PROVIDENT FINANCIAL HOLDINGS INC
Form 10-Q
November 07, 2016
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
(Mark One)
[ü] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2016
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ________________ to _________________

Commission File Number 000-28304

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

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

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

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer [ ] Accelerated filer [ü]
Non-accelerated filer [ ] Smaller reporting company [ ]
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No ü .
APPLICABLE ONLY TO CORPORATE ISSUERS

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

Title of class:	As of November 4, 2016
Common stock, $ 0.01 par value, per share	7,989,516 shares

PROVIDENT FINANCIAL HOLDINGS, INC.

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

	September 30, 2016 (Unaudited)	June 30, 2016
Assets		
Cash and cash equivalents	$ 39,443	$ 51,206
Investment securities – held to maturity, at cost	36,290	39,979
Investment securities – available for sale, at fair value	10,778	11,543
Loans held for investment, net of allowance for loan losses of $8,725 and $8,670, respectively; includes $5,529 and $5,159 at fair value, respectively	853,958	840,022
Loans held for sale, at fair value	264,379	189,458
Accrued interest receivable	3,078	2,781
Real estate owned, net	3,496	2,706
Federal Home Loan Bank (“FHLB”) – San Francisco stock	8,094	8,094
Premises and equipment, net	5,879	6,043
Prepaid expenses and other assets	17,119	19,549
Total assets	$ 1,242,514	$ 1,171,381
Liabilities and Stockholders’ Equity		
Liabilities:		
Non interest-bearing deposits	$ 74,963	$ 71,158
Interest-bearing deposits	868,539	855,226
Total deposits	943,502	926,384
Borrowings	146,281	91,299
Accounts payable, accrued interest and other liabilities	19,508	20,247
Total liabilities	1,109,291	1,037,930
Commitments and Contingencies		
Stockholders’ equity:		
Preferred stock, $.01 par value (2,000,000 shares authorized; none issued and outstanding)	—	—
Common stock, $.01 par value (40,000,000 shares authorized; 17,848,365 and 17,847,365 shares issued; 7,978,166 and 7,975,250 shares outstanding, respectively)	178	178
Additional paid-in capital	91,633	90,802
Retained earnings	192,227	191,666
Treasury stock at cost (9,870,199 and 9,872,115 shares, respectively)	(151,095)	(149,508)
Accumulated other comprehensive income, net of tax	280	313
Total stockholders’ equity	133,223	133,451

Total liabilities and stockholders' equity	$ 1,242,514	$ 1,171,381

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

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

	Quarter Ended September 30,	
	2016	2015
Interest income:		
Loans receivable, net	$10,480	$9,490
Investment securities	84	67
FHLB – San Francisco stock	185	200
Interest-earning deposits	55	100
Total interest income	10,804	9,857
Interest expense:		
Checking and money market deposits	98	117
Savings deposits	144	168
Time deposits	772	858
Borrowings	702	648
Total interest expense	1,716	1,791
Net interest income	9,088	8,066
Recovery from the allowance for loan losses	(150)	(38)
Net interest income, after recovery from the allowance for loan losses	9,238	8,104
Non-interest income:		
Loan servicing and other fees	267	111
Gain on sale of loans, net	7,996	8,924
Deposit account fees	550	610
(Loss) gain on sale and operations of real estate owned acquired in the settlement of loans, net	(103)	229
Card and processing fees	364	362
Other	178	213
Total non-interest income	9,252	10,449
Non-interest expense:		
Salaries and employee benefits	11,314	10,792
Premises and occupancy	1,289	1,108
Equipment	362	379
Professional expenses	505	500
Sales and marketing expenses	296	262
Deposit insurance premiums and regulatory assessments	248	262
Other	1,618	1,057
Total non-interest expense	15,632	14,360
Income before income taxes	2,858	4,193
Provision for income taxes	1,264	1,750
Net income	$1,594	$2,443
Basic earnings per share	$0.20	$0.29

