total loan loss allowance	\$7,531	\$8,039

The following table is provided to disclose additional details on the Corporation's allowance for loan losses for the quarters and nine months ended March 31, 2018 and 2017, respectively:

(Dollars in Thousands)	For the Quarters Ended		For the Nine Months Ended	
	March 31, 2018	2017	March 31, 2018	2017
Allowance at beginning of period	\$8,075	\$8,391	\$8,039	\$8,670
Recovery from the allowance for loan losses	(505)	(165)	(347)	(665)
Recoveries:				
Mortgage loans:				
Single-family	71	83	203	379
Multi-family	—	3	—	16
Commercial business loans	—	75	—	75
Consumer loans	—	1	—	2
Total recoveries	71	162	203	472
Charge-offs:				
Mortgage loans:				
Single-family	(110)	(112)	(364)	(199)
Consumer loans	—	(1)	—	(3)
Total charge-offs	(110)	(113)	(364)	(202)
Net (charge-offs) recoveries	(39)	49	(161)	270
Balance at end of period	\$7,531	\$8,275	\$7,531	\$8,275
Allowance for loan losses as a percentage of gross loans held for investment at the end of the period	0.84	%0.93	%0.84	%0.93
Net charge-offs (recoveries) as a percentage of average loans receivable, net, during the period (annualized)	0.02	%(0.02)	%0.02	%(0.03)

The following tables denote the past due status of the Corporation's gross loans held for investment, net of fair value adjustments, at the dates indicated.

(In Thousands)	March 31, 2018			Total Loans Held for Investment
	Current	30-89 Days Past Due	Non-Accrual Past ⁽¹⁾	
Mortgage loans:				
Single-family	\$309,932	\$157	\$6,823	\$316,912
Multi-family	466,266	—	—	466,266
Commercial real estate	106,937	—	—	106,937
Construction	10,915	—	—	10,915
Commercial business loans	377	—	73	450
Consumer loans	127	3	—	130
Total loans held for investment, gross	\$894,554	\$160	\$6,896	\$901,610

(1) All loans 90 days or greater past due are placed on non-accrual status.

18

(In Thousands)	June 30, 2017			Total Loans Held for Investment
	Current	30-89 Days Past Due	Non-Accrual (¹)	
Mortgage loans:				
Single-family	\$313,146	\$1,035	\$ 8,016	\$ 322,197
Multi-family	479,959	—	—	479,959
Commercial real estate	97,361	—	201	97,562
Construction	16,009	—	—	16,009
Commercial business loans	496	—	80	576
Consumer loans	129	—	—	129
Total loans held for investment, gross	\$907,100	\$1,035	\$ 8,297	\$ 916,432

(¹) All loans 90 days or greater past due are placed on non-accrual status.

The following tables summarize the Corporation's allowance for loan losses and recorded investment in gross loans, by portfolio type, at the dates and for the periods indicated.

(In Thousands)	Quarter Ended March 31, 2018							
	Single-family	Multi-family	Commercial Real Estate	Construction	Commercial Business	Consumer	Total	
Allowance for loan losses:								
Allowance at beginning of period	\$3,303	\$3,295	\$933	\$504	\$32	\$8	\$8,075	
(Recovery) provision for loan losses	(143)	17	33	(410)	(1)	(1)	(505)	
Recoveries	71	—	—	—	—	—	71	
Charge-offs	(110)	—	—	—	—	—	(110)	
Allowance for loan losses, end of period	\$3,121	\$3,312	\$966	\$94	\$31	\$7	\$7,531	
Allowance for loan losses:								
Individually evaluated for impairment	\$161	\$—	\$—	\$—	\$15	\$—	\$176	
Collectively evaluated for impairment	2,960	3,312	966	94	16	7	7,355	
Allowance for loan losses, end of period	\$3,121	\$3,312	\$966	\$94	\$31	\$7	\$7,531	
Loans held for investment:								
Individually evaluated for impairment	\$7,929	\$—	\$—	\$—	\$73	\$—	\$8,002	
Collectively evaluated for impairment	308,983	466,266	106,937	10,915	377	130	893,608	
Total loans held for investment, gross	\$316,912	\$466,266	\$106,937	\$10,915	\$450	\$130	\$901,610	
Allowance for loan losses as a percentage of gross loans	0.98	%0.71	%0.90	%0.86	%6.89	%5.38	%0.84	%

held for investment

19

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(In Thousands)	Quarter Ended March 31, 2017								
	Single-family	Multi-family	Commercial Real Estate	Construction	Other Mortgage	Commercial Business	Consumer	Total	
Allowance for loan losses:									
Allowance at beginning of period	\$4,283	\$3,156	\$836	\$65	\$6	\$37	\$8	\$8,391	
(Recovery) provision for loan losses	(345)	208	32	15	(1)	(73)	(1)	(165)	
Recoveries	83	3	—	—	—	75	1	162	
Charge-offs	(112)	—	—	—	—	—	(1)	(113)	
Allowance for loan losses, end of period	\$3,909	\$3,367	\$868	\$80	\$5	\$39	\$7	\$8,275	
Allowance for loan losses:									
Individually evaluated for impairment	\$—	\$—	\$—	\$—	\$—	\$15	\$—	\$15	
Collectively evaluated for impairment	3,909	3,367	868	80	5	24	7	8,260	
Allowance for loan losses, end of period	\$3,909	\$3,367	\$868	\$80	\$5	\$39	\$7	\$8,275	
Loans held for investment:									
Individually evaluated for impairment	\$6,849	\$372	\$201	\$—	\$—	\$83	\$—	\$7,505	
Collectively evaluated for impairment	312,865	458,808	96,163	16,552	241	585	126	885,340	
Total loans held for investment, gross	\$319,714	\$459,180	\$96,364	\$16,552	\$241	\$668	\$126	\$892,845	
Allowance for loan losses as a percentage of gross loans held for investment	1.22	%0.73	%0.90	%0.48	%2.07	%5.84	%5.56	%0.93	%

(In Thousands)	Nine Months Ended March 31, 2018							Total
	Single-family	Multi-family	Commercial Real Estate	Construction	Commercial Business	Consumer		
Allowance for loan losses:								
Allowance at beginning of period	\$3,601	\$3,420	\$879	\$96	\$36	\$7		\$8,039
(Recovery) provision for loan losses	(319)	(108)	87	(2)	(5)	—		(347)
Recoveries	203	—	—	—	—	—		203
Charge-offs	(364)	—	—	—	—	—		(364)
Allowance for loan losses, end of period	\$3,121	\$3,312	\$966	\$94	\$31	\$7		\$7,531
Allowance for loan losses:								
Individually evaluated for impairment	\$161	\$—	\$—	\$—	\$15	\$—		\$176
Collectively evaluated for impairment	2,960	3,312	966	94	16	7		7,355
Allowance for loan losses, end of period	\$3,121	\$3,312	\$966	\$94	\$31	\$7		\$7,531
Loans held for investment:								
Individually evaluated for impairment	\$7,929	\$—	\$—	\$—	\$73	\$—		\$8,002
Collectively evaluated for impairment	308,983	466,266	106,937	10,915	377	130		893,608
Total loans held for investment, gross	\$316,912	\$466,266	\$106,937	\$10,915	\$450	\$130		\$901,610
Allowance for loan losses as a percentage of gross loans held for investment	0.98	%0.71	%0.90	%0.86	%6.89	%5.38	%0.84	%

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(In Thousands)	Nine Months Ended March 31, 2017								
	Single-family	Multi-family	Commercial Real Estate	Construction	Other Mortgage	Commercial Business	Consumer	Total	
Allowance for loan losses:									
Allowance at beginning of period	\$4,933	\$2,800	\$848	\$31	\$7	\$43	\$8	\$8,670	
(Recovery) provision for loan losses	(1,204)	551	20	49	(2)	(79)	—	(665)	
Recoveries	379	16	—	—	—	75	2	472	
Charge-offs	(199)	—	—	—	—	—	(3)	(202)	
Allowance for loan losses, end of period	\$3,909	\$3,367	\$868	\$80	\$5	\$39	\$7	\$8,275	
Allowance for loan losses:									
Individually evaluated for impairment	\$—	\$—	\$—	\$—	\$—	\$15	\$—	\$15	
Collectively evaluated for impairment	3,909	3,367	868	80	5	24	7	8,260	
Allowance for loan losses, end of period	\$3,909	\$3,367	\$868	\$80	\$5	\$39	\$7	\$8,275	
Loans held for investment:									
Individually evaluated for impairment	\$6,849	\$372	\$201	\$—	\$—	\$83	\$—	\$7,505	
Collectively evaluated for impairment	312,865	458,808	96,163	16,552	241	585	126	885,340	
Total loans held for investment, gross	\$319,714	\$459,180	\$96,364	\$16,552	\$241	\$668	\$126	\$892,845	
Allowance for loan losses as a percentage of gross loans held for investment	1.22	%0.73	%0.90	%0.48	%2.07	%5.84	%5.56	%0.93	%

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, the borrower(s) has demonstrated sustained payment performance 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 appraisals less costs to sell, to establish realizable value. This 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 March 31, 2018			
	Unpaid Principal Balance	Related Charge-offs	Recorded Investment	Net Recorded Investment ⁽¹⁾
Mortgage loans:				
Single-family:				
With a related allowance	\$1,166	\$ —	\$ 1,166	\$ (152) \$ 1,014
Without a related allowance ⁽²⁾	6,467	(773)	5,694	—) 5,694
Total single-family	7,633	(773)	6,860	(152) 6,708
Commercial business loans:				
With a related allowance	73	—	73	(15) 58
Total commercial business loans	73	—	73	(15) 58
Total non-performing loans	\$7,706	\$ (773)	\$ 6,933	\$ (167) \$ 6,766

(1) Consists of collectively and individually evaluated allowances, specifically assigned to the individual loan, and fair value 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 June 30, 2017				Net Recorded Investment
	Unpaid Principal Balance	Related Charge-offs	Recorded Investment	Allowance ⁽¹⁾	
Mortgage loans:					
Single-family:					
With a related allowance	\$ 1,821	\$ —	\$ 1,821	\$ (325)	) \$ 1,496
Without a related allowance ⁽²⁾	7,119	(886)	) 6,233	—	6,233
Total single-family	8,940	(886)	) 8,054	(325)	) 7,729
Commercial real estate:					
Without a related allowance ⁽²⁾	201	—	201	—	201
Total commercial real estate	201	—	201	—	201
Commercial business loans:					
With a related allowance	80	—	80	(15)	) 65
Total commercial business loans	80	—	80	(15)	) 65
Total non-performing loans	\$ 9,221	\$ (886)	) \$ 8,335	\$ (340)	) \$ 7,995

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

At both March 31, 2018 and June 30, 2017, there were no commitments to lend additional funds to those borrowers whose loans were classified as non-performing.

For the quarters ended March 31, 2018 and 2017, the Corporation's average recorded investment in non-performing loans was \$7.6 million and \$9.3 million, respectively. The Corporation records payments on non-performing loans utilizing the cash basis or cost recovery method of accounting during the periods when the loans are on non-performing status. For both quarters ended March 31, 2018 and 2017, interest income of \$70,000 and \$132,000, respectively, was recognized, based on cash receipts from loan payments on non-performing loans and \$51,000 and \$60,000, respectively, was collected and applied to reduce the loan balances under the cost recovery method. Forgone interest income, which would have been recorded had the non-performing loans been current in accordance with their original terms, amounted to \$37,000 and \$29,000 for the quarters ended March 31, 2018 and 2017, respectively, and was not included in the results of operations.

For the nine months ended March 31, 2018 and 2017, the Corporation's average recorded investment in non-performing loans was \$8.1 million and \$10.5 million, respectively. For the nine months ended March 31, 2018 and 2017, interest income of \$240,000 and \$235,000, respectively, was recognized, based on cash receipts from loan payments on non-performing loans and \$226,000 and \$196,000, respectively, was collected and applied to reduce the loan balances under the cost recovery method. Forgone interest income, which would have been recorded had the non-performing loans been current in accordance with their original terms, amounted to \$121,000 and \$105,000 for the nine months ended March 31, 2018 and 2017, respectively, and was not included in the results of operations.

The following tables present the average recorded investment in non-performing loans and the related interest income recognized for the quarters and nine months ended March 31, 2018 and 2017:

(In Thousands)	Quarter Ended March 31, 2018		2017	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized

Without related allowances:

Mortgage loans:				
Single-family	\$6,397	\$ 49	\$7,325	\$ 115
Multi-family	—	—	373	4
Commercial real estate	—	—	134	1
	6,397	49	7,832	120

With related allowances:

Mortgage loans:				
Single-family	1,170	20	1,398	10
Commercial business loans	74	1	84	2
	1,244	21	1,482	12
Total	\$7,641	\$ 70	\$9,314	\$ 132

	Nine Months Ended March 31, 2018		2017	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized

Without related allowances:

Mortgage loans:				
Single-family	\$7,296	\$ 184	\$8,480	\$ 152
Multi-family	—	—	406	4
Commercial real estate	22	13	45	1
	7,318	197	8,931	157

With related allowances:

Mortgage loans:				
Single-family	738	39	1,287	56
Multi-family	—	—	156	17
Commercial business loans	76	4	88	5
	814	43	1,531	78
Total	\$8,132	\$ 240	\$10,462	\$ 235

For the quarter and nine months ended March 31, 2018, there were two loans totaling \$2.2 million that were newly modified from their original terms and re-underwritten or identified in the Corporation's asset quality reports as restructured loans. This compares to no loans that were newly modified from their original terms during the quarter and the nine months ended March 31, 2017. During the quarters and nine months ended March 31, 2018 and 2017, no restructured loans were in default within a 12-month period subsequent to their original restructuring. Additionally, during the quarters and nine months ended March 31, 2018 and 2017, there were no loans whose modification was extended beyond the initial maturity of the modification, except for one commercial business loan with an outstanding balance of \$85,000 which was extended for two years during the second quarter of fiscal 2017. At both March 31, 2018 and June 30, 2017, there were no commitments to lend additional funds to those borrowers whose loans were restructured.

As of March 31, 2018, the Corporation held 12 restructured loans with a net outstanding balance of \$5.4 million: two were classified as special mention on accrual status (\$811,000); and 10 were classified as substandard (\$4.5 million with \$3.2 million on non-accrual status). As of June 30, 2017, the Corporation held 10 restructured loans with a net outstanding balance of \$3.6 million: one was classified as special mention on accrual status (\$506,000); and nine were classified as substandard (\$3.1 million, all on non-accrual status). Substandard assets have one or more defined weaknesses and are characterized by the distinct possibility that the Corporation will sustain some loss if the deficiencies are not corrected. Assets that do not currently expose the Corporation to sufficient risk to warrant adverse classification but possess weaknesses are designated as special mention and are closely monitored by the Corporation. As of March 31, 2018 and June 30, 2017, \$3.7 million or 68 percent, and \$1.7 million or 46 percent, respectively, of the restructured loans were current with respect to their modified payment terms.

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

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

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

(In Thousands)	At March 31, 2018	At June 30, 2017
Restructured loans on non-accrual status:		
Mortgage loans:		
Single-family	\$ 3,092	\$ 3,061
Commercial business loans	58	65
Total	3,150	3,126

Restructured loans on accrual status:

Mortgage loans:		
Single-family	2,202	506
Total	2,202	506
Total restructured loans	\$ 5,352	\$ 3,632

The following tables identify the Corporation's total recorded investment in restructured loans by type at the dates and for the periods indicated.

(In Thousands)	At March 31, 2018				Net Recorded Investment
	Unpaid Principal Balance	Related Charge-offs	Recorded Investment	Allowance ⁽¹⁾	
Mortgage loans:					
Single-family:					
With a related allowance	\$2,235	\$ —	\$ 2,235	\$ (161)	) \$ 2,074
Without a related allowance ⁽²⁾	\$3,610	\$ (390)	) \$ 3,220	\$ —	) \$ 3,220
Total single-family	5,845	(390)	) 5,455	(161)	) 5,294
Commercial business loans:					
With a related allowance	73	—	73	(15)	) 58
Total commercial business loans	73	—	73	(15)	) 58
Total restructured loans	\$5,918	\$ (390)	) \$ 5,528	\$ (176)	) \$ 5,352

(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, 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.

During the quarter ended March 31, 2018, two properties were acquired in the settlement of loans, while one previously foreclosed upon property was sold. This compares to the quarter ended March 31, 2017 when two properties were acquired in the settlement of loans, while one previously foreclosed upon property was sold. For the nine months ended March 31, 2018, three properties

were acquired in the settlement of loans, while three previously foreclosed upon properties were sold. This compares to the nine months ended March 31, 2017 when five properties were acquired in the settlement of loans, while four previously foreclosed upon properties were sold. As of March 31, 2018, there were two outstanding real estate owned properties located in California with a net fair value of \$787,000. This compares to the real estate owned with a net fair value of \$1.6 million at June 30, 2017, comprised of one property located in California and one property located in Arizona. A new appraisal was obtained on each of the properties at the time of foreclosure and fair value was derived by using the lower of the appraised value or the listing price of the property, net of selling costs. Any initial loss was recorded as a charge to the allowance for loan losses before being transferred to real estate owned. Subsequent to transfer to real estate owned, if there is further deterioration in real estate values, specific real estate owned loss reserves are established and charged to the statement of operations. In addition, the Corporation records costs to carry real estate owned as real estate operating expenses as incurred.

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

The Corporation is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit in the form of originating loans or providing funds under existing lines of credit, loan sale commitments to third parties and option contracts. These instruments involve, to varying degrees, elements of credit and interest-rate risk in excess of the amount recognized in the accompanying Condensed Consolidated Statements of Financial Condition. The Corporation's exposure to credit loss, in the event of non-performance by the counterparty to these financial instruments, is represented by the contractual amount of these instruments. The Corporation uses the same credit policies in entering into financial instruments with off-balance sheet risk as it does for on-balance sheet instruments. As of March 31, 2018 and June 30, 2017, the Corporation had commitments to extend credit (on loans to be held for investment and loans to be held for sale) of \$67.9 million and \$111.8 million, respectively.