Diluted earnings per share	$0.20	$0.28
Cash dividends per share	$0.13	$0.12

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

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

	For the Quarters Ended September 30,	
	2016	2015
Net income	$1,594	$2,443
Change in unrealized holding loss on securities available for sale	(57)	(53)
Reclassification of (gains) losses to net income	—	—
Other comprehensive loss, before income taxes	(57)	(53)
Income tax benefit	(24)	(22)
Other comprehensive loss	(33)	(31)
Total comprehensive income	$1,561	$2,412

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 September 30, 2016 and 2015:

	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				1,594			1,594
Other comprehensive loss						(33)	(33)
Purchase of treasury stock[1]	(85,834)				(1,662)		(1,662)
Exercise of stock options	1,000	—	17				17
Distribution of restricted stock	87,750						—
Amortization of restricted stock			362				362
Awards of restricted stock			(136)		136		—
Forfeiture of restricted stock			61		(61)		—
Stock options expense			340				340
Tax effect from stock based compensation			187				187
Cash dividends[2]				(1,033)			(1,033)
Balance at September 30, 2016	7,978,166	$ 178	$ 91,633	$ 192,227	$ (151,095)	$ 280	$ 133,223

[1] Includes the repurchase of 25,598 shares of distributed restricted stock in settlement of employee withholding tax obligations.
[2] Cash dividends of $0.13 per share were paid in the quarter ended September 30, 2016.

	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, 2015	8,634,607	$ 177	$ 88,893	$ 188,206	$ (136,470)	$ 331	$ 141,137
Net income				2,443			2,443
Other comprehensive loss						(31)	(31)
Purchase of treasury stock[1]	(220,429)				(3,649)		(3,649)
Exercise of stock options	13,000	1	95				96
Distribution of restricted stock	2,500						—
Amortization of restricted stock			161				161
Stock options expense			128				128
			1				1

Tax effect from stock based compensation							
Cash dividends[2]				(1,032)			(1,032)
Balance at September 30, 2015	8,429,678	$ 178	$ 89,278	$ 189,617	$ (140,119)	$ 300	$ 139,254

[1] Includes the repurchase of 4,500 shares from a cashless stock option exercise.
[2] Cash dividends of $0.12 per share were paid in the quarter ended September 30, 2015.

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

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

	Three Months Ended September 30,	
	2016	2015
Cash flows from operating activities:		
Net income	$1,594	$2,443
Adjustments to reconcile net income to net cash (used for) provided by operating activities:		
Depreciation and amortization	697	307
Recovery from the allowance for loan losses	(150)	(38)
Provision (recovery) of losses on real estate owned	100	(161)
Gain on sale of loans, net	(7,996)	(8,924)
Gain on sale of real estate owned, net	(54)	(30)
Stock-based compensation	702	289
Provision (benefit) for deferred income taxes	1,420	(632)
Tax effect from stock based compensation	(187)	(1)
Increase in accounts payable, accrued interest and other liabilities	1,327	1,617
(Increase) decrease in prepaid expenses and other assets	(361)	1,711
Loans originated for sale	(647,342)	(540,289)
Proceeds from sale of loans	579,698	613,940
Net cash (used for) provided by operating activities	(70,552)	70,232
Cash flows from investing activities:		
(Increase) decrease in loans held for investment, net	(15,097)	7,289
Principal payments from investment securities available for sale	4,048	650
Proceeds from sale of real estate owned	307	463
Purchase of premises and equipment	(78)	(71)
Net cash (used for) provided by investing activities	(10,820)	8,331
Cash flows from financing activities:		
Increase in deposits, net	17,118	780
Proceeds from short-term borrowings, net	35,000	—
Proceeds from long-term borrowings	20,000	—
Repayments of long-term borrowings	(18)	(16)
Exercise of stock options	17	96
Tax effect from stock based compensation	187	1
Cash dividends	(1,033)	(1,032)
Treasury stock purchases	(1,662)	(3,649)
Net cash provided by (used for) financing activities	69,609	(3,820)
Net (decrease) increase in cash and cash equivalents	(11,763)	74,743
Cash and cash equivalents at beginning of period	51,206	81,403
Cash and cash equivalents at end of period	$39,443	$156,146
Supplemental information:		
Cash paid for interest	$1,671	$1,788
Cash paid for income taxes	$100	$—
Transfer of loans held for sale to held for investment	$760	$1,552

Real estate acquired in the settlement of loans	$1,298	$1,006

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

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

September 30, 2016

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, 2016 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, 2016. The results of operations for the quarter ended September 30, 2016 are not necessarily indicative of results that may be expected for the entire fiscal year ending June 30, 2017.