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

Commitments	March 31, June 30,	
	2018	2017
(In Thousands)		
Undisbursed loan funds – Construction loans	\$ 5,591	\$9,015
Undisbursed lines of credit – Commercial business loans	579	646
Undisbursed lines of credit – Consumer loans	509	562
Commitments to extend credit on loans to be held for investment	4,996	19,119
Total	\$ 11,675	\$29,342

The following table provides information regarding the allowance for loan losses for the undisbursed funds and commitments to extend credit on loans to be held for investment for the quarters and nine months ended March 31, 2018 and 2017:

	For the Quarters Ended March 31,		For the Nine Months Ended March 31,	
	2018	2017	2018	2017
(In Thousands)				
Balance, beginning of the period	\$ 188	\$ 173	\$ 277	\$ 204

(Recovery) provision	(29)67	(118)36
Balance, end of the period	\$159 \$240	\$159 \$240

In accordance with ASC 815, “Derivatives and Hedging,” and interpretations of the Derivatives Implementation Group of the FASB, the fair value of the commitments to extend credit on loans to be held for sale, loan sale commitments, to be announced (“TBA”) MBS trades, put option contracts and call option contracts are recorded at fair value on the Condensed Consolidated Statements of Financial Condition. At March 31, 2018, \$985,000 was included in other assets and \$489,000 was included in other liabilities; at June 30, 2017, \$1.5 million was included in other assets and \$38,000 was included in other liabilities. The Corporation does not apply hedge accounting to its derivative financial instruments; therefore, all changes in fair value are recorded in earnings.

The net impact of derivative financial instruments is recorded within the gain on sale of loans contained in the Condensed Consolidated Statements of Operations during the quarters and nine months ended March 31, 2018 and 2017 were as follows:

	For the Quarters Ended March 31, 2018		For the Nine Months Ended March 31, 2017	
Derivative Financial Instruments (In Thousands)				
Commitments to extend credit on loans to be held for sale	\$266	\$628	\$173	\$(1,681)
Mandatory loan sale commitments and TBA MBS trades	(281)	(760)	(1,072)	2,105
Option contracts, net	—	(11)	(37)	333
Total net (loss) gain	\$(15)	\$(143)	\$(936)	\$757

The outstanding derivative financial instruments and other loan sale agreements at the dates indicated were as follows:

	March 31, 2018		June 30, 2017	
Derivative Financial Instruments (In Thousands)	Amount	Fair Value	Amount	Fair Value
Commitments to extend credit on loans to be held for sale ⁽¹⁾	\$62,871	\$982	\$92,726	\$809
Best efforts loan sale commitments	(16,900)	—	(17,225)	—
Mandatory loan sale commitments and TBA MBS trades	(134,097)	(486)	(179,777)	586
Option contracts, net	—	—	(3,000)	37
Total	\$(88,126)	\$496	\$(107,276)	\$1,432

⁽¹⁾ Net of 26.3 percent at March 31, 2018 and 25.7 percent at June 30, 2017 of commitments which management has estimated may not fund.

Note 8: Fair Value of Financial Instruments

The Corporation adopted ASC 820, “Fair Value Measurements and Disclosures,” and elected the fair value option pursuant to ASC 825, “Financial Instruments” on loans originated for sale by PBM. ASC 820 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. ASC 825 permits entities to elect to measure many financial instruments and certain other assets and liabilities at fair value on an instrument-by-instrument basis (the “Fair Value Option”) at specified election dates. At each subsequent reporting date, an entity is required to report unrealized gains and losses on items in earnings for which the fair value option has been elected. The objective of the Fair Value Option is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions.

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

(In Thousands)	Aggregate Fair Value	Aggregate Unpaid Principal Balance	Net Unrealized (Loss) Gain
As of March 31, 2018:			
Loans held for investment, at fair value	\$ 4,996	\$ 5,319	\$ (323)
Loans held for sale, at fair value	\$ 89,823	\$ 87,513	\$ 2,310
As of June 30, 2017:			
Loans held for investment, at fair value	\$ 6,445	\$ 6,696	\$ (251)
Loans held for sale, at fair value	\$ 116,548	\$ 112,940	\$ 3,608

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

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

Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities that the Corporation has the ability to access at the measurement date.

Level 2 - Observable inputs other than Level 1 such as: quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated to observable market data for substantially the full term of the asset or liability.

Level 3 - Unobservable inputs for the asset or liability that use significant assumptions, including assumptions of risks. These unobservable assumptions reflect the Corporation's estimate of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include the use of pricing models, discounted cash flow models and similar techniques.

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

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

Investment securities - available for sale are primarily comprised of U.S. government agency MBS and U.S. government sponsored enterprise MBS. The Corporation utilizes quoted prices in active and less than active markets for similar securities for its fair value measurement of MBS and debt securities (Level 2) and broker price indications for similar securities in non-active markets for its fair value measurement of the CMO (Level 3).

Derivative financial instruments are comprised of commitments to extend credit on loans to be held for sale, mandatory loan sale commitments, TBA MBS trades and option contracts. The fair value of TBA MBS trades is determined using quoted secondary-market prices (Level 2). The fair values of other derivative financial instruments are determined by quoted prices for a similar commitment or commitments, adjusted for the specific attributes of each commitment (Level 3).

Loans held for investment at fair value are primarily single-family loans which have been transferred from loans held for sale. The fair value is determined by the quoted secondary-market prices which account for interest rate characteristics, and are then adjusted for management estimates of the specific credit risk attributes of each loan (Level 3).

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

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

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

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

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

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

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

(In Thousands)	Fair Value Measurement at March 31, 2018 Using:			
	Level 1	Level 2	Level 3	Total
Assets:				
Investment securities - available for sale:				
U.S. government agency MBS	\$4,656	\$—		\$4,656
U.S. government sponsored enterprise MBS	—2,951	—		2,951
Private issue CMO	—	395		395
Investment securities - available for sale	—7,607	395		8,002
Loans held for investment, at fair value	—	4,996		4,996
Loans held for sale, at fair value	—89,823	—		89,823
Interest-only strips	—	24		24
Derivative assets:				
Commitments to extend credit on loans to be held for sale	—	985		985
Derivative assets	—	985		985
Total assets	\$97,430	\$6,400		\$103,830
Liabilities:				
Derivative liabilities:				
Commitments to extend credit on loans to be held for sale	\$—	\$3		\$3
Mandatory loan sale commitments	—	50		50
TBA MBS trades	—436	—		436
Derivative liabilities	—436	53		489
Total liabilities	\$436	\$53		\$489

(In Thousands)	Fair Value Measurement at June 30, 2017 Using:		
	Level 1	Level 2	Level 3 Total
Assets:			
Investment securities - available for sale:			
U.S. government agency MBS	\$5,383	\$—	\$5,383
U.S. government sponsored enterprise MBS	—3,474	—	3,474
Private issue CMO	—	461	461
Investment securities - available for sale	—8,857	461	9,318
Loans held for investment, at fair value	—	6,445	6,445
Loans held for sale, at fair value	—116,548	—	116,548
Interest-only strips	—	31	31
Derivative assets:			
Commitments to extend credit on loans to be held for sale	—	847	847
Mandatory loan sale commitments	—	47	47
TBA MBS trades	—539	—	539
Option contracts	—	37	37
Derivative assets	—539	931	1,470
Total assets	\$125,944	\$7,868	\$133,812
Liabilities:			
Derivative liabilities:			
Commitments to extend credit on loans to be held for sale	\$—	\$38	\$38
Derivative liabilities	—	38	38
Total liabilities	\$—	\$38	\$38

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

(In Thousands)	For the Quarter Ended March 31, 2018					Total
	Fair Value Measurement Using Significant Other Unobservable Inputs (Level 3)					
	Loans Held For Private Issue CMO (1)	Investment, at fair value Only Strips (1)	Interest- Only Strips (2)	Loan Commit- ments to Originate (2)	Manda- tory Commit- ments (3)	
Beginning balance at December 31, 2017	\$419	\$ 5,157	\$ 26	\$ 716	\$ (24)	\$6,294
Total gains or losses (realized/unrealized):						
Included in earnings	—	(118)	—	266	(26)	122
Included in other comprehensive loss	(2)	—	(2)	—	—	(4)
Purchases	—	—	—	—	—	—
Issuances	—	—	—	—	—	—
Settlements	(22)	(43)	—	—	—	(65)
Transfers in and/or out of Level 3	—	—	—	—	—	—
Ending balance at March 31, 2018	\$395	\$ 4,996	\$ 24	\$ 982	\$ (50)	\$6,347

The valuation of loans held for investment at fair value includes the management estimates of the specific credit risk attributes of each loan (Level 3), in addition to the quoted secondary-market prices which account for interest rate characteristics.

(1) risk attributes of each loan (Level 3), in addition to the quoted secondary-market prices which account for interest rate characteristics.

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

(3) Consists of mandatory loan sale commitments.

(In Thousands)	For the Quarter Ended March 31, 2017					Option Contracts	Total
	Fair Value Measurement Using Significant Other Unobservable Inputs (Level 3)						
	Loans Held For Private Issue CMO (1)	Investment, at fair value Only Strips (1)	Interest- Only Strips (2)	Loan Commit- ments to Originate (2)	Manda- tory Commit- ments (3)		
Beginning balance at December 31, 2016	\$538	\$ 5,964	\$ 37	\$ 1,476	\$ (280)	\$ —	\$7,735
Total gains or losses (realized/unrealized):							
Included in earnings	—	(10)	—	628	216	(11)	823
Included in other comprehensive income (loss)	—	—	(2)	—	—	—	(2)
Purchases	—	—	—	—	—	42	42
Issuances	—	—	—	—	—	—	—
Settlements	(37)	(399)	—	—	5	—	(431)
Transfers in and/or out of Level 3	—	695	—	—	—	—	695
Ending balance at March 31, 2017	\$501	\$ 6,250	\$ 35	\$ 2,104	\$ (59)	\$ 31	\$8,862

(1)

The valuation of loans held for investment at fair value includes the management estimates of the specific credit risk attributes of each loan (Level 3), in addition to the quoted secondary-market prices which account for interest rate characteristics.

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

For the Nine Months Ended March 31, 2018
Fair Value Measurement
Using Significant Other Unobservable Inputs
(Level 3)

(In Thousands)	Loans Held For Private Issue CMO (1)	Investment, at fair value (1)	Interest- Only Strips	Loan Commit- ments to Originate (2)	Manda- tory Commit- ments (3)	Option Contracts	Total
Beginning balance at June 30, 2017	\$461	\$ 6,445	\$ 31	\$ 809	\$ 47	\$ 37	\$7,830
Total gains or losses (realized/unrealized):							
Included in earnings	—	(72)	—	173	(99)	(37)	(35)
Included in other comprehensive loss	(1)	—	(7)	—	—	—	(8)
Purchases	—	—	—	—	—	—	—
Issuances	—	—	—	—	—	—	—
Settlements	(65)	(1,899)	—	—	2	—	(1,962)
Transfers in and/or out of Level 3	—	522	—	—	—	—	522
Ending balance at March 31, 2018	\$395	\$ 4,996	\$ 24	\$ 982	\$ (50)	\$ —	\$6,347

The valuation of loans held for investment at fair value includes the management estimates of the specific credit risk attributes of each loan (Level 3), in addition to the quoted secondary-market prices which account for interest rate characteristics.

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

(3) Consists of mandatory loan sale commitments.

For the Nine Months Ended March 31, 2017
Fair Value Measurement
Using Significant Other Unobservable Inputs
(Level 3)

(In Thousands)	Loans Held For Private Issue CMO (1)	Investment, at fair value (1)	Interest- Only Strips	Loan Commit- ments to originate (2)	Manda- tory Commit- ments (3)	Option Contracts	Total
Beginning balance at June 30, 2016	\$601	\$ 5,159	\$ 47	\$3,785	\$ (31)	\$ —	\$9,561
Total gains or losses (realized/ unrealized):							
Included in earnings	—	(111)	—	(1,681)	(39)	333	(1,498)
Included in other comprehensive (loss) income	1	—	(12)	—	—	—	(11)
Purchases	—	—	—	—	—	180	180
Issuances	—	—	—	—	—	—	—
Settlements	(101)	(1,077)	—	—	11	(482)	(1,649)
Transfers in and/or out of Level 3	—	2,279	—	—	—	—	2,279
Ending balance at March 31, 2017	\$501	\$ 6,250	\$ 35	\$ 2,104	\$ (59)	\$ 31	\$8,862

The valuation of loans held for investment at fair value includes the management estimates of the specific credit risk attributes of each loan (Level 3), in addition to the quoted secondary-market prices which account for interest rate characteristics.

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

(3) Consists of mandatory loan sale commitments.

35

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

(In Thousands)	Fair Value Measurement at March 31, 2018 Using:		
	Level 1	Level 2	Level 3
	Level 1	Level 2	Level 3
Non-performing loans	\$5,695	\$1,071	\$6,766
MSA	—	139	139
Real estate owned, net	-787	—	787
Total	\$6,482	\$1,210	\$7,692

(In Thousands)	Fair Value Measurement at June 30, 2017 Using:		
	Level 1	Level 2	Level 3
	Level 1	Level 2	Level 3
Non-performing loans	\$7,049	\$946	\$7,995
MSA	—	407	407
Real estate owned, net	-1,615	—	1,615
Total	\$8,664	\$1,353	\$10,017

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The following table presents additional information about valuation techniques and inputs used for assets and liabilities, including derivative financial instruments, which are measured at fair value and categorized within Level 3 as of March 31, 2018:

(Dollars In Thousands)	Fair Value As of March 31, 2018	Valuation Techniques	Unobservable Inputs	Range ⁽¹⁾ (Weighted Average)	Impact to Valuation from an Increase in Inputs ⁽²⁾
Assets:					
Securities available - for sale: Private issue CMO	\$395	Market comparable pricing	Comparability adjustment	0.5% – 1.0% (0.9%)	Increase
Loans held for investment, at fair value	\$4,996	Relative value analysis	Broker quotes	95.4% – 102.3% (98.5%) of par	Increase
			Credit risk factors	1.2% - 100.0% (4.6%)	Decrease
Non-performing loans	\$741	Discounted cash flow	Default rates	5.0%	Decrease
Non-performing loans	\$330	Relative value analysis	Loss severity	20.0% - 30.0% (23.3%)	Decrease
MSA	\$139	Discounted cash flow	Prepayment speed (CPR)	8.0% - 60.0% (27.9%)	Decrease
			Discount rate	9.0% - 10.5% (9.4%)	Decrease
Interest-only strips	\$24	Discounted cash flow	Prepayment speed (CPR)	15.6% - 32.8% (29.0%)	Decrease
			Discount rate	9.0%	Decrease
Commitments to extend credit on loans to be held for sale	\$985	Relative value analysis	TBA-MBS broker quotes	98.3% – 103.9% (101.5%) of par	Increase
			Fall-out ratio ⁽³⁾	15.1% - 27.1% (26.3%)	Decrease
Liabilities:					
Commitments to extend credit on loans to be held for sale	\$3	Relative value analysis	TBA-MBS broker quotes	100.6% – 103.8% (102.4%) of par	Increase
			Fall-out ratio ⁽³⁾	15.1% - 27.1% (26.3%)	Decrease
Mandatory loan sale commitments	\$50	Relative value analysis	TBA MBS broker quotes	100.0% - 104.5% (101.7%) of par 0.021%	Decrease Decrease

Roll-forward costs

(4)

- (1) The range is based on the estimated fair values and management estimates.
Unless otherwise noted, this column represents the directional change in the fair value of the Level 3 investments
- (2) that would result from an increase to the corresponding unobservable input. A decrease to the unobservable input would have the opposite effect. Significant changes in these inputs in isolation could result in significantly higher or lower fair value measurements.
- (3) The percentage of commitments to extend credit on loans to be held for sale which management has estimated may not fund.
- (4) An estimated cost to roll forward the mandatory loan sale commitments which management has estimated may not be delivered to the corresponding investors in a timely manner.

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

The carrying amount and fair value of the Corporation's other financial instruments as of March 31, 2018 and June 30, 2017 was as follows:

(In Thousands)	March 31, 2018				
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Investment securities - held to maturity	\$95,724	\$94,941	—	\$94,941	\$—
Loans held for investment, not recorded at fair value	\$889,171	\$861,134	—	—	\$861,134
FHLB – San Francisco stock	\$8,108	\$8,108	—	\$8,108	—
Financial liabilities:					
Deposits	\$922,499	\$887,824	—	—	\$887,824
Borrowings	\$111,176	\$109,498	—	—	\$109,498
June 30, 2017					
(In Thousands)	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Investment securities - held to maturity	\$60,441	\$60,629	—	\$60,629	—
Loans held for investment, not recorded at fair value	\$898,474	\$885,650	—	—	\$885,650
FHLB – San Francisco stock	\$8,108	\$8,108	—	\$8,108	—
Financial liabilities:					
Deposits	\$926,521	\$896,140	—	—	\$896,140
Borrowings	\$126,226	\$126,083	—	—	\$126,083

Investment securities - held to maturity: The investment securities - held to maturity consist of time deposits at CRA qualified minority financial institutions, U.S. SBA loan pool securities and U.S. government sponsored enterprise MBS. Due to the short-term nature of the time deposits, the principal balances approximated fair value (Level 2). For the MBS and the U.S. SBA loan pool securities, the Corporation utilizes quoted prices in active and less than active markets for similar securities for its fair value measurement of MBS, U.S. SBA loan pool and debt securities (Level 2).

Loans held for investment, not recorded at fair value: For loans that reprice frequently at market rates, the carrying amount approximates the fair value. For fixed-rate loans, the fair value is determined by either (i) discounting the estimated future cash flows of such loans over their estimated remaining contractual maturities using a current interest rate at which such loans would be made to borrowers, or (ii) quoted market prices. The allowance for loan losses is subtracted as an estimate of the underlying credit risk.

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

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

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

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

While the Corporation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. During the quarter ended March 31, 2018, there were no significant changes to the Corporation's valuation techniques that had, or are expected to have, a material impact on its consolidated financial position or results of operations.

Note 9: Incentive Plans

As of March 31, 2018, the Corporation had two active share-based compensation plans, which are described below. These plans are the 2013 Equity Incentive Plan ("2013 Plan") and the 2010 Equity Incentive Plan ("2010 Plan"). Additionally, the Corporation had one inactive share-based compensation plan - the 2006 Equity Incentive Plan ("2006 Plan") where no new awards can be granted but outstanding grants remain eligible for exercise.

For the quarters ended March 31, 2018 and 2017, the compensation cost for these plans was \$292,000 and \$254,000, respectively. The income tax benefit recognized in the Condensed Consolidated Statements of Operations per adoption of ASU 2016-09 for share-based compensation plans for the quarter ended March 31, 2018 was \$186,000; while the income tax expense recognized in the Condensed Consolidated Statements of Stockholders' Equity for share-based compensation plans for the quarter ended March 31, 2017 was \$165,000.