Note 2: Accounting Standard Updates (“ASU”)

There have been no accounting standard updates or changes in the status of their adoptions 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, 2016.

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 September 30, 2016 and 2015, there were outstanding options to purchase 932,000 shares and 1.0 million shares of the Corporation’s common stock, respectively, of which 200,000 shares and 236,500 shares, respectively, were excluded from the diluted EPS computation as their effect was anti-dilutive. As of September 30, 2016 and 2015, there were outstanding restricted stock awards of 110,250 shares and 197,500 shares, respectively, all of which have dilutive effects.

The following table provides the basic and diluted EPS computations for the quarters ended September 30, 2016 and 2015, respectively.

(In Thousands, Except Earnings Per Share)	For the Quarters Ended September 30, 2016	2015
Numerator:		
Net income – numerator for basic earnings per share and diluted earnings per share - available to common stockholders	$1,594	$2,443
Denominator:		
Denominator for basic earnings per share:		
Weighted-average shares	7,948	8,566
Effect of dilutive shares:		
Stock options	158	111
Restricted stock	48	67
Denominator for diluted earnings per share:		
Adjusted weighted-average shares and assumed conversions	8,154	8,744
Basic earnings per share	$0.20	$0.29
Diluted earnings per share	$0.20	$0.28

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Note 4: Operating Segment Reports

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

The following tables set forth condensed consolidated statements of operations and total assets for the Corporation's operating segments for the quarters ended September 30, 2016 and 2015, respectively.

	For the Quarter Ended September 30, 2016		
(In Thousands)	Provident Bank	Provident Bank Mortgage	Consolidated Totals
Net interest income	$7,575	$1,513	$9,088
Provision (recovery) for loan losses	36	(186)	(150)
Net interest income, after provision (recovery) for loan losses	7,539	1,699	9,238
Non-interest income:			
Loan servicing and other fees [(1)]	69	198	267
Gain on sale of loans, net [(2)]	1	7,995	7,996
Deposit account fees	550	—	550
(Loss) gain on sale and operations of real estate owned acquired in the settlement of loans, net	(105)	2	(103)
Card and processing fees	364	—	364
Other	178	—	178
Total non-interest income	1,057	8,195	9,252
Non-interest expense:			
Salaries and employee benefits	4,894	6,420	11,314
Premises and occupancy	856	433	1,289
Operating and administrative expenses	1,147	1,882	3,029
Total non-interest expense	6,897	8,735	15,632
Income before income taxes	1,699	1,159	2,858
Provision for income taxes	777	487	1,264
Net income	$922	$672	$1,594
Total assets, end of period	$977,964	$264,550	$1,242,514

(1) Includes an inter-company charge of $95 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 $59 credited to PBM by the Bank during the period to compensate PBM for servicing fees on loans sold on a servicing retained basis.

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	For the Quarter Ended September 30, 2015		
(In Thousands)	Provident Bank	Provident Bank Mortgage	Consolidated Totals
Net interest income	$6,903	$1,163	$8,066
Provision (recovery) for loan losses	12	(50)	(38)
Net interest income after provision (recovery) for loan losses	6,891	1,213	8,104
Non-interest income:			
Loan servicing and other fees [1]	144	(33)	111
Gain on sale of loans, net [2]	1	8,923	8,924
Deposit account fees	610	—	610
Gain on sale and operations of real estate owned acquired in the settlement of loans, net	224	5	229
Card and processing fees	362	—	362
Other	213	—	213
Total non-interest income	1,554	8,895	10,449
Non-interest expense:			
Salaries and employee benefits	4,553	6,239	10,792
Premises and occupancy	696	412	1,108
Operating and administrative expenses	989	1,471	2,460
Total non-interest expense	6,238	8,122	14,360
Income before income taxes	2,207	1,986	4,193
Provision for income taxes	915	835	1,750
Net income	$1,292	$1,151	$2,443
Total assets, end of period	$1,013,345	$163,892	$1,177,237