For the first nine months ended March 31, 2018 and 2017, the compensation cost for these plans was \$816,000 and \$1.2 million, respectively. The income tax benefit recognized in the Condensed Consolidated Statements of Operations per adoption of ASU 2016-09 for share-based compensation plans for the first nine months ended March 31, 2018 was \$206,000; while the income tax benefit recognized in the Condensed Consolidated Statements of Stockholders' Equity for share-based compensation plans for the first nine months ended March 31, 2017 was \$14,000.

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

Equity Incentive Plans - Stock Options. Under the Plans, options may not be granted at a price less than the fair market value at the date of the grant. Options typically vest over a five-year or shorter period as long as the director,

advisory director, director emeritus, officer or employee remains in service to the Corporation. The options are exercisable after vesting for up to the remaining term of the original grant. The maximum term of the options granted is 10 years.

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

During the third quarter of fiscal 2018, no options were granted, 56,500 options were exercised and no options were forfeited. This compares to the third quarter of fiscal 2017 when no options were granted, 60,250 options were exercised and 159,500 options

were forfeited. During the first nine months of fiscal 2018, no options were granted, 83,750 options were exercised and 2,500 options were forfeited. This compares to the first nine months of fiscal 2017 when 26,000 options were granted, while 84,000 options were exercised and 186,750 options were forfeited. As of March 31, 2018 and 2017, there were 147,500 and 145,000 stock options available for future grants under the Plans, respectively.

The following tables summarize the stock option activity in the Plans for the quarter and nine months ended March 31, 2018.

Options	For the Quarter Ended March 31, 2018			
	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (\$000)
Outstanding at December 31, 2017	585,500	\$12.25		
Granted	—	\$—		
Exercised	(56,500)	\$7.36		
Forfeited	—	\$—		
Outstanding at March 31, 2018	529,000	\$12.77	5.52	\$2,853
Vested and expected to vest at March 31, 2018	490,850	\$12.57	5.42	\$2,738
Exercisable at March 31, 2018	338,250	\$11.36	4.80	\$2,277

Options	For the Nine Months Ended March 31, 2018			
	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (\$000)
Outstanding at June 30, 2017	615,250	\$12.14		
Granted	—	\$—		
Exercised	(83,750)	\$8.08		
Forfeited	(2,500)	\$14.59		
Outstanding at March 31, 2018	529,000	\$12.77	5.52	\$2,853
Vested and expected to vest at March 31, 2018	490,850	\$12.57	5.42	\$2,738
Exercisable at March 31, 2018	338,250	\$11.36	4.80	\$2,277

As of March 31, 2018 and 2017, there was \$503,000 and \$1.0 million of unrecognized compensation expense, respectively, related to unvested share-based compensation arrangements under the Plans. The expense is expected to be recognized over a weighted-average period of 1.0 year and 1.8 years, respectively. The forfeiture rate during the first nine months of fiscal 2018 and 2017 was 20 percent for both periods, and was calculated by using the historical forfeiture experience of stock option grants and is reviewed annually.

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

In the third quarter of fiscal 2018, 10,500 shares of restricted stock vested and there were no awards or forfeitures of restricted stock. This compares to the award of 6,000 shares, no forfeitures and no vesting of restricted stock in the third quarter of fiscal 2017. For the first nine months of fiscal 2018, there were no restricted stock awards but 10,500 shares vested and 2,000 shares of restricted stock were forfeited. This compares to the award of 24,000 shares, the forfeiture of 15,250 shares and the vesting of

87,750 shares of restricted stock in the first nine months of fiscal 2017. As of March 31, 2018 and 2017, there were 267,750 shares and 265,750 shares of restricted stock, respectively available for future awards under the Plans.

The following table summarizes the unvested restricted stock activity in the quarter and nine months ended March 31, 2018:

Unvested Shares	For the Quarter Ended March 31, 2018	
	Shares	Weighted-Average Award Date Fair Value
Unvested at December 31, 2017	109,000	\$14.45
Granted	—	\$—
Vested	(10,500)	\$18.50
Forfeited	—	\$—
Unvested at March 31, 2018	98,500	\$14.35
Expected to vest at March 31, 2018	78,800	\$14.35

Unvested Shares	For the Nine Months Ended March 31, 2018	
	Shares	Weighted-Average Award Date Fair Value
Unvested at June 30, 2017	111,000	\$14.16
Granted	—	\$—
Vested	(10,500)	\$18.50
Forfeited	(2,000)	\$13.30
Unvested at March 31, 2018	98,500	\$14.35
Expected to vest at March 31, 2018	78,800	\$14.35

As of March 31, 2018 and 2017, the unrecognized compensation expense was \$687,000 and \$1.3 million, respectively, related to unvested share-based compensation arrangements under the Plans, and reported as a reduction to stockholders' equity. This expense is expected to be recognized over a weighted-average period of 1.2 years and 1.9 years, respectively. Similar to stock options, a forfeiture rate of 20 percent has been applied for the restricted stock compensation expense calculations in the first nine months of fiscal 2018 and 2017.

Stock Option Plan. The Corporation established the Stock Option Plan for key employees and eligible directors under which options to acquire up to 352,500 shares of common stock may be granted. Under the Stock Option Plan, stock options may not be granted at a price less than the fair market value at the date of the grant. Stock options typically vest over a five-year period on a pro-rata basis as long as the employee or director remains in service to the Corporation. The stock options are exercisable after vesting for up to the remaining term of the original grant. The maximum term of the stock options granted is 10 years. As of March 31, 2018, no stock options remain available for future grants under the Stock Option Plan, which expired in November 2013.

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

term similar to the underlying stock option on the particular grant date.

For the third quarter of fiscal 2018 and 2017, there was no activity in the Stock Option Plan. For the first nine months of fiscal 2018 and 2017, there was no activity in the Stock Option Plan, except forfeitures of 50,000 shares and 12,500 shares, respectively. As of March 31, 2018 and 2017, there were no stock options available for future grants under the Stock Option Plan.

The following table summarizes the activity in the Stock Option Plan for the nine months ended March 31, 2018:

	For the Nine Months Ended March 31, 2018			
	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (\$000)
Options Outstanding at June 30, 2017	50,000	\$19.92		
Granted	—	\$—		
Exercised	—	\$—		
Forfeited	(50,000)	\$19.92		
Outstanding at March 31, 2018	—	\$—	0.00	\$—
Vested and expected to vest at March 31, 2018	—	\$—	0.00	\$—
Exercisable at March 31, 2018	—	\$—	0.00	\$—

As of March 31, 2018 and 2017, there was no unrecognized compensation expense at either date, related to unvested share-based compensation arrangements under the Stock Option Plan.

Note 10: Reclassification adjustment of Accumulated Other Comprehensive Income ("AOCI")

The following tables provide the changes in AOCI by component for the quarters and nine months ended March 31, 2018 and 2017.

(In Thousands)	For the Quarter Ended March 31, 2018		
	Unrealized gains and losses on Investment securities available for sale	Interest-only strips	Total
Beginning balance at December 31, 2017	\$195	\$ 15	\$210
Other comprehensive loss before reclassifications	(20)	(2)	(22)
Amount reclassified from accumulated other comprehensive income	(2)	—	(2)
Net other comprehensive loss	(22)	(2)	(24)
Ending balance at March 31, 2018	\$173	\$ 13	\$186

(In Thousands)	For the Quarter Ended March 31, 2017		
	Unrealized gains and losses on Investment securities available for sale	Interest-only strips	Total
Beginning balance at December 31, 2016	\$242	\$ 22	\$264
Other comprehensive loss before reclassifications	(14)	(2)	(16)
Amount reclassified from accumulated other comprehensive income	—	—	—
Net other comprehensive loss	(14)	(2)	(16)
Ending balance at March 31, 2017	\$228	\$ 20	\$248

(In Thousands)	For the Nine Months Ended March 31, 2018		
	Unrealized gains and losses on Investment securities available for sale	Interest-only strips	Total
Beginning balance at June 30, 2017	\$211	\$ 18	\$229
Other comprehensive loss before reclassifications	(78)	(8)	(86)
Amount reclassified from accumulated other comprehensive income	40	3	43
Net other comprehensive loss	(38)	(5)	(43)
Ending balance at March 31, 2018	\$173	\$ 13	\$186

(In Thousands)	For the Nine Months Ended March 31, 2017		
	Unrealized gains and losses on Investment securities available for sale	Interest-only strips	Total
Beginning balance at June 30, 2016	\$286	\$ 27	\$313
Other comprehensive loss before reclassifications	(58)	(7)	(65)

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Amount reclassified from accumulated other comprehensive income	—	—	—
Net other comprehensive loss	(58)	(7)	(65)
Ending balance at March 31, 2017	\$228	\$ 20	\$248

Note 11: Offsetting Derivative and Other Financial Instruments

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

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

As of March 31, 2018:

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

(In Thousands)	Gross Amount	Offset in the Condensed Consolidated	Net Amount of Liabilities in the Condensed Consolidated	Gross Amount Not Offset in the Condensed Consolidated	Financial Condition		
					Cash	Collateral	Net
Liabilities	Recognized of Financial Condition	of Financial Condition	of Financial Condition	Financial Instruments	Received	Amount	
Derivatives	\$ 486	\$ —	\$ 486	\$ —	\$ —	\$ —	\$ 486
Total	\$ 486	\$ —	\$ 486	\$ —	\$ —	\$ —	\$ 486

As of June 30, 2017:

	Gross Amount	Offset in the Condensed	Net Amount of Assets in the Condensed	Gross Amount Not Offset in the Condensed	Cash Collateral Net Received
(In Thousands) Assets	Amount of Recognized Assets	Statements of Financial Condition	Statements of Financial Condition	Financial Instruments	Amount
Derivatives	\$ 623	\$	-\$ 623	\$	-\$ 623
Total	\$ 623	\$	-\$ 623	\$	-\$ 623

	Gross Amount	Offset in the Condensed	Net Amount of Liabilities in the Condensed	Gross Amount Not Offset in the Condensed	Cash Collateral Net Received
(In Thousands) Liabilities	Amount of Recognized Liabilities	Statements of Financial Condition	Statements of Financial Condition	Financial Instruments	Amount
Derivatives	\$	-\$	-\$	-\$	-\$
Total	\$	-\$	-\$	-\$	-\$

Note 12: Income Taxes

On December 22, 2017, the U.S. Government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act amends the Internal Revenue Code to reduce tax rates and modify policies, credits, and deductions for individuals and businesses. For businesses, the Tax Act reduces the corporate federal tax income rate from a maximum of 35 percent to a flat 21 percent. The corporate tax rate reduction was effective January 1, 2018. Since the Corporation has a fiscal year end of June 30th, the reduced corporate income tax rate for its fiscal year 2018 will result in the application of a blended federal statutory income tax rate of 28.06 percent, which is based on the applicable tax rates before and after the Tax Act and corresponding number of days in the fiscal year before and after enactment, and then a flat 21 percent tax rate thereafter.

Under generally accepted accounting principles, the Corporation uses the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to

taxable income in the years in which those temporary differences are expected to be recovered or settled. At June 30, 2017, the Corporation's deferred tax assets and liabilities were determined based on the then-current enacted federal tax rate of 35 percent. As a result of the reduction in the corporate income tax rate under the Tax Act, the Corporation revalued its deferred tax assets and liabilities at December 31, 2017. Deferred tax assets and liabilities expected to be realized in fiscal year 2018 were re-measured using the aforementioned blended rate. All remaining deferred tax assets and liabilities were re-measured using the new statutory federal rate of 21 percent. These re-measurements collectively resulted in a discrete tax expense of \$1.9 million that was recognized during the first nine months of fiscal 2018. The Corporation's revaluation of its deferred tax assets and liabilities is subject to further clarification of the Tax Act and refinements of its estimates through June 30, 2018. As a result, the actual impact on the deferred tax assets and liabilities and income tax expense due to the Tax Act may vary from the amounts estimated.

The estimated combined federal and state statutory tax rates, before discrete items, for the remainder of fiscal 2018 and for fiscal 2019 are as follows:

Statutory Tax Rates	Q4FY2018	FY2019
Federal Tax Rate	28.06%	21.00%
State Tax Rate	10.84%	10.84%
Combined Statutory Tax Rate ⁽¹⁾	35.86%	29.56%

⁽¹⁾ The combined statutory tax rate is net of the federal tax benefit for the state tax deduction.

The Corporation's effective tax rate may differ from the estimated statutory tax rates described above due to discrete items such as further adjustments to net deferred tax assets, excess tax benefits derived from stock option exercises and non-taxable earnings from bank owned life insurance, among other items.

Note 13: Subsequent Event

On April 26, 2018, the Corporation announced that the Corporation's Board of Directors declared a quarterly cash dividend of \$0.14 per share. Shareholders of the Corporation's common stock at the close of business on May 17, 2018 will be entitled to receive the cash dividend. The cash dividend will be payable on June 7, 2018.

On April 26, 2018, the Corporation announced that the Corporation's Board of Directors authorized the repurchase of up to five percent of the Corporation's common stock, or approximately 373,000 shares. The Corporation will purchase the shares from time to time in the open market or through privately negotiated transactions over a one-year period depending on market conditions, the capital requirements of the Corporation, and available cash that can be allocated to the stock repurchase program, among other considerations. The April 2018 stock repurchase plan will become effective once the Corporation has completed the June 2017 stock repurchase plan by purchasing the remaining 40,993 shares available as of March 31, 2018 under the June 2017 plan.

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

General

Provident Financial Holdings, Inc., a Delaware corporation, was organized in January 1996 for the purpose of becoming the holding company of Provident Savings Bank, F.S.B. ("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 March 31, 2018, the Corporation had total assets of \$1.18 billion, total deposits of \$922.5 million and total stockholders' equity of \$120.6 million. The Corporation has not engaged in any significant activity other than holding the stock of the Bank. Accordingly, the information set forth in this report, including financial statements and related data, relates primarily to the Bank and its subsidiaries. As used in this report, the terms "we," "our," "us," and "Corporation" refer to Provident Financial Holdings, Inc. and its consolidated subsidiaries, unless the context indicates otherwise.

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

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

among others, the general business environment, interest rates, the California real estate market, the demand for loans, the prepayment of loans, the repurchase of loans previously sold to investors, the secondary market conditions to sell loans, competitive conditions, legislative and regulatory changes, fraud and other risks.

The Corporation began to distribute quarterly cash dividends in the quarter ended December 31, 2002. On January 30, 2018, the Corporation declared a quarterly cash dividend of \$0.14 per share for the Corporation's shareholders of record at the close of business on February 20, 2018, which was paid on March 13, 2018. Future declarations or payments of dividends will be subject to the consideration of the Corporation's Board of Directors, which will take into account the Corporation's financial condition, results of operations, tax considerations, capital requirements, industry standards, legal restrictions, economic conditions and other factors, including the regulatory restrictions which affect the payment of dividends by the Bank to the Corporation. Under Delaware law, dividends may be paid either out of surplus or, if there is no surplus, out of net profits for the current fiscal year and/or the preceding fiscal year in which the dividend is declared. For further discussion, see Note 13 of the Notes to Unaudited Interim Condensed Consolidated Financial Statements.

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

Safe-Harbor Statement

Certain matters in this Form 10-Q constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. This Form 10-Q contains statements that the Corporation believes are "forward-looking statements." These statements relate to the Corporation's financial condition, results of operations, plans, objectives, future performance or business. When considering these forward-looking statements, you should keep in mind these risks and uncertainties, as well as any cautionary statements the Corporation may make. Moreover, you should treat these statements as speaking only as of the date they are made and based only on information then actually known to the Corporation. There are a number of important factors that could cause future results to differ materially from historical performance and these forward-looking statements. Factors which could cause actual results to differ materially include, but are not limited to, the credit risks of lending activities, including changes in the level and trend of loan delinquencies and charge-offs and changes in our allowance for loan losses and provision for loan losses that may be impacted by deterioration in the residential and commercial real estate markets and may lead to increased losses and non-performing assets and may result in our allowance for loan losses not being adequate to cover actual losses and require us to materially increase our reserve; changes in general economic conditions, either nationally or in our market areas; changes in the levels of general interest rates, and the relative differences between short and long term interest rates, deposit interest rates, our net interest margin and funding sources; fluctuations in the demand for loans, the number of unsold homes, land and other properties and fluctuations in real estate values in our market areas; secondary market conditions for loans and our ability to sell loans in the secondary market; results of examinations of the Corporation by the FRB or of the Bank by the OCC or other regulatory authorities, including the possibility that any such regulatory authority may, among other things, require us to enter into a formal enforcement action or to increase our allowance for loan losses, write-down assets, change our regulatory capital position or affect our ability to borrow funds or maintain or increase deposits, or impose additional requirements and restrictions on us, any of which could adversely affect our liquidity and earnings; legislative or regulatory changes that adversely affect our business including changes in regulatory policies and principles, including the interpretation of regulatory capital or other rules, including as a result of Basel III; the impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd Frank Act") and the implementing regulations; the availability of resources to address changes in laws, rules, or regulations or to respond to regulatory

actions; adverse changes in the securities markets; our ability to attract and retain deposits; increases in premiums for deposit insurance; our ability to control operating costs and expenses; the use of estimates in determining fair value of certain of our assets, which estimates may prove to be incorrect and result in significant declines in valuation; difficulties in reducing risk associated with the loans on our balance sheet; staffing fluctuations in response to product demand or the implementation of corporate strategies that affect our workforce and potential associated charges; disruptions, security breaches, or other adverse events, failures or interruptions in, or attacks on, our information technology systems or on the third-party vendors who perform several of our critical processing functions; our ability to implement our branch expansion strategy; our ability to successfully integrate any assets, liabilities, customers, systems, and management personnel we have acquired or may in the future acquire into our operations and our ability to realize related revenue synergies and cost savings within expected time frames and any goodwill charges related thereto; our ability to manage loan delinquency rates; our ability to retain key members of our senior management team; costs and effects of litigation, including settlements and judgments; increased competitive pressures among financial services companies; changes in consumer spending, borrowing and savings habits; the availability of resources to address changes in laws,

rules, or regulations or to respond to regulatory actions; our ability to pay dividends on our common stock; adverse changes in the securities markets; the inability of key third-party providers to perform their obligations to us; changes in accounting policies and practices, as may be adopted by the financial institution regulatory agencies or the Financial Accounting Standards Board, including additional guidance and interpretation on accounting issues and details of the implementation of new accounting methods; war or terrorist activities; and other economic, competitive, governmental, regulatory, and technological factors affecting our operations, pricing, products and services and other risks detailed in this report and in the Corporation's other reports filed with or furnished to the SEC, including its Annual Report on Form 10-K for the fiscal year ended June 30, 2017. These developments could have an adverse impact on our financial position and our results of operations. Forward-looking statements are based upon management's beliefs and assumptions at the time they are made. We undertake no obligation to publicly update or revise any forward-looking statements included in this document or to update the reasons why actual results could differ from those contained in such statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking statements discussed in this document might not occur, and you should not put undue reliance on any forward-looking statements.

Critical Accounting Policies

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

The Corporation's critical accounting policies are described in the Corporation's 2017 Annual Report on Form 10-K for the year ended June 30, 2017 in the Critical Accounting Policies section of Management's Discussion and Analysis of Financial Condition and Results of Operations and in Note 1 - Organization and Significant Accounting Policies. There have been no significant changes during the nine months ended March 31, 2018 to the critical accounting policies as described in the Corporation's 2017 Annual Report on Form 10-K for the period ended June 30, 2017.

Executive Summary and Operating Strategy

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

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

investment services which primarily consist of selling alternative investment products such as annuities and mutual funds to the Bank's depositors.

During the next three years, subject to market conditions, the Corporation intends to improve its community banking business by moderately increasing total assets; by increasing single-family mortgage loans and higher yielding preferred loans (i.e., multi-family, commercial real estate, construction and commercial business loans). In addition, the Corporation intends to decrease the percentage of time deposits in its deposit base and to increase the percentage of lower cost checking and savings accounts. This strategy is intended to improve core revenue through a higher net interest margin and ultimately, coupled with the growth of the Corporation, an increase in net interest income. While the Corporation's long-term strategy is for moderate growth, management recognizes that growth may not occur as a result of unfavorable economic conditions.

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

Provident Financial Corp performs trustee services for the Bank's real estate secured loan transactions and has in the past held, and may in the future hold, real estate for investment. Trustee services contribute a very small percentage of gross revenue.

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

Off-Balance Sheet Financing Arrangements and Contractual Obligations

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

Contractual Obligations. The following table summarizes the Corporation's contractual obligations at March 31, 2018 and the effect these obligations are expected to have on the Corporation's liquidity and cash flows in future periods:

(In Thousands)	Payments Due by Period				Total
	Less than 1 year	1 to less than 3 years	3 to 5 years	Over 5 years	
Operating obligations	\$1,884	\$2,797	\$1,107	\$922	\$6,710
Pension benefits	248	496	496	6,611	7,851
Time deposits	110,426	105,555	31,525	2,772	250,278
FHLB – San Francisco advances	2,803	35,142	24,347	61,619	123,911
FHLB – San Francisco letter of credit	7,000	—	—	—	7,000

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FHLB – San Francisco MPF credit enhancement ⁽¹⁾	—	—	—	2,458	2,458
Total	\$ 122,361	\$ 143,990	\$ 57,475	\$ 74,382	\$ 398,208

Represents the potential future obligation for loans previously sold by the Bank to the FHLB – San Francisco under ⁽¹⁾ its Mortgage Partnership Finance (“MPF”) program. As of March 31, 2018, the Bank serviced \$12.4 million of loans under this program. The estimated amounts by period are based on historical loss experience.

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

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

Comparison of Financial Condition at March 31, 2018 and June 30, 2017

Total assets decreased \$24.0 million, or two percent, to \$1.18 billion at March 31, 2018 from \$1.20 billion at June 30, 2017. The decrease was primarily attributable to decreases in cash and cash equivalents, loans held for investment and loans held for sale, partly offset by an increase in investment securities held to maturity.

Total cash and cash equivalents, primarily excess cash deposited with the Federal Reserve Bank of San Francisco, decreased \$22.2 million, or 30 percent, to \$50.6 million at March 31, 2018 from \$72.8 million at June 30, 2017. The decrease in the total cash and cash equivalents was primarily attributable to the utilization of cash to fund the increase in investment securities held to maturity.

Investment securities (held to maturity and available for sale) increased \$33.9 million, or 49 percent, to \$103.7 million at March 31, 2018 from \$69.8 million at June 30, 2017. The increase was primarily the result of purchases of mortgage-backed securities held to maturity, partly offset by scheduled and accelerated principal payments on mortgage-backed securities during the first nine months of fiscal 2018. For further analysis on investment securities, see Note 5 of the Notes to Unaudited Interim Condensed Consolidated Financial Statements of this Form 10-Q.

Loans held for investment decreased \$10.7 million to \$894.2 million at March 31, 2018 from \$904.9 million at June 30, 2017. During the first nine months of fiscal 2018, the Corporation originated \$126.0 million of loans held for investment, consisting primarily of single-family, multi-family and commercial real estate loans. During the first nine months of fiscal 2018, the Corporation purchased \$3.1 million of loans held for investment, primarily multi-family loans. Total loan principal payments during the first nine months of fiscal 2018 were \$143.9 million, down five percent from \$151.5 million during the comparable period in fiscal 2017, due primarily to lower loan refinance activity. The balance of preferred loans decreased \$6.1 million, or one percent, to \$579.0 million at March 31, 2018, compared to \$585.1 million at June 30, 2017, net of undisbursed loan funds of \$5.6 million and \$9.0 million, respectively, and represented 65 percent and 64 percent of loans held for investment, respectively. The balance of single-family loans held for investment decreased \$5.3 million, or two percent, to \$316.9 million at March 31, 2018, compared to \$322.2 million at June 30, 2017, and represented 35 percent and 36 percent of loans held for investment, respectively.

The tables below describe the geographic dispersion of gross real estate secured loans held for investment at March 31, 2018 and June 30, 2017, as a percentage of the total dollar amount outstanding:

As of March 31, 2018

(Dollars In Thousands)	Inland		Southern		Other		Other		Total	
	Balance	%	Balance	%	Balance	%	Balance	%		
Loan Category										
Single-family	\$108,629	34%	\$148,585	47%	\$58,608	19%	\$1,090	—%	\$316,912	100%
Multi-family	79,997	17%	281,013	60%	102,559	22%	2,697	1%	466,266	100%
Commercial real estate	31,911	30%	49,424	46%	25,602	24%	—	—%	106,937	100%
Construction	429	4%	9,088	83%	1,398	13%	—	—%	10,915	100%
Total	\$220,966	25%	\$488,110	54%	\$188,167	21%	\$3,787	—%	\$901,030	100%

(1) Other than the Inland Empire.

50

As of June 30, 2017

(Dollars In Thousands)	Inland Empire		Southern California ⁽¹⁾		Other California		Other States		Total	
	Balance	%	Balance	%	Balance	%	Balance	%	Balance	%
Loan Category										
Single-family	\$102,686	32%	\$156,045	49%	\$62,249	19%	\$1,217	%	\$322,197	100%
Multi-family	80,861	17%	282,871	59%	113,459	24%	2,768	%	479,959	100%
Commercial real estate	31,497	32%	42,192	43%	23,873	25%	—	%	97,562	100%
Construction	3,760	24%	10,614	66%	1,635	10%	—	%	16,009	100%
Total	\$218,804	24%	\$491,722	54%	\$201,216	22%	\$3,985	%	\$915,727	100%

⁽¹⁾ Other than the Inland Empire.

Loans held for sale decreased \$26.7 million, or 23 percent, to \$89.8 million at March 31, 2018 from \$116.5 million at June 30, 2017. The decrease was primarily due to lower loans originated and purchased for sale and the timing difference between loan fundings and loan sale settlements. Total loans originated and purchased for sale during the quarter ended March 31, 2018 was \$220.2 million, down \$185.7 million or 46 percent from \$405.9 million during the quarter ended June 30, 2017.

Total deposits decreased \$4.0 million to \$922.5 million at March 31, 2018 from \$926.5 million at June 30, 2017. Transaction accounts increased \$18.4 million, or three percent, to \$677.0 million at March 31, 2018 from \$658.6 million at June 30, 2017, while time deposits decreased \$22.4 million, or eight percent, to \$245.5 million at March 31, 2018 from \$267.9 million at June 30, 2017. The change in deposit mix was consistent with the Corporation's marketing strategy to promote transaction accounts and the strategic decision to increase the percentage of lower cost checking and savings accounts in its deposit base and decrease the percentage of time deposits by competing less aggressively for time deposits.

Total borrowings decreased \$15.0 million, or 12 percent, to \$111.2 million at March 31, 2018 as compared to \$126.2 million at June 30, 2017, due to the maturity of short-term borrowings. One long-term borrowing of \$10.0 million matured and was renewed in the third quarter of fiscal 2018. Total borrowings are primarily comprised of long-term FHLB - San Francisco advances for interest rate risk management purposes.

Total stockholders' equity decreased \$7.6 million, or six percent, to \$120.6 million at March 31, 2018 from \$128.2 million at June 30, 2017, primarily as a result of stock repurchases totaling \$6.6 million (see Part II, Item 2, "Unregistered Sales of Equity Securities and Use of Proceeds") and \$3.2 million of quarterly cash dividends paid to shareholders, partly offset by net income of \$731,000 and the amortization of stock-based compensation benefits during the first nine months of fiscal 2018.

Comparison of Operating Results for the Quarters and Nine Months Ended March 31, 2018 and 2017

The Corporation's net income for the third quarter of fiscal 2018 was \$1.7 million, an increase of \$588,000, or 51 percent, as compared to the net income of \$1.1 million in the same period of fiscal 2017. The increase in net income was primarily attributable to an increase in net interest income, an increase in the recovery from the allowance for loan losses, and decreases in salaries and employee benefits and sales and marketing expenses, partly offset by a decrease in the gain on sale of loans and an increase in other non-interest expenses. For the first nine months of fiscal 2018, the Corporation's net income was \$731,000, a decrease of \$3.5 million, or 83 percent, from net income of \$4.2 million in the same period of fiscal 2017. Compared to the same period last year, the decrease was primarily attributable to a decrease in the gain on sale of loans, an increase in other non-interest expenses and the deferred tax asset revaluation by Tax Cuts and Job Act ("the Tax Act"), partly offset by a decrease in salaries and employee benefits expense. The

first nine months of fiscal 2018 results were impacted by the net tax charge of \$1.9 million, or \$(0.25) per diluted share, from the net deferred tax assets revaluation required by the Tax Act; and a \$3.4 million litigation settlement expense accruals (recorded within other non-interest expenses) which, net of tax benefit, reduced net results by approximately \$(0.24) per diluted share.

The Corporation's efficiency ratio, defined as non-interest expense divided by the sum of net interest income and non-interest income, improved slightly to 87 percent for the third quarter of fiscal 2018 from 89 percent in the same period of fiscal 2017. For the first nine months of fiscal 2018, the Corporation's efficiency ratio increased to 93 percent from 87 percent for the same period of fiscal 2017.

Return on average assets increased 20 basis points to 0.59 percent in the third quarter of fiscal 2018 from 0.39 percent in the same period last year. For the first nine months of fiscal 2018, return on average assets was 0.08 percent, down 39 basis points from 0.47 percent in the same period last year.

Return on average stockholders' equity increased to 5.76 percent in the third quarter of fiscal 2018 from 3.46 percent in the same period last year. For the first nine months of fiscal 2018, return on average stockholders' equity was 0.78 percent compared to 4.26 percent for the same period last year.

Diluted earnings per share for the third quarter of fiscal 2018 were \$0.23, a 64 percent increase from \$0.14 in the same period last year. For the first nine months of fiscal 2018, diluted earnings per share were \$0.09, an 83 percent decrease from \$0.52 in the same period last year.

Net Interest Income:

For the Quarters Ended March 31, 2018 and 2017. Net interest income increased by \$477,000 or six percent to \$9.1 million for the third quarter of fiscal 2018 from \$8.6 million in the comparable period in fiscal 2017, as a result of a higher net interest margin, partly offset by a lower average interest-earning assets balance. The net interest margin increased 23 basis points to 3.23 percent in the third quarter of fiscal 2018 from 3.00 percent in the same period of fiscal 2017, primarily due to an increase in the average yield on interest-earning assets and a decrease in the average cost of interest-bearing liabilities. The weighted-average yield on interest-earning assets increased by 22 basis points to 3.78 percent from 3.56 percent in the same quarter last year, while the weighted-average cost of interest-bearing liabilities decreased by two basis points to 0.62 percent for the third quarter of fiscal 2018 as compared to 0.64 percent in the same quarter last year. The increase in the average yield of interest-earning assets was primarily due to increases in the average yield of loans receivable, investment securities and interest-earning deposits, partly offset by a decrease in the average yield of FHLB - San Francisco stock. The average balance of interest-earning assets decreased \$23.8 million, or two percent, to \$1.13 billion in the third quarter of fiscal 2018 from \$1.15 billion in the comparable period of fiscal 2017, primarily reflecting decreases in average loans receivable and interest earning deposits, partly offset by an increase in the average balance of investment securities.

For the Nine Months Ended March 31, 2018 and 2017. Net interest income increased \$173,000, or one percent, to \$27.0 million for the first nine months of fiscal 2018 from \$26.8 million for the comparable period in fiscal 2017, due to a higher net interest margin, partly offset by a lower average earning assets balance. The net interest margin was 3.16 percent in the first nine months of fiscal 2018, up 10 basis points from 3.06 percent in the same period of fiscal 2017 due to an increase in the average yield on interest-earning assets and a decrease in the average cost of interest-bearing liabilities. The weighted-average yield on interest-earning assets increased by nine basis points to 3.72 percent in the first nine months of fiscal 2018 from 3.63 percent in the comparable period in fiscal 2017, while the weighted-average cost of interest-bearing liabilities decreased by two basis points to 0.62 percent for the first nine months of fiscal 2018 from 0.64 percent in the same period last year. The average balance of interest-earning assets decreased \$30.0 million, or three percent, to \$1.14 billion in the first nine months of fiscal 2018 from \$1.17 billion in the comparable period of fiscal 2017, primarily reflecting decreases in average loans receivable and interest earning deposits, partly offset by an increase in the average balance of investment securities.

Interest Income:

For the Quarters Ended March 31, 2018 and 2017. Total interest income increased by \$412,000, or four percent, to \$10.7 million for the third quarter of fiscal 2018 from \$10.3 million in the same quarter of fiscal 2017. The increase was primarily due to higher interest income on loans receivable and investment securities.

Interest income on loans receivable increased \$229,000, or two percent, to \$9.9 million in the third quarter of fiscal 2018 from \$9.7 million for the same quarter of fiscal 2017. This increase was attributable to a higher average loan yield, partly offset by a lower average loans receivable balance. The average loan yield, including loans held for sale, during the third quarter of fiscal 2018 increased 15 basis points to 4.13 percent from 3.98 percent during the same quarter last year, primarily due to an increase in the average yield of loans held for investment and an increase in the average yield of loans held for sale combined with a lower percentage of loans held for sale to total loans receivable. The average balance of loans receivable, including loans held for sale, decreased by \$12.4 million, or one percent, to \$961.8 million for the third quarter of fiscal 2018 from \$974.2 million in the same quarter of fiscal 2017, primarily due to a decrease in average loans held for sale attributable to a decrease in mortgage banking activity, partly offset by an increase in average loans held for investment.

Loans receivable is comprised of loans held for investment and loans held for sale. The average balance of loans held for investment increased \$19.1 million, or two percent, to \$888.6 million during the third quarter of fiscal 2018 from \$869.5 million in the same quarter of fiscal 2017. The average yield on the loans held for investment increased by 13 basis points to 4.13 percent in the third quarter of fiscal 2018 from 4.00 percent in the same quarter of fiscal 2017. The average balance of loans held for sale, however, decreased \$31.4 million, or 30 percent, to \$73.3 million during the third quarter of fiscal 2018 from \$104.7 million in the same quarter of fiscal 2017. The average yield on the loans held for sale increased by 26 basis points to 4.13 percent in the third quarter of fiscal 2018 from 3.87 percent in the same quarter of fiscal 2017.

Interest income from investment securities increased \$240,000, or 169 percent, to \$382,000 in the third quarter of fiscal 2018 from \$142,000 for the same quarter of fiscal 2017. This increase was attributable to a higher average balance and, to a lesser extent, a higher average yield. The average balance of investment securities increased \$52.1 million, or 110 percent, to \$99.4 million in the third quarter of fiscal 2018 from \$47.3 million in the same quarter of fiscal 2017. The increase in the average balance of investment securities was primarily the result of purchases of mortgage-backed securities, partly offset by scheduled and accelerated principal payments on mortgage-backed securities. The average investment securities yield increased 34 basis points to 1.54 percent in the third quarter of fiscal 2018 from 1.20 percent in the same quarter of fiscal 2017. The increase in the average investment securities yield was primarily attributable to the purchases of investment securities which had higher average yields than the existing portfolio and the repricing of adjustable mortgage-backed securities to higher interest rates, partly offset by accelerated amortization of purchase premiums resulting from accelerated principal payments.

The FHLB – San Francisco cash dividend received in the third quarter of fiscal 2018 was \$144,000, down \$40,000 or 22 percent from \$184,000 in the same quarter of fiscal 2017. The average yield decreased 199 basis points to 7.10 percent in the third quarter of fiscal 2018 from 9.09 percent in the comparable quarter last year.

Interest income from interest-earning deposits, primarily cash deposited at the Federal Reserve Bank of San Francisco, was \$233,000 in the third quarter of fiscal 2018, down \$17,000 or seven percent from \$250,000 in the same quarter of fiscal 2017. The decrease was due to a lower average balance, partly offset by a higher average yield in the third quarter of fiscal 2018 as compared to the same quarter last year. The average balance of the interest-earning deposits in the third quarter of fiscal 2018 was \$61.6 million, a decrease of \$63.6 million or 51 percent, from \$125.2 million in the same quarter of fiscal 2017. The decrease in the average balance of interest-earning deposits was primarily due to the utilization of funds for the increase in investment securities and the decrease in deposits. The average yield earned on interest-earning deposits increased 71 basis points to 1.51 percent in the third quarter of fiscal 2018 from 0.80 percent in the comparable quarter last year, due primarily to the increases in the target federal funds rate over the last year.

For the Nine Months Ended March 31, 2018 and 2017. Total interest income decreased by \$85,000 to \$31.8 million for the first nine months of fiscal 2018 from \$31.9 million in the same period of fiscal 2017. The decrease was primarily due to lower interest income on loans receivable and FHLB - San Francisco stock, partly offset by higher interest income on investment securities and interest-earning deposits.