(1) Includes an inter-company charge of $65 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 $108 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 September 30, 2016 and June 30, 2016 were as follows:

September 30, 2016	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value	Carrying Value
(In Thousands)					
Held to maturity:					
Certificates of deposit	$ 800	$ —	$ —	$ 800	$ 800
U.S. government sponsored enterprise MBS [1]	35,490	459	—	35,949	35,490
Total investment securities - held to maturity	$ 36,290	$ 459	$ —	$ 36,749	$ 36,290
Available for sale:					
U.S. government agency MBS	$ 5,906	$ 225	$ —	$ 6,131	$ 6,131
U.S. government sponsored enterprise MBS	3,875	212	—	4,087	4,087
Private issue CMO [2]	556	4	—	560	560
Total investment securities - available for sale	$ 10,337	$ 441	$ —	$ 10,778	$ 10,778
Total investment securities	$ 46,627	$ 900	$ —	$ 47,527	$ 47,068

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

June 30, 2016	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value	Carrying Value
(In Thousands)					
Held to maturity:					
Certificates of deposit	$ 800	$ —	$ —	$ 800	$ 800
U.S. government sponsored enterprise MBS	39,179	459	—	39,638	39,179
Total investment securities - held to maturity	$ 39,979	$ 459	$ —	$ 40,438	$ 39,979
Available for sale:					
U.S. government agency MBS	$ 6,308	$ 264	$ —	$ 6,572	$ 6,572
U.S. government sponsored enterprise MBS	3,998	225	—	4,223	4,223
Private issue CMO	598	4	(1)	601	601
Common stock - community development financial institution	147	—	—	147	147
Total investment securities - available for sale	$ 11,051	$ 493	$ (1)	$ 11,543	$ 11,543
Total investment securities	$ 51,030	$ 952	$ (1)	$ 51,981	$ 51,522

In the first quarters of fiscal 2017 and 2016, the Corporation received MBS principal payments of $4.0 million and $650,000, respectively, and there were no sales of investment securities during these periods. The Corporation did not purchase any investment securities in the first quarter of fiscal 2017 and 2016. In the first quarter of fiscal 2017, the Corporation received the cash proceeds from its equity investment in a community development financial institution, consistent with the purchase agreement between the acquiring institution and the community development financial institution.

The Corporation held investments with an unrealized loss position of $0 at September 30, 2016 and $1,000 at June 30, 2016.

As of June 30, 2016	Unrealized Holding Losses		Unrealized Holding Losses		Unrealized Holding Losses	
(In Thousands)	Less Than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available for sale:						
Private issue CMO	$ 103	$ 1	$ —	$ —	$ 103	$ 1
Total investment securities	$ 103	$ 1	$ —	$ —	$ 103	$ 1

The Corporation evaluates individual investment securities quarterly for other-than-temporary declines in market value. As of June 30, 2016, the unrealized holding loss was less than 12 months. The Corporation does not believe that there are any other-than-temporary impairments on the investment securities at September 30, 2016 and 2015; therefore, no impairment losses were recorded for the quarters ended September 30, 2016 and 2015.

Contractual maturities of investment securities as of September 30, 2016 and June 30, 2016 were as follows:

	September 30, 2016		June 30, 2016	
(In Thousands)	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Held to maturity:				
Due in one year or less	$ 800	$ 800	$ 800	$ 800
Due after one through five years	—	—	—	—
Due after five through ten years	17,384	17,702	18,904	19,203
Due after ten years	18,106	18,247	20,275	20,435
Total investment securities - held to maturity	$ 36,290	$ 36,749	$ 39,979	$ 40,438
Available for sale:				
Due in one year or less	$ —	$ —	$ —	$ —
Due after one through five years	—	—	—	—
Due after five through ten years	—	—	—	—
Due after ten years	10,337	10,778	10,904	11,396
No stated maturity (common stock)	—	—	147	147
Total investment securities - available for sale	$ 10,337	$ 10,778	$ 11,051	$ 11,543
Total investment securities	$ 46,627	$ 47,527	$ 51,030	$ 51,981