Loans receivable interest income decreased \$475,000, or two percent, to \$29.8 million in the first nine months of fiscal 2018 from \$30.3 million for the same period of fiscal 2017. The decrease was attributable to a lower average loan balance, partly offset by a higher average loan yield in the first nine months of fiscal 2018 in comparison to the same period last year. The average balance of loans receivable, including loans held for sale, decreased \$47.7 million or five percent to \$987.0 million for the first nine months of fiscal 2018 from \$1.03 billion in the same period of fiscal 2017. The average loan yield, including loans held for sale, during the first nine months of fiscal 2018 increased 13 basis points to 4.03 percent from 3.90 percent in the same period last year.

The average balance of loans held for investment increased \$39.1 million, or five percent, to \$895.6 million during the first nine months of fiscal 2018 from \$856.5 million in the same period of fiscal 2017. The average yield on the loans held for investment increased by eight basis points to 4.04 percent in the first nine months of fiscal 2018 from 3.96 percent in the same period of fiscal 2017. The average balance of loans held for sale decreased by \$86.7 million, or 49 percent, to \$91.4 million during the first nine months of fiscal 2018 from \$178.1 million in the same period of fiscal 2017. The average yield on the loans held for sale increased by 34 basis points to 3.97 percent in the first nine months of fiscal 2018 from 3.63 percent in the same period of fiscal 2017.

Interest income from investment securities increased \$604,000, or 171 percent, to \$958,000 in the first nine months of fiscal 2018 from \$354,000 for the same period of fiscal 2017. This increase was attributable to a higher average balance and, to lesser extent, a higher average yield. The average balance of investment securities increased \$40.2 million, or 85 percent, to \$87.7 million in the first nine months of fiscal 2018 from \$47.5 million in the same period of fiscal 2017. The increase in average balance of investment securities was primarily the result of purchases of mortgage-backed securities, partly offset by scheduled and accelerated

principal payments on mortgage-backed securities. The average investment securities yield increased 47 basis points to 1.46 percent in the first nine months of fiscal 2018 from 0.99 percent in the same period of fiscal 2017. The increase in the average investment securities yield was primarily attributable to the purchases of investment securities which had higher average yields than the existing portfolio and the repricing of adjustable mortgage-backed securities to higher interest rates, partly offset by accelerated amortization of purchase premiums resulting from accelerated principal payments.

The FHLB – San Francisco cash dividend received in the first nine months of fiscal 2018 was \$428,000, down \$399,000 or 48 percent from \$827,000 in the same period of fiscal 2017. The cash dividend received in the first nine months of fiscal 2017 included a special cash dividend received in the second quarter of fiscal 2017, not replicated in the same period of fiscal 2018. The average yield decreased to 7.04 percent in the first nine months of fiscal 2018 as compared to 13.62 percent in the comparable period last year.

Interest income from interest-earning deposits, primarily cash deposited at the Federal Reserve Bank of San Francisco, was \$591,000 in the first nine months of fiscal 2018, up \$185,000 or 46 percent from \$406,000 in the same period of fiscal 2017. The increase was due to a higher average yield, partly offset by a lower average balance in the first nine months of fiscal 2018 as compared to the same period last year. The average yield increased 69 basis points to 1.36 percent in the first nine months of fiscal 2018 from 0.67 percent in the comparable period last year, due primarily to the recent increases in the target federal funds rate. The average balance of the interest-earning deposits in the first nine months of fiscal 2018 was \$57.3 million, a decrease of \$22.5 million or 28 percent, from \$79.8 million in the same period of fiscal 2017. The decrease in interest-earning deposits was primarily due to the utilization of funds for the increase in investment securities and the decrease in deposits.

Interest Expense:

For the Quarters Ended March 31, 2018 and 2017. Total interest expense for the third quarter of fiscal 2018 was relatively unchanged at \$1.6 million for both the quarters ended March 31, 2018 and 2017.

Interest expense on deposits for the third quarter of fiscal 2018 was \$856,000 as compared to \$920,000 for the same period last year, a decrease of \$64,000, or seven percent. The decrease in interest expense on deposits was primarily attributable to a lower average balance and, to a lesser extent, a lower average cost of deposits. The average balance of deposits decreased \$16.0 million, or two percent, to \$912.0 million during the quarter ended March 31, 2018 from \$928.0 million during the same period last year. The decrease in the average balance was primarily attributable to a decrease in time deposits, partly offset by an increase in transaction accounts. The average cost of deposits decreased two basis points to 0.38 percent during the third quarter of fiscal 2018 from 0.40 percent during the same quarter last year. The decrease in the average cost of deposits was attributable primarily to a lower percentage of time deposits to the total deposit balance. Strategically, the Corporation has been promoting transaction accounts and competing less aggressively for time deposits. The Corporation believes the increase in transaction accounts was also attributable to the impact of depositors seeking an alternative to lower yielding time deposits in anticipation of higher interest rates. The average balance of transaction accounts to total deposits in the third quarter of fiscal 2018 was 73 percent, compared to 69 percent in the same period of fiscal 2017.

Interest expense on borrowings, consisting of FHLB – San Francisco advances, for the third quarter of fiscal 2018 remained relatively unchanged, decreasing \$1,000 to \$712,000 from \$713,000 for the same period last year. The decrease in interest expense on borrowings was the result of a lower average cost, partly offset by a slightly higher average balance. The average cost of borrowings decreased four basis points to 2.56 percent for the quarter ended March 31, 2018 from 2.60 percent in the same quarter last year. The decrease in the average cost of advances was primarily due to the maturity of a long-term advance which was renewed at a lower cost in the third quarter of fiscal 2018. The average balance of borrowings increased \$1.3 million, or one percent, to \$112.6 million during the quarter

ended March 31, 2018 from \$111.3 million during the same period last year.

For the Nine Months Ended March 31, 2018 and 2017. Total interest expense for the first nine months of fiscal 2018 was \$4.8 million as compared to \$5.1 million for the same period last year, a decrease of \$258,000, or five percent. This decrease was attributable to a lower interest expense on deposits, particularly in time deposits.

Interest expense on deposits for the first nine months of fiscal 2018 was \$2.6 million as compared to \$2.9 million for the same period last year, a decrease of \$283,000, or 10 percent. The decrease in interest expense on deposits was primarily attributable to a lower average balance and, to a lesser extent, a lower average cost of deposits. The average balance of deposits decreased \$16.3 million, or two percent, to \$917.1 million during the nine months ended March 31, 2018 from \$933.4 million during the same period last year. The decrease in the average balance was primarily attributable to a decrease in time deposits, partly offset by an increase in transaction accounts. The average cost of deposits decreased four basis points to 0.38 percent during the first nine

months of fiscal 2018 from 0.42 percent during the same period last year. The decrease in the average cost of deposits was attributable primarily to a lower average cost of time deposits and a lower percentage of time deposits to the total deposit balance. The average balance of transaction accounts to total deposits in the first nine months of fiscal 2018 was 72 percent, compared to 68 percent in the same period of fiscal 2017.

Interest expense on borrowings, consisting of FHLB – San Francisco advances, for the first nine months of fiscal 2018 increased \$25,000 or one percent to \$2.2 million as compared to the same period last year. The increase in interest expense on borrowings was the result of a higher average cost, partly offset by a lower average balance. The average cost of borrowings increased 17 basis points to 2.57 percent for the nine months ended March 31, 2018 from 2.40 percent in the same period last year. The increase in average cost of advances was primarily due to the maturity of short-term borrowings with a much lower average cost than long-term FHLB borrowings. The average balance of borrowings decreased by \$6.5 million, or five percent, to \$112.8 million during the nine months ended March 31, 2018 from \$119.3 million during the same period last year, primarily due to the maturity of the short-term borrowings.

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The following tables present the average balance sheets for the quarters and nine months ended March 31, 2018 and 2017, respectively:

Average Balance Sheets

(Dollars In Thousands)	Quarter Ended March 31, 2018			Quarter Ended March 31, 2017			Yield/ Cost	%
	Average Balance	Interest	Yield/ Cost	Average Balance	Interest	Yield/ Cost		
Interest-earning assets:								
Loans receivable, net ⁽¹⁾	\$961,826	\$9,933	4.13	% \$974,207	\$9,704	3.98	%	
Investment securities	99,390	382	1.54	% 47,283	142	1.20	%	
FHLB – San Francisco stock	8,108	144	7.10	% 8,094	184	9.09	%	
Interest-earning deposits	61,591	233	1.51	% 125,155	250	0.80	%	
Total interest-earning assets	1,130,915	10,692	3.78	% 1,154,739	10,280	3.56	%	
Non interest-earning assets	34,820			31,970				
Total assets	\$1,165,735			\$1,186,709				
Interest-bearing liabilities:								
Checking and money market accounts ⁽²⁾	\$370,346	96	0.11	% \$356,116	90	0.10	%	
Savings accounts	293,579	147	0.20	% 287,423	144	0.20	%	
Time deposits	248,104	613	1.00	% 284,455	686	0.98	%	
Total deposits	912,029	856	0.38	% 927,994	920	0.40	%	
Borrowings	112,625	712	2.56	% 111,251	713	2.60	%	
Total interest-bearing liabilities	1,024,654	1,568	0.62	% 1,039,245	1,633	0.64	%	
Non interest-bearing liabilities	20,804			15,246				
Total liabilities	1,045,458			1,054,491				
Stockholders' equity	120,277			132,218				
Total liabilities and stockholders' equity	\$1,165,735			\$1,186,709				
Net interest income		\$9,124		\$8,647				
Interest rate spread ⁽³⁾			3.16	%			2.92	%
Net interest margin ⁽⁴⁾			3.23	%			3.00	%
Ratio of average interest-earning assets to average interest-bearing liabilities			110.37	%			111.11	%
Return on average assets			0.59	%			0.39	%
Return on average equity			5.76	%			3.46	%

⁽¹⁾ Includes loans held for sale and non-performing loans, as well as net deferred loan cost amortization of \$120 and \$207 for the quarters ended March 31, 2018 and 2017, respectively.

- (2) Includes the average balance of non interest-bearing checking accounts of \$78.9 million and \$72.9 million during the quarters ended March 31, 2018 and 2017, respectively.
- (3) Represents the difference between the weighted-average yield on all interest-earning assets and the weighted-average rate on all interest-bearing liabilities.
- (4) Represents net interest income before provision for loan losses as a percentage of average interest-earning assets.

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	Nine Months Ended March 31, 2018			Nine Months Ended March 31, 2017		
	Average Balance	Interest	Yield/ Cost	Average Balance	Interest	Yield/ Cost
Interest-earning assets:						
Loans receivable, net ⁽¹⁾	\$986,952	\$29,825	4.03 %	\$1,034,671	\$30,300	3.90 %
Investment securities	87,710	958	1.46 %	47,495	354	0.99 %
FHLB – San Francisco stock	8,108	428	7.04 %	8,094	827	13.62 %
Interest-earning deposits	57,254	591	1.36 %	79,813	406	0.67 %
Total interest-earning assets	1,140,024	31,802	3.72 %	1,170,073	31,887	3.63 %
Non interest-earning assets	33,240			32,063		
Total assets	\$1,173,264			\$1,202,136		
Interest-bearing liabilities:						
Checking and money market accounts ⁽²⁾	\$372,413	311	0.11 %	\$355,826	293	0.11 %
Savings accounts	290,065	445	0.20 %	282,407	434	0.20 %
Time deposits	254,653	1,877	0.98 %	295,173	2,189	0.99 %
Total deposits	917,131	2,633	0.38 %	933,406	2,916	0.42 %
Borrowings	112,766	2,176	2.57 %	119,299	2,151	2.40 %
Total interest-bearing liabilities	1,029,897	4,809	0.62 %	1,052,705	5,067	0.64 %
Non interest-bearing liabilities	19,174			16,662		
Total liabilities	1,049,071			1,069,367		
Stockholders' equity	124,193			132,769		
Total liabilities and stockholders' equity	\$1,173,264			\$1,202,136		
Net interest income		\$26,993		\$26,820		
Interest rate spread ⁽³⁾			3.10 %			2.99 %
Net interest margin ⁽⁴⁾			3.16 %			3.06 %
Ratio of average interest-earning assets to average interest-bearing liabilities			110.69 %			111.15 %
Return on average assets			0.08 %			0.47 %
Return on average equity			0.78 %			4.26 %

(1) Includes loans held for sale and non-performing loans, as well as net deferred loan cost amortization of \$736 and \$609 for the nine months ended March 31, 2018 and 2017, respectively.

(2) Includes the average balance of non interest-bearing checking accounts of \$79.1 million and \$72.5 million during the nine months ended March 31, 2018 and 2017, respectively.

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

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

The following tables set forth the effects of changing rates and volumes on interest income and expense for the quarters and nine months ended March 31, 2018 and 2017, respectively. Information is provided with respect to the effects attributable to changes in volume (changes in volume multiplied by prior rate), the effects attributable to changes in rate (changes in rate multiplied by prior volume) and the effects attributable to changes that cannot be allocated between rate and volume.

Rate/Volume Variance

(In Thousands)	Quarter Ended March 31, 2018 Compared To Quarter Ended March 31, 2017			
	Increase (Decrease) Due to			
	Rate	Volume	Rate/ Volume	Net
Interest-earning assets:				
Loans receivable ⁽¹⁾	\$357	\$(123)	\$(5)	\$229
Investment securities	40	156	44	240
FHLB – San Francisco stock	(40)	—	—	(40)
Interest-bearing deposits	223	(127)	(113)	(17)
Total net change in income on interest-earning assets	580	(94)	(74)	412
Interest-bearing liabilities:				
Checking and money market accounts	2	4	—	6
Savings accounts	—	3	—	3
Time deposits	17	(88)	(2)	(73)
Borrowings	(10)	9	—	(1)
Total net change in expense on interest-bearing liabilities	9	(72)	(2)	(65)
Net increase (decrease) in net interest income	\$571	\$(22)	\$(72)	\$477

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

(In Thousands)	Nine Months Ended March 31, 2018 Compared To Nine Months Ended March 31, 2017			
	Increase (Decrease) Due to			
	Rate	Volume	Rate/ Volume	Net
Interest-earning assets:				
Loans receivable ⁽¹⁾	\$968	\$(1,396)	\$(47)	\$(475)
Investment securities	163	299	142	604
FHLB – San Francisco stock	(399)	1	(1)	(399)
Interest-bearing deposits	415	(113)	(117)	185
Total net change in income on interest-earning assets	1,147	(1,209)	(23)	(85)
Interest-bearing liabilities:				
Checking and money market accounts	—	18	—	18
Savings accounts	—	11	—	11

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Time deposits	(14)	(301)	3	(312)
Borrowings	151	(118)	(8)	25	
Total net change in expense on interest-bearing liabilities	137	(390)	(5)	(258)
Net increase (decrease) in net interest income	\$1,010	\$(819	)	\$(18	)	\$173	

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

Recovery From the Allowance for Loan Losses:

For the Quarters Ended March 31, 2018 and 2017. During the third quarter of fiscal 2018, the Corporation recorded a recovery from the allowance for loan losses of \$505,000, compared to a recovery from the allowance for loan losses of \$165,000 in the same period of fiscal 2017. The recovery from the allowance for loan losses was primarily attributable to the improving risk profile of the loan portfolio as reflected in the asset quality ratios and loan balances shifting to lower risk categories from higher risk categories. Non-performing assets, with underlying collateral located in California, decreased \$2.0 million, or 21 percent, to \$7.6 million, or 0.64 percent of total assets, at March 31, 2018, compared to \$9.6 million, or 0.80 percent of total assets, at June 30, 2017.

For the Nine Months Ended March 31, 2018 and 2017. During the first nine months of fiscal 2018, the Corporation recorded a recovery from the allowance for loan losses of \$347,000, compared to a recovery from the allowance for loan losses of \$665,000 in the same period of fiscal 2017. The recovery from the allowance for loan losses was primarily attributable to the improving risk profile of the loan portfolio as reflected in the asset quality ratios and loan balances shifting to lower risk categories from higher risk categories.

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

At March 31, 2018, the allowance for loan losses was \$7.5 million, comprised of collectively evaluated allowances of \$7.4 million and individually evaluated allowances of \$176,000; in comparison to the allowance for loan losses of \$8.0 million at June 30, 2017, comprised of collectively evaluated allowances of \$7.9 million and individually evaluated allowances of \$101,000. The allowance for loan losses as a percentage of gross loans held for investment was 0.84 percent at March 31, 2018, down from 0.88 percent at June 30, 2017. Management considers, based on currently available information, the allowance for loan losses sufficient to absorb potential losses inherent in loans held for investment. For further analysis on the allowance for loan losses, see Note 6 of the Notes to Unaudited Interim Condensed Consolidated Financial Statements.

Non-Interest Income:

For the Quarters Ended March 31, 2018 and 2017. Total non-interest income decreased \$1.6 million, or 24 percent, to \$5.2 million for the quarter ended March 31, 2018 from \$6.8 million for the same period last year. The decrease was primarily attributable to a decrease in the net gain on sale of loans during the current quarter as compared to the comparable period last year.

The net gain on sale of loans decreased \$1.8 million, or 33 percent, to \$3.6 million for the third quarter of fiscal 2018 from \$5.4 million in the same quarter of fiscal 2017 reflecting the impact of a lower loan sale volume and average loan sale margin. Total loan sale volume, which includes the net change in commitments to extend credit on loans to be held for sale, decreased \$106.7 million or 31 percent to \$235.5 million in the quarter ended March 31, 2018 from \$342.2 million in the comparable quarter last year. The decrease in loan sale volume was attributable primarily to the decrease in refinance and purchase activity as compared to the same period last year. Refinance loans as a percentage of total loans originated by PBM during the third quarter of fiscal 2018 were 37 percent, down from 38 percent in the same quarter of fiscal 2017. Retail loans as a percentage of total loans originated for sale by PBM during the third quarter of fiscal 2018 were 59 percent, up from 58 percent in the same period of fiscal 2017. The average loan sale margin for PBM decreased five basis points to 1.53 percent in the third quarter of fiscal 2018 from 1.58 percent in the same period of fiscal 2017. The gain on sale of loans includes an unfavorable fair-value adjustment on loans held for sale and derivative financial instruments (commitments to extend credit, commitments to sell loans, commitments to

sell mortgage-backed securities, and option contracts) pursuant to ASC 815 and ASC 825 that amounted to a net loss of \$844,000 in the third quarter of fiscal 2018 as compared to a favorable fair-value adjustment net gain of \$635,000 in the same period last year. The fair-value adjustment on loans held for sale and derivative financial instruments is consistent with the Bank's mortgage banking activity and the volatility of mortgage interest rates. As of March 31, 2018, the fair value of derivative financial instruments pursuant to ASC 815 and ASC 825 was \$2.8 million, compared to \$5.0 million at June 30, 2017 and \$4.7 million at March 31, 2017.

For the Nine Months Ended March 31, 2018 and 2017. Total non-interest income decreased \$6.6 million, or 28 percent, to \$17.3 million for the nine months ended March 31, 2018 from \$23.9 million for the same period last year. The decrease was primarily attributable to a decrease in the gain on sale of loans.

The net gain on sale of loans decreased \$7.1 million, or 36 percent, to \$12.8 million for the first nine months of fiscal 2018 from \$19.9 million in the same period of fiscal 2017 reflecting the impact of a lower loan sale volume, partly offset by a slightly higher average loan sale margin. Total loan sale volume was \$915.4 million in the first nine months ended March 31, 2018, down \$530.3 million, or 37 percent, from \$1.45 billion in the comparable period last year. The decrease in loan sale volume was attributable primarily to a decrease in the refinance and the purchase market as compared to the same period last year. Refinance loans as a percentage of total loans originated by PBM during the first nine months of fiscal 2018 were 41 percent, down from 52 percent in the same period of fiscal 2017. Retail loans as a percentage of total loans originated for sale by PBM during the first nine months of fiscal 2018 were 56 percent, up from 51 percent in the same period of fiscal 2017. The average loan sale margin for PBM during the first nine months of fiscal 2018 was 1.39 percent, up two basis points from 1.37 percent for the same period of fiscal 2017. The increase in the average loan sale margin for the nine months ended March 31, 2018 was primarily attributable to more favorable loan sale market conditions, a lower percentage of refinance originations and higher percentage of retail originations. The gain on sale of loans includes an unfavorable fair-value adjustment on derivative financial instruments pursuant to ASC 815 and ASC 825, a net loss of \$2.2 million in the first nine months of fiscal 2018 as compared to an unfavorable fair-value adjustment, a net loss of \$3.7 million, in the same period last year.

Non-Interest Expense:

For the Quarters Ended March 31, 2018 and 2017. Total non-interest expense in the quarter ended March 31, 2018 was \$12.4 million, a decrease of \$1.4 million, or 10 percent, as compared to \$13.8 million in the quarter ended March 31, 2017. The decrease was primarily a result of a decrease in salaries and employee benefits expense and sales and marketing expense, partly offset by an increase in other non-interest expense.

Total salaries and employee benefits expense decreased \$1.6 million, or 15 percent, to \$8.8 million in the third quarter of fiscal 2018 from \$10.4 million in the same period of fiscal 2017. The decrease was primarily attributable to lower incentive compensation costs and PBM staff reductions related to lower mortgage banking loan originations. Total loan originations and purchases (including loans originated and purchased for investment and loans originated and purchased for sale) decreased \$106.4 million, or 28 percent, to \$269.5 million in the third quarter of fiscal 2018 from \$375.9 million in the comparable quarter of fiscal 2017.

Total other non-interest expenses increased \$373,000, or 49 percent, to \$1.1 million in the third quarter of fiscal 2018 from \$759,000 million in the same period of fiscal 2017. The increase in other non-interest expenses was primarily due to the \$668,000 reversal of loan origination liability accruals in the third quarter of fiscal 2017 which was not replicated this quarter and lower loan origination costs attributable to the lower loan origination volume.

For the Nine Months Ended March 31, 2018 and 2017. Total non-interest expense in the nine months ended March 31, 2018 was \$41.4 million, a decrease of \$2.7 million as compared to \$44.1 million in the same period ended March 31, 2017. The decrease was primarily due to a decrease in salaries and employee benefits expense, partly offset by an increase in other non-interest expense.

Total salaries and employee benefits expense decreased \$5.3 million, or 17 percent, to \$26.7 million in the first nine months of fiscal 2018 from \$32.0 million in the same period of fiscal 2017. The decrease was primarily attributable to lower incentive compensation costs and PBM staff reductions related to lower mortgage banking loan originations. Total loan originations and purchases (including loans originated and purchased for investment and loans originated and purchased for sale) decreased \$613.4 million, or 36 percent, to \$1.08 billion in the first nine months of fiscal 2018 from \$1.69 billion in the comparable period of fiscal 2017.

Total other non-interest expenses increased \$2.9 million, or 68 percent, to \$6.9 million in the first nine months of fiscal 2018 from \$4.1 million in the same period of fiscal 2017. The increase in other non-interest expenses was

primarily attributable to litigation settlement expense accruals of \$3.4 million in the first nine months of fiscal 2018, up from the litigation expense accruals of \$235,000 in the same period last year, partly offset by lower loan origination costs. The litigation settlement expense accruals in the first nine months of fiscal 2018 related to a lawsuit which was settled on September 12, 2017 and two lawsuits which were settled on December 18, 2017. No additional contingencies exist regarding these matters although the settlement agreements remain subject to court approval and other customary conditions. For additional information see Part II, Item 1, "Legal Proceedings."

Provision for Income Taxes:

The income tax provision reflects accruals for taxes at the applicable rates for federal income tax and California franchise tax based upon reported pre-tax income, adjusted for the effect of all permanent differences between income for tax and financial reporting purposes, such as non-deductible stock-based compensation, non-taxable earnings from bank-owned life insurance

policies and certain California tax-exempt loans, among other adjustments. Therefore, there are fluctuations in the effective income tax rate from period to period based on the relationship of net permanent differences to income before tax.

For the Quarters Ended March 31, 2018 and 2017. The Corporation's provision for income taxes was \$667,000 for the third quarter of fiscal 2018, down three percent from the \$690,000 provision for income taxes in the same quarter last year. The decrease was primarily attributable to the reduction of the federal corporate income tax rate, partly offset by higher net income before taxes. The effective income tax rate for the quarter ended March 31, 2018 was 27.8 percent, down from 37.6 percent in the same quarter last year. The Corporation believes that the effective income tax rate applied in the third quarter of fiscal 2018 reflects its current income tax obligations.

The Tax Act provides a reduced federal corporate income tax rate for the Corporation, from a maximum 35 percent to a flat 21 percent as of January 1, 2018. However, the Corporation's fiscal year runs through June 30th of each year. As a result, the Corporation will be required to use a blended statutory corporate income tax rate for the fiscal year ending on June 30, 2018 and will not realize the full impact of the reduced federal corporate income tax rate until fiscal 2019 which begins on July 1, 2018. The estimated combined federal and state statutory tax rates, before discrete items, for the remainder of fiscal 2018 and for fiscal 2019 are as follows:

Statutory Tax Rates	Q4FY2018	FY2019
Federal Tax Rate	28.06%	21.00%
State Tax Rate	10.84%	10.84%
Combined Statutory Tax Rate ⁽¹⁾	35.86%	29.56%

⁽¹⁾ The combined statutory tax rate is net of the federal tax benefit for the state tax deduction.

The Corporation's effective tax rate may differ from the estimated statutory tax rates described above due to discrete items such as further adjustments to net deferred tax assets, excess tax benefits derived from stock option exercises and non-taxable earnings from bank owned life insurance, among other items.

For the Nine Months Ended March 31, 2018 and 2017. The Corporation's provision for income taxes was \$2.5 million for the first nine months of fiscal 2018, down 17 percent from the \$3.0 million provision for income taxes in the same period last year. The decrease was primarily attributable to a lower net income before taxes and the reduction of the federal corporate income tax rate, partly offset by a tax charge of \$1.9 million resulting from the net deferred tax asset revaluation as a result of the Tax Act. The effective income tax rate for the nine months ended March 31, 2018 was 77.6 percent as compared to 41.8 percent in the same period last year. The Corporation believes that the effective income tax rate applied in the first nine months of fiscal 2018 reflects its current income tax obligations.

Asset Quality

Non-performing loans, net of the allowance for loan losses and fair value adjustments, consisting of loans with collateral located in California, was \$6.8 million at March 31, 2018, down \$1.2 million or 15 percent, from \$8.0 million at June 30, 2017. Non-performing loans as a percentage of loans held for investment at March 31, 2018 was 0.76 percent, down from 0.88 percent at June 30, 2017. The non-performing loans at March 31, 2018 were primarily comprised of 24 single-family loans (\$6.7 million) and one commercial business loan (\$58,000). This compares to the \$8.0 million of non-performing loans at June 30, 2017 which were primarily comprised of 27 single-family loans (\$7.7 million); one commercial real estate loan (\$201,000) and one commercial business loan (\$65,000). No interest accruals were made for loans that were past due 90 days or more or if the loans were deemed non-performing.

As of March 31, 2018, total restructured loans increased \$1.8 million, or 50 percent, to \$5.4 million from \$3.6 million at June 30, 2017 due to two newly modified loans (\$2.2 million). At March 31, 2018 and June 30, 2017, \$3.2 million and \$3.1 million, respectively, of these restructured loans were classified as non-performing. As of March 31, 2018, \$3.7 million, or 68 percent, of the restructured loans have a current payment status, consistent with their modified payment terms; this compares to \$1.7 million, or 46 percent, of restructured loans that had a current payment status, consistent with their modified payment terms as of June 30, 2017.

Real estate owned was \$787,000 at March 31, 2018, down \$828,000 or 51 percent from \$1.6 million at June 30, 2017. The real estate owned at March 31, 2018 was comprised of two single-family properties located in California acquired during the current fiscal quarter.

Non-performing assets, which includes non-performing loans and real estate owned, decreased \$2.0 million or 21 percent to \$7.6 million or 0.64 percent of total assets at March 31, 2018 from \$9.6 million or 0.80 percent of total assets at June 30, 2017. Restructured loans which are performing in accordance with their modified terms and are not otherwise classified non-accrual are not included in non-performing assets. For further analysis on non-performing loans and restructured loans, see Note 6 of the Notes to Unaudited Interim Condensed Consolidated Financial Statements.

Occasionally, the Corporation is required to repurchase loans sold to Freddie Mac, Fannie Mae or other institutional investors if it is determined that such loans do not meet the credit requirements of the investor, or if one of the parties involved in the loan misrepresented pertinent facts, committed fraud, or if such loans were 90-days past due within 120 days of the loan funding date. During the first nine months of fiscal 2018, the Corporation repurchased two loans totaling \$602,000 from an investor pursuant to the recourse/repurchase covenants contained in the loan sale agreement. This compares to the first nine months of fiscal 2017 when the Corporation repurchased one loan, totaling \$389,000, from an investor pursuant to the recourse/repurchase covenants contained in the loan sale agreements, which was subsequently paid off. Additional repurchase requests may have been settled that did not result in the repurchase of the loan itself. The primary reasons for honoring the repurchase requests are borrower fraud, undisclosed liabilities on borrower applications, and documentation, verification and appraisal disputes. For the first nine months of fiscal 2018 and 2017, the Corporation recorded recourse recoveries of \$22,000 and \$39,000, respectively, and settled \$11,000 in claims in lieu of loan repurchases in fiscal 2017. As of March 31, 2018, the total recourse reserve for loans sold that are subject to repurchase was \$283,000, down from \$305,000 at June 30, 2017 and from \$403,000 at March 31, 2017.

Beginning in 2008, in connection with the downturn in the real estate market, the Corporation implemented tighter underwriting standards to reduce potential loan repurchase requests, including requiring higher credit scores, generally lower debt-to-income ratios, and verification of income and assets, among other criteria. Despite management's diligent estimate of the recourse reserve, the Corporation is still subject to risks and uncertainties associated with potentially higher loan repurchase claims from investors, and there are no assurances that the current recourse reserve will be sufficient to cover all future recourse claims.

The following table shows the summary of the recourse liability for the quarters and nine months ended March 31, 2018 and 2017:

	For the Quarters Ended March 31,		For the Nine Months Ended March 31,	
Recourse Liability (In Thousands)	2018	2017	2018	2017
Balance, beginning of the period	\$283	\$412	\$305	\$453
Recovery from recourse liability	—	(9)	(22)	(39)
Net settlements in lieu of loan repurchases	—	—	—	(11)
Balance, end of the period	\$283	\$403	\$283	\$403

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

understated or overstated in comparison to their current LTV ratios as a result of their year of origination, the subsequent general decline or improvement in real estate values that has occurred and the specific location and condition of the individual properties. The Corporation has not quantified the current LTVs of its loans held for investment nor the impact the decline or improvement in real estate values has had on the original LTVs of its loans held for investment.

The following table describes certain credit risk characteristics of the Corporation's single-family, first trust deed, mortgage loans held for investment as of March 31, 2018:

(Dollars In Thousands)	Outstanding Balance ⁽¹⁾	Weighted-Weighted-Weighted-		
		Average FICO ⁽²⁾	Average LTV ⁽³⁾	Average Seasoning ⁽⁴⁾
Interest only	\$ 4,033	745	80%	6.27 years
Stated income ⁽⁵⁾	\$ 79,800	730	61%	12.25 years
FICO less than or equal to 660	\$ 7,215	643	61%	9.82 years
Over 30-year amortization	\$ 9,446	728	63%	12.55 years

The outstanding balance presented on this table may overlap more than one category. Of the outstanding balance, (1) \$4.1 million of "stated income," \$325,000 of "FICO less than or equal to 660," and \$646,000 of "over 30-year amortization" balances were non-performing.

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

(2) 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.

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

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

The following table summarizes the amortization schedule of the Corporation's interest only single-family, first trust deed, mortgage loans held for investment, including the percentage of those which are identified as non-performing or 30 – 89 days delinquent as of March 31, 2018:

(Dollars In Thousands)	Balance	30 - 89 Days	
		Non-Performing ⁽¹⁾	Delinquent ⁽¹⁾
Fully amortize in the next 12 months	\$ 2,533	—%	—%
Fully amortize between 1 year and 5 years	1,500	—%	—%
Fully amortize after 5 years	—	—%	—%
Total	\$ 4,033	—%	—%

(1) As a percentage of each category.

The following table summarizes the interest rate reset (repricing) schedule of the Corporation's stated income single-family, first trust deed, mortgage loans held for investment, including the percentage of those which are identified as non-performing or 30 – 89 days delinquent as of March 31, 2018:

(Dollars In Thousands)	Balance ⁽¹⁾	30 - 89 Days	
		Non-Performing ⁽¹⁾	Delinquent ⁽¹⁾
Interest rate reset in the next 12 months	\$ 79,065	4%	—%
Interest rate reset between 1 year and 5 years	—	—%	—%

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Interest rate reset after 5 years	735	100%	—%
Total	\$79,800	5%	—%

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

63

The reset of payment terms on adjustable rate mortgage loans (primarily interest only single-family loans) to a fully amortizing status from their interest-only period may create a payment shock for some of the Corporation's borrowers as the loans adjust to a higher monthly payment consisting of both principal and interest, which may result in an increase in non-performing loans. To date, the Corporation has not experienced an elevated level of delinquencies or defaults related to payment shocks.

The following table describes certain credit risk characteristics, geographic locations and the calendar year of loan origination of the Corporation's single-family, first trust deed, mortgage loans held for investment, at March 31, 2018:

(Dollars In Thousands)	Calendar Year of Origination									Total
	2010 & Prior	2011	2012	2013	2014	2015	2016	2017	2018 YTD	
Loan balance (in thousands)	\$137,246	\$937	\$2,242	\$2,460	\$8,273	\$12,551	\$35,027	\$82,695	\$20,996	\$302,427
Weighted-average LTV ⁽¹⁾	61%	60%	51%	44%	69%	69%	65%	74%	71%	66%
Weighted-average age (in years)	12.33	6.68	5.58	4.74	3.63	2.82	1.69	0.94	0.09	6.37
Weighted-average FICO ⁽²⁾	730	710	758	754	756	735	744	735	747	735
Number of loans	474	4	13	22	22	19	65	124	31	774
Geographic breakdown (%)										
Inland Empire	37%	57%	14%	44%	40%	20%	28%	31%	50%	34%
Southern California ⁽³⁾	51%	43%	51%	26%	33%	53%	37%	48%	48%	48%
Other California ⁽⁴⁾	11%	—%	35%	30%	27%	27%	35%	21%	2%	18%
Other States	1%	—%	—%	—%	—%	—%	—%	—%	—%	—%
Total	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.

(2) At time of loan origination.

(3) Other than the Inland Empire.

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

The following table describes certain credit risk characteristics, geographic locations and the calendar year of loan origination of the Corporation's multi-family loans held for investment, at March 31, 2018:

(Dollars In Thousands)	Calendar Year of Origination									2018 YTD Total
	Prior	2010 & 2011	2012	2013	2014	2015	2016	2017	2018	
Loan balance (in thousands)	\$19,329	\$5,101	\$11,245	\$55,897	\$71,189	\$81,729	\$125,670	\$77,506	\$18,600	\$466,266
Weighted-average LTV ⁽¹⁾	40%	48%	49%	53%	52%	53%	48%	50%	43%	50%
Weighted-average DCR ⁽²⁾	1.62x	1.65x	1.87x	1.68x	1.65x	1.64x	1.66x	1.66x	1.79x	1.67x
Weighted-average age (in years)	13.05	6.51	5.55	4.63	3.71	2.74	1.74	0.81	0.10	2.96
Weighted-average FICO ⁽³⁾	697	757	735	767	765	757	762	752	761	757
Number of loans	47	8	15	80	90	122	148	122	26	658
Geographic breakdown (%)										
Inland Empire	31%	9%	2%	34%	13%	17%	10%	18%	27%	17%
Southern California ⁽⁴⁾	47%	71%	70%	50%	56%	63%	64%	63%	63%	60%
Other California ⁽⁵⁾	8%	20%	28%	16%	31%	20%	26%	19%	10%	22%
Other States	14%	—%	—%	—%	—%	—%	—%	—%	—%	1%
Total	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.

(2) Debt Coverage Ratio ("DCR") at time of origination.

(3) At time of loan origination.

(4) Other than the Inland Empire.

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

The following table summarizes the interest rate reset or maturity schedule of the Corporation's multi-family loans held for investment, including the percentage of those which are identified as non-performing, 30 – 89 days delinquent or not fully amortizing as of March 31, 2018:

(Dollars In Thousands)	Balance	Percentage		
		Non-Performing ⁽¹⁾	30 - 89 Days Delinquent	Not Fully Amortizing ⁽¹⁾
Interest rate reset or mature in the next 12 months	\$130,620	—%	—%	5%
Interest rate reset or mature between 1 year and 5 years	324,510	—%	—%	3%
Interest rate reset or mature after 5 years	11,136	—%	—%	—%
Total	\$466,266	—%	—%	3%

(1) As a percentage of each category.