Note 6: Loans Held for Investment

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

(In Thousands)	September 30, 2016	June 30, 2016
Mortgage loans:		
Single-family	$312,795	$324,497
Multi-family	438,423	415,627
Commercial real estate	100,136	99,528
Construction	15,811	14,653
Other	331	332
Commercial business loans	624	636
Consumer loans	199	203
Total loans held for investment, gross	868,319	855,476
Undisbursed loan funds	(10,447)	(11,258)
Advance payments of escrows	23	56
Deferred loan costs, net	4,788	4,418
Allowance for loan losses	(8,725)	(8,670)
Total loans held for investment, net	$853,958	$840,022

As of September 30, 2016, the Corporation had $10.0 million in mortgage loans that are subject to negative amortization, consisting of $6.9 million in multi-family loans, $3.0 million in single-family loans and $155,000 in commercial real estate loans. This compares to $10.2 million of negative amortization mortgage loans at June 30, 2016, consisting of $6.9 million in multi-family loans, $3.1 million in single-family loans and $170,000 in commercial real estate loans. During the first quarters of fiscal 2017 and 2016, no loan interest income was added to the negative amortization loan balance. Negative amortization involves a greater risk to the Corporation because the loan principal balance may increase by a range of 110% to 115% of the original loan amount during the period of negative amortization and because the loan payment may increase beyond the means of the borrower when loan principal amortization is required. Also, the Corporation has originated interest-only ARM loans, which typically have a fixed interest rate for the first two to five years coupled with an interest only payment, followed by a periodic adjustable rate and a fully amortizing loan payment. As of September 30, 2016 and June 30, 2016, the interest-only ARM loans were $53.7 million and $64.7 million, or 6.2% and 7.6% of loans held for investment, respectively. As of September 30, 2016, the Corporation had $5.5 million of single-family loans, 19 loans, held for investment which were originated for sale but were subsequently transferred to loans held for investment and are carried at fair value. This compares to $5.2 million of single-family loans, 18 loans, held for investment at June 30, 2016 which were originated for sale but were subsequently transferred to loans held for investment and are carried at fair value.

The following table sets forth information at September 30, 2016 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 3% of loans held for investment at September 30, 2016 and June 30, 2016. 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 Within One Year	After One Year Through 3 Years	After 3 Years Through 5 Years	After 5 Years Through 10 Years	Fixed Rate	Total
Mortgage loans:						
Single-family	$226,639	$14,936	$52,519	$5,697	$13,004	$312,795
Multi-family	67,240	178,065	179,594	10,567	2,957	438,423
Commercial real estate	11,039	39,975	46,163	—	2,959	100,136
Construction	9,556	—	—	—	6,255	15,811
Other	—	—	—	—	331	331
Commercial business loans	107	—	—	—	517	624
Consumer loans	197	—	—	—	2	199
Total loans held for investment, gross	$314,778	$232,976	$278,276	$16,264	$26,025	$868,319

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 others. 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:

(In Thousands)	September 30, 2016 Single-family	Multi-family	Commercial Real Estate	Construction	Other Mortgage	Commercial Business	Consumer	Total
Pass	$298,937	$ 432,567	$ 100,136	$ 15,811	$ 331	$ 530	$ 199	$848,511
Special Mention	3,879	5,013	—	—	—	—	—	8,892
Substandard	9,979	843	—	—	—	94	—	10,916
Total loans held for investment, gross	$312,795	$ 438,423	$ 100,136	$ 15,811	$ 331	$ 624	$ 199	$868,319

(In Thousands)	June 30, 2016 Single-family	Multi-family	Commercial Real Estate	Construction	Other Mortgage	Commercial Business	Consumer	Total
Pass	$309,380	$ 410,804	$ 99,528	$ 14,653	$ 332	$ 540	$ 203	$835,440
Special Mention	4,858	3,974	—	—	—	—	—	8,832
Substandard	10,259	849	—	—	—	96	—	11,204
Total loans held for investment, gross	$324,497	$ 415,627	$ 99,528	$ 14,653	$ 332	$ 636	$ 203	$855,476