The following table describes certain credit risk characteristics, geographic locations and the calendar year of loan origination of the Corporation's commercial real estate loans held for investment, at March 31, 2018:

(Dollars In Thousands)	Calendar Year of Origination									2018 YTD Total ⁽⁵⁾⁽⁶⁾
	Prior	2010 &	2011	2012	2013	2014	2015	2016	2017	
Loan balance (in thousands)	\$1,476	\$—	\$10,386	\$11,291	\$20,912	\$19,892	\$17,237	\$19,821	\$5,922	\$106,937
Weighted-average LTV ⁽¹⁾	31%	—%	44%	46%	44%	41%	49%	43%	45%	44%
Weighted-average DCR ⁽²⁾	1.42x	—	1.94x	1.61x	1.93x	1.80x	1.58x	1.67x	1.24x	1.72x
Weighted-average age (in years)	14.60	—	5.52	4.70	3.64	2.69	1.86	0.61	0.15	2.87
Weighted-average FICO ⁽²⁾	705	—	743	757	752	758	759	773	756	758
Number of loans	8	—	9	18	25	25	23	23	8	139
Geographic breakdown (%):										
Inland Empire	68%	—%	72%	22%	37%	31%	11%	26%	—%	30%
Southern California ⁽³⁾	32%	—%	28%	54%	43%	32%	62%	52%	61%	46%
Other California ⁽⁴⁾	—%	—%	—%	24%	20%	37%	27%	22%	39%	24%
Other States	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%
Total	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.

(2) At time of loan origination.

(3) Other than the Inland Empire.

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

(5) Comprised of the following: \$39.8 million in Mixed Use; \$18.0 million in Retail; \$15.8 million in Office; \$11.0 million in Mobile Home Parks; \$8.8 million in Warehouse; \$5.4 million in Medical/Dental Office; \$3.0 million in Mini-Storage; \$2.0 million in Restaurant/Fast Food; \$1.6 million in Automotive – Non Gasoline and \$1.5 million in Light Industrial/Manufacturing.

(6) Consisting of \$101.9 million or 95.3 percent in investment properties and \$5.0 million or 4.7 percent in owner occupied properties.

The following table summarizes the interest rate reset or maturity schedule of the Corporation's commercial real estate loans held for investment, including the percentage of those which are identified as non-performing, 30 – 89 days delinquent or not fully amortizing as of March 31, 2018:

(Dollars In Thousands)	Balance	Percentage		
		Non-Performing ⁽¹⁾	30 - 89 Days Delinquent	Not Fully Amortizing ⁽¹⁾
Interest rate reset or mature in the next 12 months	\$30,205	—%	—%	70%
Interest rate reset or mature between 1 year and 5 years	76,732	—%	—%	90%
Interest rate reset or mature after 5 years	—	—%	—%	—%
Total	\$106,937	—%	—%	84%

(1) As a percentage of each category.

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

(In Thousands)	At March 31, 2018	At June 30, 2017	
Loans on non-accrual status (excluding restructured loans):			
Mortgage loans:			
Single-family	\$3,616	\$4,668	
Commercial real estate	—	201	
Total	3,616	4,869	
Accruing loans past due 90 days or more	—	—	
Restructured loans on non-accrual status:			
Mortgage loans:			
Single-family	3,092	3,061	
Commercial business loans	58	65	
Total	3,150	3,126	
Total non-performing loans	6,766	7,995	
Real estate owned, net	787	1,615	
Total non-performing assets	\$7,553	\$9,610	
Non-performing loans as a percentage of loans held for investment, net of allowance for loan losses	0.76	%0.88	%
Non-performing loans as a percentage of total assets	0.58	%0.67	%
Non-performing assets as a percentage of total assets	0.64	%0.80	%

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 March 31, 2018:

(In Thousands)	Calendar Year of Origination									YTD Total
	2010 & Prior	2011	2012	2013	2014	2015	2016	2017	2018	
Mortgage loans:										
Single-family	\$6,622	\$	-\$86	\$	\$	\$	\$	\$	\$	-\$6,708
Commercial business loans	58	—	—	—	—	—	—	—	—	58
Total	\$6,680	\$	-\$86	\$	\$	\$	\$	\$	\$	-\$6,766

The following table describes the non-performing loans, net of allowance for loan losses and fair value adjustments, by the geographic location as of March 31, 2018:

(In Thousands)	Inland Empire	Southern California (1)	Other California (2)	Other States	Total
Mortgage loans:					
Single-family	\$ 2,222	\$ 3,329	\$ 1,157	\$	-\$6,708
Commercial business loans	58	—	—	—	58
Total	\$ 2,280	\$ 3,329	\$ 1,157	\$	-\$6,766

(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, net of undisbursed loan funds, fair value adjustments, and real estate owned at the dates indicated:

(Dollars In Thousands)	At March 31, 2018		At June 30, 2017	
	Balance	Count	Balance	Count
Special mention loans:				
Mortgage loans:				
Single-family	\$1,949	6	\$3,443	9
Multi-family	—	—	272	1
Construction	807	1	—	—
Total special mention loans	2,756	7	3,715	10
Substandard loans:				
Mortgage loans:				
Single-family	8,256	28	7,729	29
Commercial real estate	—	—	201	1
Commercial business loans	58	1	65	1
Total substandard loans	8,314	29	7,995	31
Total classified loans	11,070	36	11,710	41
Real estate owned:				
Single-family	787	2	1,615	2
Total real estate owned	787	2	1,615	2
Total classified assets	\$11,857	38	\$13,325	43

Loan Volume Activities

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

(In Thousands)	For the Quarters Ended March 31,		For the Nine Months Ended March 31,	
	2018	2017	2018	2017
Loans originated and purchased for sale:				
Retail originations	\$ 129,816	\$ 185,668	\$ 526,904	\$ 769,495
Wholesale originations and purchases	90,377	132,241	417,445	737,667
Total loans originated and purchased for sale ⁽¹⁾	220,193	317,909	944,349	1,507,162
Loans sold:				
Servicing released	(220,532)	(363,443)	(945,715)	(1,547,435)
Servicing retained	(5,326)	(6,074)	(22,574)	(28,895)
Total loans sold ⁽²⁾	(225,858)	(369,517)	(968,289)	(1,576,330)
Loans originated for investment:				
Mortgage loans:				
Single-family	22,665	19,480	62,363	49,236
Multi-family	18,612	22,306	40,279	56,765
Commercial real estate	5,930	3,196	18,900	8,044
Construction	2,050	3,017	4,459	6,313
Commercial business loans	—	45	—	45
Consumer loans	—	—	3	1
Total loans originated for investment ⁽³⁾	49,257	48,044	126,004	120,404
Loans purchased for investment:				
Mortgage loans:				
Single-family	—	9,989	—	19,516
Multi-family	—	—	2,241	39,764
Commercial real estate	—	—	868	—
Total loans purchased for investment ⁽³⁾	—	9,989	3,109	59,280
Mortgage loan principal payments	(43,163)	(46,225)	(143,914)	(151,489)
Real estate acquired in settlement of loans	(959)	(547)	(1,659)	(1,845)
Increase (decrease) in other items, net ⁽⁴⁾	1,955	1,576	2,923	(621)
Net increase (decrease) in loans held for investment and loans held for sale at fair value	\$ 1,425	\$ (38,771)	\$ (37,477)	\$ (43,439)

(1) Includes PBM loans originated and purchased for sale during the quarters and nine months ended March 31, 2018 and 2017 totaling \$220.2 million, \$317.9 million, \$944.3 million and \$1.51 billion, respectively.

(2) Includes PBM loans sold during the quarters and nine months ended March 31, 2018 and 2017 totaling \$225.9 million, \$369.5 million, \$968.3 million and \$1.58 billion, respectively.

(3) Includes PBM loans originated and purchased for investment during the quarters and nine months ended March 31, 2018 and 2017 totaling \$20.6 million, \$18.7 million, \$58.4 million and \$45.5 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.

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

Liquidity and Capital Resources

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

The primary investing activity of the Corporation is the origination and purchase of loans held for investment and loans held for sale. During the first nine months of fiscal 2018 and 2017, the Corporation originated and purchased \$1.07 billion and \$1.69 billion of loans, respectively. The total loans sold in the first nine months of fiscal 2018 and 2017 were \$968.3 million and \$1.58 billion, respectively. At March 31, 2018, the Corporation had loan origination commitments totaling \$67.9 million, undisbursed lines of credit totaling \$1.1 million and undisbursed construction loan funds totaling \$5.6 million. The Corporation anticipates that it will have sufficient funds available to meet its current loan commitments.

The Corporation's primary financing activity is gathering deposits. During the first nine months of fiscal 2018, the net decrease in deposits was \$4.0 million, primarily due to non-renewing scheduled maturities in time deposits, partly offset by the increase in transaction accounts. The decrease in time deposits and the increase in transaction accounts were consistent with the Corporation's operating strategy. As of March 31, 2018, total deposits were \$922.5 million. At March 31, 2018, time deposits scheduled to mature in one year or less were \$108.5 million and total time deposits with a principal amount of \$100,000 or higher were \$124.0 million. Historically, the Corporation has been able to retain a significant percentage of its time deposits as they mature.

The Corporation must maintain an adequate level of liquidity to ensure the availability of sufficient funds to support loan growth and deposit withdrawals, to satisfy financial commitments and to take advantage of investment opportunities. The Corporation generally maintains sufficient cash and cash equivalents to meet short-term liquidity needs. At March 31, 2018, total cash and cash equivalents were \$50.6 million, or four percent of total assets. Depending on market conditions and the pricing of deposit products and FHLB – San Francisco advances, the Bank may rely on FHLB – San Francisco advances for part of its liquidity needs. As of March 31, 2018, total borrowings were \$111.2 million and the financing availability at FHLB – San Francisco was limited to 35 percent of total assets; the remaining borrowing facility was \$286.1 million and the remaining available collateral was \$499.0 million. In addition, the Bank has secured a \$79.7 million discount window facility at the Federal Reserve Bank of San Francisco, collateralized by investment securities with a fair market value of \$84.8 million. As of March 31, 2018, the Bank also has a borrowing arrangement in the form of a federal funds facility with its correspondent bank for \$17.0 million that matures on June 30, 2018 which the Bank intends to renew upon maturity. The Bank had no advances under its correspondent bank or discount window facility as of March 31, 2018.

Regulations require thrifts to maintain adequate liquidity to assure safe and sound operations. The Bank's average liquidity ratio (defined as the ratio of average qualifying liquid assets to average deposits and borrowings) for the quarter ended March 31, 2018 decreased to 16.4 percent from 22.1 percent for the quarter ended June 30, 2017.

The Bank, as a federally-chartered, federally insured savings bank, is subject to the capital requirements established by the OCC. Under the OCC's capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weighting and other factors. In addition, Provident Financial Holdings, Inc. as a savings and loan holding company registered with the FRB, is required by the FRB to maintain capital adequacy that generally parallels the OCC requirements.

At March 31, 2018, Provident Financial Holdings, Inc. and the Bank each exceeded all regulatory capital requirements. The Bank was categorized "well-capitalized" at March 31, 2018 under the regulations of the OCC.

Provident Financial Holdings, Inc. and the Bank's actual and required minimum capital amounts and ratios at the dates indicated are as follows (dollars in thousands):

	Actual		Regulatory Requirements			
			Minimum for Capital Adequacy Purposes		Minimum to Be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Provident Financial Holdings, Inc.:						
As of March 31, 2018						
Tier 1 leverage capital (to adjusted average assets)	\$ 120,382	10.33 %	\$ 46,619	4.00 %	\$ 58,274	5.00 %
Common Equity Tier 1 ("CET1") capital (to risk-weighted assets)	\$ 120,382	17.56 %	\$ 43,705	6.38 %	\$ 44,561	6.50 %
Tier 1 capital (to risk-weighted assets)	\$ 120,382	17.56 %	\$ 53,988	7.88 %	\$ 54,845	8.00 %
Total capital (to risk-weighted assets)	\$ 128,073	18.68 %	\$ 67,699	9.88 %	\$ 68,556	10.00 %
As of June 30, 2017						
Tier 1 leverage capital (to adjusted assets)	\$ 127,956	10.77 %	\$ 47,506	4.00 %	\$ 59,383	5.00 %
CET1 capital (to risk-weighted assets)	\$ 127,956	17.57 %	\$ 41,885	5.75 %	\$ 47,348	6.50 %
Tier 1 capital (to risk-weighted assets)	\$ 127,956	17.57 %	\$ 52,811	7.25 %	\$ 58,274	8.00 %
Total capital (to risk-weighted assets)	\$ 136,271	18.71 %	\$ 67,380	9.25 %	\$ 72,843	10.00 %
Provident Savings Bank, F.S.B.:						
As of March 31, 2018						
Tier 1 leverage capital (to adjusted average assets)	\$ 114,589	9.83 %	\$ 46,616	4.00 %	\$ 58,270	5.00 %
CET1 capital (to risk-weighted assets)	\$ 114,589	16.72 %	\$ 43,695	6.38 %	\$ 44,552	6.50 %
Tier 1 capital (to risk-weighted assets)	\$ 114,589	16.72 %	\$ 53,977	7.88 %	\$ 54,834	8.00 %
Total capital (to risk-weighted assets)	\$ 122,280	17.84 %	\$ 67,685	9.88 %	\$ 68,542	10.00 %
As of June 30, 2017						
Tier 1 leverage capital (to adjusted assets)	\$ 117,530	9.90 %	\$ 47,503	4.00 %	\$ 59,379	5.00 %
CET1 capital (to risk-weighted assets)	\$ 117,530	16.14 %	\$ 41,877	5.75 %	\$ 47,339	6.50 %
Tier 1 capital (to risk-weighted assets)	\$ 117,530	16.14 %	\$ 52,801	7.25 %	\$ 58,263	8.00 %
Total capital (to risk-weighted assets)	\$ 125,845	17.28 %	\$ 67,367	9.25 %	\$ 72,829	10.00 %

In addition to the minimum CET1, Tier 1 and total capital ratios, Provident Financial Holdings, Inc. and the Bank will have to maintain a capital conservation buffer consisting of additional CET1 capital above the required minimum levels in order to avoid limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses based on percentages of eligible retained income that could be utilized for such actions. This requirement began to be phased in on January 1, 2016 at an amount requiring more than 0.625 percent of risk-weighted assets and will increase each year to an amount requiring more than 2.5 percent of risk-weighted assets when fully implemented in January 2019. As of March 31, 2018, the conservation buffer required an amount more than 1.875 percent.

The ability of the Corporation to pay dividends to stockholders depends primarily on the ability of the Bank to pay dividends to the Corporation. The Bank may not declare or pay a cash dividend if the effect thereof would cause its net worth to be reduced below the regulatory capital requirements imposed by federal regulation. In the first nine months of fiscal 2018, the Bank paid a cash dividend of \$5.0 million to the Corporation; while the Corporation paid \$3.2 million of cash dividends to its shareholders.

Supplemental Information

	At March 31, 2018	At June 30, 2017	At March 31, 2017
Loans serviced for others (in thousands)	\$128,060	\$119,304	\$116,171
Book value per share	\$16.16	\$16.62	\$16.69

ITEM 3 – Quantitative and Qualitative Disclosures about Market Risk.

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

Through the use of an internal interest rate risk model, the Corporation is able to analyze its interest rate risk exposure by measuring the change in net portfolio value ("NPV") over a variety of interest rate scenarios. NPV is defined as the net present value of expected future cash flows from assets, liabilities and off-balance sheet contracts. The calculation is intended to illustrate the change in NPV that would occur in the event of an immediate change in interest rates of -100, +100, +200, +300 and +400 basis points ("bp") with no effect given to steps that management might take to counter the effect of the interest rate movement. The current federal funds rate is 1.75 percent making an immediate change of -200 and -300 basis points improbable.

The following table is derived from the internal interest rate risk model and represents the NPV based on the indicated changes in interest rates as of March 31, 2018 (dollars in thousands).

Basis Points ("bp") Change in Rates	Net Portfolio Value	NPV Change ⁽¹⁾	Portfolio Value of Assets	NPV as Percentage of Portfolio Value Assets ⁽²⁾	Sensitivity Measure ⁽³⁾
+400 bp	\$260,176	\$133,959	\$1,288,239	20.20%	+954 bp
+300 bp	\$233,459	\$107,242	\$1,268,501	18.40%	+774 bp
+200 bp	\$202,131	\$75,914	\$1,244,438	16.24%	+558 bp
+100 bp	\$166,144	\$39,927	\$1,216,088	13.66%	+300 bp
0 bp	\$126,217	\$—	\$1,183,713	10.66%	0 bp
-100 bp	\$111,639	\$(14,578)	\$1,175,065	9.50%	-116 bp

(1)

Represents the increase (decrease) of the NPV at the indicated interest rate change in comparison to the NPV at March 31, 2018 (“base case”).

- (2) Derived as the NPV divided by the portfolio value of total assets.
- (3) Derived as the change in the NPV ratio from the base case amount assuming the indicated change in interest rates (expressed in basis points).

The following table is derived from the internal interest rate risk model and represents the change in the NPV at a -100 basis point rate shock at March 31, 2018 and June 30, 2017.

	At March 31, 2018 (-100 bp rate shock)	At June 30, 2017 (-100 bp rate shock)
Pre-Shock NPV Ratio: NPV as a % of PV Assets	10.66%	11.49%
Post-Shock NPV Ratio: NPV as a % of PV Assets	9.50%	10.16%
Sensitivity Measure: Change in NPV Ratio	-116 bp	-133 bp

The pre-shock NPV ratio declined 83 basis points to 10.66 percent at March 31, 2018 from 11.49 percent at June 30, 2017 while the post-shock NPV ratio decreased 66 basis points to 9.50 percent at March 31, 2018 from 10.16 percent at June 30, 2017. As a result, the sensitivity ratio decreased 17 basis points to 116 basis points at March 31, 2018 from 133 basis points at June 30, 2017. The decrease in the NPV ratios were primarily attributable to the \$5.0 million cash dividend payment from the Bank to the Corporation in September 2017, partly offset by the net income in the first nine months of fiscal 2018.

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

The Corporation measures and evaluates the potential effects of interest rate movements through an interest rate sensitivity "gap" analysis. Interest rate sensitivity reflects the potential effect on net interest income when there is movement in interest rates. For loans, securities and liabilities with contractual maturities, the table presents principal cash flows. For transaction accounts (checking, money market and savings deposits) that have no contractual maturity, the table presents principal cash flows and, as applicable, the Corporation's historical experience, management's judgment and statistical analysis, as applicable, concerning their most likely withdrawal behaviors.

The following table represents the interest rate gap analysis of the Corporation's assets and liabilities as of March 31, 2018:

	Term to Repricing or Maturity ⁽¹⁾ As of March 31, 2018				Total
	12 months or less	Greater than 1 year to 3 years	Greater than 3 years to 5 years	Greater than 5 years or non sensitive	
(Dollars In thousands)					
Repricing Assets:					
Cash and cash equivalents	\$44,193	\$—	\$—	\$6,381	\$50,574
Investment securities	51,345	—	—	52,381	103,726
Loans held for investment	304,512	238,644	268,378	82,633	894,167
Loans held for sale	89,823	—	—	—	89,823
FHLB - San Francisco stock	8,108	—	—	—	8,108
Other assets	—	—	—	30,204	30,204
Total assets	497,981	238,644	268,378	171,599	1,176,602
Repricing Liabilities and Equity:					
Checking deposits - non-interest bearing	—	—	—	87,520	87,520
Checking deposits - interest bearing	39,074	78,148	78,148	65,122	260,492
Savings deposits	59,122	118,242	118,242	—	295,606
Money market deposits	16,698	16,698	—	—	33,396
Time deposits	108,476	103,286	30,972	2,751	245,485
FHLB - San Francisco borrowings	—	30,000	21,176	60,000	111,176
Other liabilities	—	—	—	22,327	22,327
Stockholders' equity	—	—	—	120,600	120,600
Total liabilities and stockholders' equity	223,370	346,374	248,538	358,320	1,176,602
Repricing gap positive (negative)	\$274,611	\$(107,730)	\$19,840	\$(186,721)	\$—
Cumulative repricing gap:					
Dollar amount	\$274,611	\$166,881	\$186,721	\$—	\$—
Percent of total assets	23	% 14	% 16	%—	%— %

⁽¹⁾ Cash and cash equivalents are presented as forecast repricing; investment securities and loans held for investment are presented as contractual maturities or contractual repricing (without consideration for prepayments); loans held for sale and transaction accounts are presented as forecast repricing; FHLB - San Francisco stock is presented as forecast repricing; while time deposits (without consideration for early withdrawals) and FHLB - San Francisco borrowings are presented as contractual maturities.

The static gap analysis shows a positive position in the "12 months or less" category and the "Greater than 3 years to 5 years" category, indicating more assets are sensitive to repricing than liabilities; while the gap analysis shows a negative position in the "Greater than 1 year to 3 years" category and the "Greater than 5 years or non sensitive" category, indicating more liabilities are sensitive to repricing than assets. However, the cumulative repricing gap is positive in each category. Non-maturity checking deposits are available for immediate withdrawal and are therefore assumed to be inherently sensitive to changes in interest rates. Management views non-interest bearing deposits to be the least sensitive to changes in market interest rates and these accounts are therefore characterized as long-term funding. Interest-bearing checking deposits are considered more sensitive, followed by increased sensitivity for savings and money market deposits. For the purpose of calculating gap, a portion of these interest-bearing deposit

balances are assumed to be subject to repricing as follows: interest-bearing checking deposits at 15 percent per year, savings deposits at 20 percent per year and money market deposits at 50 percent in the first and second years.

The gap results presented above could vary substantially if different assumptions are used or if actual experience differs from the assumptions used in the preparation of the gap analysis. Furthermore, the gap analysis provides a static view of interest rate risk

exposure at a specific point in time without taking into account redirection of cash flows activity, deposit fluctuations, and repricing.

The extent to which the net interest margin will be impacted by changes in prevailing interest rates will depend on a number of factors, including how quickly interest-earning assets and interest-bearing liabilities react to interest rate changes. It is not uncommon for rates on certain assets or liabilities to lag behind changes in the market interest rates. Additionally, prepayments of loans and early withdrawals of certificates of deposit could cause interest sensitivities to vary. As a result, the relationship between interest-earning assets and interest-bearing liabilities, as shown in the previous table, is only a general indicator of interest rate sensitivity and the effect of changing market interest rates on net interest income is likely to be different from that predicted solely on the basis of the interest rate sensitivity analysis set forth in the previous table.

The Corporation also models the sensitivity of net interest income for the 12-month period subsequent to any given month-end assuming a dynamic balance sheet accounting for, among other items:

- The Corporation's current balance sheet and repricing characteristics;
- Forecasted balance sheet growth consistent with the business plan;
- Current interest rates and yield curves and management estimates of projected interest rates;
- Embedded options, interest rate floors, periodic caps and lifetime caps;
- Repricing characteristics for market rate sensitive instruments;
- Loan, investment, deposit and borrowing cash flows;
- Loan prepayment estimates for each type of loan; and
- Immediate, permanent and parallel movements in interest rates of plus 400, 300, 200 and 100 and minus 100 basis points.

The following table describes the results of the analysis at March 31, 2018 and June 30, 2017.

At March 31, 2018		At June 30, 2017	
Basis Point (bp)	Change in	Basis Point (bp)	Change in
Change in Rates	Net Interest Income	Change in Rates	Net Interest Income
+400 bp	9.62%	+400 bp	16.70%
+300 bp	7.94%	+300 bp	14.23%
+200 bp	6.21%	+200 bp	11.62%
+100 bp	4.49%	+100 bp	8.29%
-100 bp	(4.91)%	-100 bp	(3.68)%

At both March 31, 2018 and June 30, 2017, the Corporation was asset sensitive as its interest-earning assets are expected to reprice more quickly than its interest-bearing liabilities during the subsequent 12-month period. Therefore at March 31, 2018 and June 30, 2017, in a rising interest rate environment, the model forecasts an increase in net interest income over the subsequent 12-month period. In a falling interest rate environment, the model forecasts a decrease in net interest income over the subsequent 12-month period.

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

ITEM 4 – Controls and Procedures.

a) An evaluation of the Corporation's disclosure controls and procedures (as defined in Section 13a-15(e) or 15d-15(e) of the Securities Exchange Act of 1934 (the "Act")) was carried out under the supervision and with the participation of the Corporation's Chief Executive Officer, Chief Financial Officer and the Corporation's Disclosure Committee as of the end of the period covered by this quarterly report. In designing and evaluating the Corporation's disclosure controls and procedures, management recognizes that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Also, because of the inherent limitations in all control procedures, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any,

within the Corporation have been detected. Additionally, in designing disclosure controls and procedures, management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any disclosure controls and procedures is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Based on their evaluation, the Corporation's Chief Executive Officer and Chief Financial Officer concluded that the Corporation's disclosure controls and procedures as of March 31, 2018 are effective, at the reasonable assurance level, in ensuring that the information required to be disclosed by the Corporation in the reports it files or submits under the Act is (i) accumulated and communicated to the Corporation's management (including the Chief Executive Officer and Chief Financial Officer) in a timely manner, and (ii) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

b) There have been no changes in the Corporation's internal control over financial reporting (as defined in Rule 13a-15(f) of the Act) that occurred during the quarter ended March 31, 2018, that has materially affected, or is reasonably likely to materially affect, the Corporation's internal control over financial reporting. The Corporation does not expect that its internal control over financial reporting will prevent all error and all fraud. A control procedure, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control procedure are met. Because of the inherent limitations in all control procedures, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Corporation have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any control procedure is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control procedure, misstatements due to error or fraud may occur and not be detected.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings.

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 incidental 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, Gina McKeen-Chaplin, individually and on behalf of others similarly situated vs. the Bank was filed in the United States District Court for the Eastern District of California (the "Court") against the Bank 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 "McKeen-Chaplin lawsuit").

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 judgement in favor of the plaintiffs. As a result of the Ninth Circuit's unfavorable ruling, the Bank filed on September 7, 2017, a petition for writ of certiorari to the United States Supreme Court, which was denied on November 27, 2017.

On May 22, 2013, counsel in the McKeen-Chaplin lawsuit filed another class action called Neal versus Provident Savings Bank, F.S.B. (the "Neal lawsuit") in California Superior Court in Alameda County (the "State Court"). The Neal lawsuit is virtually identical to the McKeen-Chaplin lawsuit alleging that mortgage underwriters were misclassified as exempt employees.

On December 18, 2017, the Bank entered into a Memorandum of Understanding with the plaintiffs' representatives to memorialize an agreement in principle to settle the pending McKeen-Chaplin and Neal Lawsuits. The Memorandum of Understanding assumes class certification for purposes of the settlement only and provides for an aggregate settlement payment by the Bank of \$1.8 million, which includes all settlement funds, the named plaintiff service payments, and class counsel's attorneys' fees and costs. Any additional costs and expenses related to employer-side payroll taxes will be paid by the Bank.

On February 21, 2018, plaintiffs filed a motion in McKeen-Chaplin asking the District Court to approve the FLSA portion of the settlement. The motion still is pending. The parties also worked together to jointly request that the Court of Appeal in Neal pass jurisdiction back to the trial court to oversee the settlement process which has been approved.

The Bank's decision to settle these lawsuits was the result of the unfavorable ruling by the United States Supreme Court in the McKeen-Chaplin lawsuit and the significant legal costs, distraction from day-to-day operating activities and substantial resources that would be required to defend the Bank in protracted litigation if the Neal lawsuit would proceed. In addition, the Bank determined that the settlement would reduce the Bank's potential exposure to damages, penalties, fines and plaintiffs' legal fees in the event of an unfavorable outcome in the Neal lawsuit. The settlement will include the dismissal of all claims against the Bank and related parties in the McKeen-Chaplin and Neal Lawsuits without any admission of liability or wrongdoing attributed to the Bank. The settlement described in the Memorandum of Understanding remains subject to court approval and other customary conditions, including a limitation on the number of plaintiffs in each lawsuit that may opt out of the proposed settlement. If the opt out number for either lawsuit is exceeded, the Bank may at its sole and absolute discretion void the settlement within 30 days of receiving notice of the number of plaintiff's electing to opt out of the settlement.

Based on the proposed settlement, the Corporation recorded a litigation settlement expense accrual of \$650,000 in the second quarter of fiscal 2018 to fully reserve for the agreed upon settlement amount.

On August 6, 2015, a former employee, Christina Cannon, filed a lawsuit called Cannon versus the Bank 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. On September 8, 2017, the attorneys for the plaintiffs in the Cannon Lawsuit sent notification to the Bank and to the California Labor & Workforce Development Agency informing them of their intent to bring a claim under the Private Attorneys' General Act of 2004 ("PAGA") on behalf of all non-exempt employees and covering a variety of alleged wage and hour violations. On September 12, 2017, the Bank entered into a Memorandum of Understanding with the plaintiffs' representatives to memorialize an agreement in principle to settle the pending Cannon Lawsuit. The Memorandum of Understanding assumes class certification for purposes of the settlement only and provides for an aggregate settlement payment by the Bank of \$2.8 million, which includes all settlement funds, the class representative enhancement award, settlement administrator's expenses, any employer-side payroll taxes, and class counsel's attorneys' fees and costs. The Bank's decision to settle this matter was the result of the significant legal costs, distraction from day-to-day operating activities and substantial resources that would be required to defend the Bank in protracted litigation. In addition, the Bank determined that the settlement would reduce the Bank's potential exposure to damages, penalties, fines and plaintiffs' legal fees in the event of an unfavorable outcome in a court trial. The settlement includes the dismissal of all claims against the Bank and related parties in the Cannon Lawsuit and claim under the PAGA, without any admission of liability or wrongdoing attributed to the Bank. The settlement described in the Memorandum of Understanding remains subject to court approval and other customary conditions. Because of the uncertainty surrounding this litigation, no litigation reserve had been previously established by the Bank resulting in the full \$2.8 million settlement expense being recognized in the first quarter of fiscal 2018.

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 1A. Risk Factors.

There have been no material changes in the risk factors previously disclosed in Part I, Item 1A of the Corporation's Annual Report on Form 10-K for the year ended June 30, 2017.

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

The table below represents the Corporation's purchases of its equity securities for the third quarter of fiscal 2018.

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⁾
January 1 – 31, 2018	1,937	\$18.28	1,937	116,737
February 1 – 28, 2018	42,433	\$18.12	39,142	77,595
March 1 – 31, 2018	36,602	\$18.32	36,602	40,993
Total	80,972	\$18.22	77,681	40,993

⁽¹⁾ Represents the remaining shares available for future purchases under the June 2017 stock repurchase plan.

During the quarter ended March 31, 2018, the Corporation purchased 80,972 shares of the Corporation's common stock at an average cost of \$18.22 per share, including the repurchase of 3,291 shares of distributed restricted stock at an average cost of \$18.45 per share to cover employee withholding tax obligations. For the nine months ended March 31, 2018, the Corporation purchased 347,498 shares of the Corporation's common stock at an average cost of \$19.07 per share, including the repurchase of 3,291 shares of distributed restricted stock at an average cost of \$18.45 per share to cover employee withholding tax obligations. As of March 31, 2018, a total of 344,207 shares or 89 percent of the shares authorized in the June 2017 stock repurchase plan have been purchased at an average cost of \$19.08 per share, leaving 40,993 shares available for future purchases through June 19, 2018. During the quarter and nine months ended March 31, 2018, the Corporation did not sell any securities that were not registered under the Securities Act of 1933.

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 limit the ability of the Corporation to pay dividends to its stockholders or repurchase its shares.

Item 3. Defaults Upon Senior Securities.

Not applicable.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

Not applicable.

Item 6. Exhibits.

Exhibits:

- 3.1 Certificate of Incorporation of Provident Financial Holdings, Inc. (incorporated by reference to Exhibit 3.1 to the Corporation's Registration Statement on Form S-1 (File No. 333-2230))
- (a)
- 3.1 Certificate of Amendment to Certificate of Incorporation of Provident Financial Holdings, Inc. as filed with the Delaware Secretary of State on November 24, 2009 (incorporated by reference to Exhibit 3.1 to the Corporation's Quarterly Report on Form 10-Q filed on November 9, 2010)
- (b)

78

- 3.1 Amended and Restated Bylaws of Provident Financial Holdings, Inc. (incorporated by reference to Exhibit 3.1 (c) to the Corporation's Current Report on Form 8-K filed on December 1, 2014)
- 10.1 Employment Agreement with Craig G. Blunden (incorporated by reference to Exhibit 10.1 to the Corporation's Form 8-K dated December 19, 2005)
- 10.2 Post-Retirement Compensation Agreement with Craig G. Blunden (incorporated by reference to Exhibit 10.2 to the Corporation's Form 8-K dated December 19, 2005)
- 10.3 Post-Retirement Compensation Agreement with Donavon P. Ternes (incorporated by reference to Exhibit 10.1 to the Corporation's Form 8-K dated July 7, 2009)
- 10.4 Form of Severance Agreement with Deborah L. Hill, Robert "Scott" Ritter, Lilian Salter, Donavon P. Ternes, David S. Weiant and Gwendolyn L. Wertz (incorporated by reference to Exhibit 10.1 in the Corporation's Form 8-K dated February 24, 2012)
- 10.5 2006 Equity Incentive Plan (incorporated by reference to Exhibit A to the Corporation's proxy statement dated October 12, 2006)
- 10.6 Form of Incentive Stock Option Agreement for options granted under the 2006 Equity Incentive Plan (incorporated by reference to Exhibit 10.10 in the Corporation's Form 10-Q for the quarter ended December 31, 2006)
- 10.7 Form of Non-Qualified Stock Option Agreement for options granted under the 2006 Equity Incentive Plan (incorporated by reference to Exhibit 10.11 in the Corporation's Form 10-Q for the quarter ended December 31, 2006)
- 10.8 Form of Restricted Stock Agreement for restricted shares awarded under the 2006 Equity Incentive Plan (incorporated by reference to Exhibit 10.12 in the Corporation's Form 10-Q for the quarter ended December 31, 2006)
- 10.9 2010 Equity Incentive Plan (incorporated by reference to Exhibit A to the Corporation's proxy statement dated October 28, 2010)
- 10.10 Form of Incentive Stock Option Agreement for options granted under the 2010 Equity Incentive Plan (incorporated by reference to Exhibit 10.1 in the Corporation's Form 8-K dated November 30, 2010)
- 10.11 Form of Non-Qualified Stock Option Agreement for options granted under the 2010 Equity Incentive Plan (incorporated by reference to Exhibit 10.2 in the Corporation's Form 8-K dated November 30, 2010)
- 10.12 Form of Restricted Stock Agreement for restricted shares awarded under the 2010 Equity Incentive Plan (incorporated by reference to Exhibit 10.3 in the Corporation's Form 8-K dated November 30, 2010)
- 10.13 2013 Equity Incentive Plan (incorporated by reference to Exhibit A to the Corporation's proxy statement dated October 24, 2013)
- 10.14 Form of Incentive Stock Option Agreement for options granted under the 2013 Equity Incentive Plan (incorporated by reference to Exhibit 10.2 in the Corporation's Registration Statement on Form S-8)

(333-192727) dated December 9, 2013)

10.15 Form of Non-Qualified Stock Option Agreement for options granted under the 2013 Equity Incentive Plan
(incorporated by reference to Exhibit 10.3 in the Corporation's Registration Statement on Form S-8
(333-192727) dated December 9, 2013)

79

10.16 Form of Restricted Stock Agreement for restricted shares awarded under the 2013 Equity Incentive Plan (incorporated by reference to Exhibit 10.4 in the Corporation's Registration Statement on Form S-8 (333-192727) dated December 9, 2013)

31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1 Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32.2 Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

101 The following materials from the Corporation's Quarterly Report on Form 10-Q for the quarter ended March 31, 2018, formatted in Extensible Business Reporting Language (XBRL): (1) Condensed Consolidated Statements of Financial Condition; (2) Condensed Consolidated Statements of Operations; (3) Condensed Consolidated Statements of Comprehensive Income; (4) Condensed Consolidated Statements of Stockholders' Equity; (5) Condensed Consolidated Statements of Cash Flows; and (6) Selected Notes to Condensed Consolidated Financial Statements.

SIGNATURES

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

Provident Financial Holdings, Inc.

Date: May 8, 2018 /s/ Craig G. Blunden
Craig G. Blunden
Chairman and Chief Executive Officer
(Principal Executive Officer)

Date: May 8, 2018 /s/ Donavon P. Ternes
Donavon P. Ternes
President, Chief Operating Officer and
Chief Financial Officer
(Principal Financial and Accounting Officer)

Exhibit Index

31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1 Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32.2 Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

101 The following materials from the Corporation's Quarterly Report on Form 10-Q for the quarter ended March 31, 2018, formatted in Extensible Business Reporting Language (XBRL): (1) Condensed Consolidated Statements of Financial Condition; (2) Condensed Consolidated Statements of Operations; (3) Condensed Consolidated Statements of Comprehensive Income; (4) Condensed Consolidated Statements of Stockholders' Equity; (5) Condensed Consolidated Statements of Cash Flows; and (6) Selected Notes to Condensed Consolidated Financial Statements.