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 September 30, 2016 and June 30, 2016:

(In Thousands)	September 30, 2016	June 30, 2016
Collectively evaluated for impairment:		
Mortgage loans:		
Single-family	$ 4,575	$4,933
Multi-family	3,186	2,800
Commercial real estate	854	848
Construction	53	31
Other	7	7
Commercial business loans	22	23
Consumer loans	8	8
Total collectively evaluated allowance	8,705	8,650
Individually evaluated for impairment:		
Commercial business loans	20	20
Total individually evaluated allowance	20	20
Total loan loss allowance	$ 8,725	$8,670

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

(Dollars in Thousands)	For the Quarters Ended September 30, 2016	2015
Allowance at beginning of period	$8,670	$8,724
Recovery from the allowance for loan losses	(150)	(38)
Recoveries:		
Mortgage loans:		
Single-family	263	69
Multi-family	7	56
Commercial real estate	—	216
Commercial business loans	—	85
Consumer loans	1	—
Total recoveries	271	426
Charge-offs:		
Mortgage loans:		
Single-family	(66)	(78)
Total charge-offs	(66)	(78)
Net recoveries	205	348
Balance at end of period	$8,725	$9,034
Allowance for loan losses as a percentage of gross loans held for investment	1.01 %	1.11 %
Net recoveries as a percentage of average loans receivable, net, during the period (annualized)	(0.08)%	(0.14)%
Allowance for loan losses as a percentage of gross non-performing loans at the end of the period	79.93 %	57.33 %

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.

	September 30, 2016			
(In Thousands)	Current	30-89 Days Past Due	Non-Accrual [(1)]	Total Loans Held for Investment
Mortgage loans:				
Single-family	$ 301,433	$ 1,383	$ 9,979	$ 312,795
Multi-family	437,580	—	843	438,423
Commercial real estate	100,136	—	—	100,136
Construction	15,811	—	—	15,811
Other	331	—	—	331
Commercial business loans	530	—	94	624
Consumer loans	197	2	—	199
Total loans held for investment, gross	$ 856,018	$ 1,385	$ 10,916	$ 868,319

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

	June 30, 2016			
(In Thousands)	Current	30-89 Days Past Due	Non-Accrual [(1)]	Total Loans Held for Investment
Mortgage loans:				
Single-family	$ 312,595	$ 1,644	$ 10,258	$ 324,497
Multi-family	414,777	—	850	415,627
Commercial real estate	99,528	—	—	99,528
Construction	14,653	—	—	14,653
Other	332	—	—	332
Commercial business loans	540	—	96	636
Consumer loans	203	—	—	203
Total loans held for investment, gross	$ 842,628	$ 1,644	$ 11,204	$ 855,476

(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.

	Quarter Ended September 30, 2016							
(In Thousands)	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	(555)	379	6	22	—	(1)	(1)	(150)
Recoveries	263	7	—	—	—	—	1	271
Charge-offs	(66)	—	—	—	—	—	—	(66)
Allowance for loan losses, end of period	$4,575	$3,186	$854	$53	$7	$42	$8	$8,725
Allowance for loan losses:								
Individually evaluated for impairment	$—	$—	$—	$—	$—	$20	$—	$20
Collectively evaluated for impairment	4,575	3,186	854	53	7	22	8	8,705
Allowance for loan losses, end of period	$4,575	$3,186	$854	$53	$7	$42	$8	$8,725
Loans held for investment:								
Individually evaluated for impairment	$6,634	$377	$—	$—	$—	$94	$—	$7,105
Collectively evaluated for impairment	306,161	438,046	100,136	15,811	331	530	199	861,214
Total loans held for investment, gross	$312,795	$438,423	$100,136	$15,811	$331	$624	$199	$868,319
Allowance for loan losses as a percentage of gross loans held for investment	1.46%	0.73%	0.85%	0.34%	2.11%	6.73%	4.02%	1.01%

	Quarter Ended September 30, 2015							
(In Thousands)	Single-family	Multi-family	Commercial Real Estate	Construction	Other Mortgage	Commercial Business	Consumer	Total
Allowance for loan losses:								
Allowance at beginning of period	$5,280	$2,616	$734	$42	$—	$43	$9	$8,724
Provision (recovery) for loan losses	1,039	(729)	(253)	(2)	2	(95)	—	(38)
Recoveries	69	56	216	—	—	85	—	426
Charge-offs	(78)	—	—	—	—	—	—	(78)
Allowance for loan losses, end of period	$6,310	$1,943	$697	$40	$2	$33	$9	$9,034
Allowance for loan losses:								
Individually evaluated for impairment	$49	$—	$—	$—	$—	$20	$—	$69
Collectively evaluated for impairment	6,261	1,943	697	40	2	13	9	8,965
Allowance for loan losses, end of period	$6,310	$1,943	$697	$40	$2	$33	$9	$9,034
Loans held for investment:								
Individually evaluated for impairment	$8,204	$1,975	$1,016	$—	$—	$107	$—	$11,302
Collectively evaluated for impairment	348,759	353,467	93,564	6,185	72	292	243	802,582
Total loans held for investment, gross	$356,963	$355,442	$94,580	$6,185	$72	$399	$243	$813,884
Allowance for loan losses as a percentage of gross loans held for investment	1.77%	0.55%	0.74%	0.65%	2.78%	8.27%	3.70%	1.11%

The following tables identify the Corporation’s total recorded investment in non-performing loans by type at the dates and for the periods indicated. Generally, a loan is placed on non-accrual status when it becomes 90 days past due as to principal or interest or if the loan is deemed impaired, after considering economic and business conditions and collection efforts, where the borrower’s financial condition is such that collection of the contractual principal or interest on the loan is doubtful. In addition, interest income is not recognized on any loan where management has determined that collection is not reasonably assured. A non-performing loan may be restored to accrual status when delinquent principal and interest payments are brought current and future monthly principal and interest payments are expected to be collected on a timely basis. Loans with a related allowance reserve have been individually evaluated for impairment using either a discounted cash flow analysis or, for collateral dependent loans, current 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 September 30, 2016 Unpaid Principal Balance	Related Charge-offs	Recorded Investment	Allowance[1]	Net Recorded Investment
Mortgage loans:					
Single-family:					
With a related allowance	$3,383	$ —	$ 3,383	$ (781)	$ 2,602
Without a related allowance[2]	7,708	(1,074)	6,634	—	6,634
Total single-family	11,091	(1,074)	10,017	(781)	9,236
Multi-family:					
With a related allowance	466	—	466	(140)	326
Without a related allowance[2]	388	(11)	377	—	377
Total multi-family	854	(11)	843	(140)	703
Commercial business loans:					
With a related allowance	94	—	94	(20)	74
Total commercial business loans	94	—	94	(20)	74
Consumer loans:					
Without a related allowance[2]	12	(12)	—	—	—
Total consumer loans	12	(12)	—	—	—
Total non-performing loans	$12,051	$ (1,097)	$ 10,954	$ (941)	$ 10,013

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

	At June 30, 2016				
(In Thousands)	Unpaid Principal Balance	Related Charge-offs	Recorded Investment	Allowance [(1)]	Net Recorded Investment
Mortgage loans:					
Single-family:					
With a related allowance	$3,328	$ —	$ 3,328	$ (773)	$ 2,555
Without a related allowance [(2)]	8,339	(1,370)	6,969	—	6,969
Total single-family	11,667	(1,370)	10,297	(773)	9,524
Multi-family:					
With a related allowance	468	—	468	(141)	327
Without a related allowance [(2)]	400	(18)	382	—	382
Total multi-family	868	(18)	850	(141)	709
Commercial business loans:					
With a related allowance	96	—	96	(20)	76
Total commercial business loans	96	—	96	(20)	76
Consumer loans:					
Without a related allowance [(2)]	13	(13)	—	—	—
Total consumer loans	13	(13)	—	—	—
Total non-performing loans	$12,644	$ (1,401)	$ 11,243	$ (934)	$ 10,309

(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.

At September 30, 2016 and June 30, 2016, there were no commitments to lend additional funds to those borrowers whose loans were classified as non-performing.

For the quarters ended September 30, 2016 and 2015, the Corporation's average recorded investment in non-performing loans was $11.5 million and $15.3 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 September 30, 2016 and 2015, interest income of $69,000 and $101,000, respectively, was recognized, based on cash receipts from loan payments on non-performing loans and $67,000 and $65,000, respectively, was collected and applied to reduce the loan balances under the cost recovery method. Foregone interest income, which would have been recorded had the non-performing loans been current in accordance with their original terms, amounted to $39,000 and $66,000 for the quarters ended September 30, 2016 and 2015, respectively, and was not included in the results of operations.

The following table presents the average recorded investment in non-performing loans and the related interest income recognized for the quarters ended September 30, 2016 and 2015:

	Quarter Ended September 30,			
	2016		2015	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Without related allowances:				
Mortgage loans:				
Single-family	$7,310	$ 35	$8,032	$ 3
Multi-family	379	—	2,065	66
Commercial real estate	—	—	1,322	18
	7,689	35	11,419	87
With related allowances:				
Mortgage loans:				
Single-family	3,230	27	3,801	12
Multi-family	467	5	—	—
Commercial business loans	94	2	107	2
	3,791	34	3,908	14
Total	$11,480	$ 69	$15,327	$ 101

For the quarters ended September 30, 2016 and 2015, there were no loans that were newly modified from their original terms, re-underwritten or identified in the Corporation's asset quality reports as restructured loans. During the quarters ended September 30, 2016 and 2015, no restructured loans were in default within a 12-month period subsequent to their original restructuring. Additionally, during the quarters ended September 30, 2016 and 2015, there were no loans whose modification was extended beyond the initial maturity of the modification. At September 30, 2016 and June 30, 2016, there were no commitments to lend additional funds to those borrowers whose loans were restructured.

As of September 30, 2016, the Corporation held 11 restructured loans with a net outstanding balance of $3.7 million: all were classified as substandard and non-accrual. As of June 30, 2016, the Corporation held 13 restructured loans with a net outstanding balance of $4.6 million: three were classified as special mention on accrual status ($1.3 million); and 10 were classified as substandard ($3.3 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 September 30, 2016 and June 30, 2016, $1.2 million or 31%, and $1.9 million or 41%, respectively, of the restructured loans were current with respect to their modified payment terms.

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

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

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

(In Thousands)	At September 30, 2016	At June 30, 2016
Restructured loans on non-accrual status:		
Mortgage loans:		
Single-family	$ 3,650	$ 3,232
Commercial business loans	74	76
Total	3,724	3,308
Restructured loans on accrual status:		
Mortgage loans:		
Single-family	—	1,290
Total	—	1,290
Total restructured loans	$ 3,724	$ 4,598

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 September 30, 2016 Unpaid Principal Balance	Related Charge-offs	Recorded Investment	Allowance[1]	Net Recorded Investment
Mortgage loans:					
Single-family:					
With a related allowance	$ 1,489	$ —	$ 1,489	$ (298)	$ 1,191
Without a related allowance[2]	3,026	(567)	2,459	—	2,459
Total single-family	4,515	(567)	3,948	(298)	3,650
Commercial business loans:					
With a related allowance	94	—	94	(20)	74
Total commercial business loans	94	—	94	(20)	74
Total restructured loans	$ 4,609	$ (567)	$ 4,042	$ (318)	$ 3,724

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

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

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

During the quarter ended September 30, 2016, three properties were acquired in the settlement of loans, while one previously foreclosed upon property was sold. This compares to the quarter ended September 30, 2015 when two properties were acquired in the settlement of loans, while two previously foreclosed upon properties were sold. As of September 30, 2016, the net fair value of real estate owned was $3.5 million, comprised of five properties located in California and one property located in Arizona. This compares to the real estate owned net fair value of $2.7 million at June 30, 2016, comprised of three properties located in California and one property located in Nevada. 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 September 30, 2016 and June 30, 2016, the Corporation had commitments to extend credit (on loans to be held for investment and loans to be held for sale) of $179.9 million and $191.7 million, respectively.

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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 (In Thousands)	September 30, 2016	June 30, 2016
Undisbursed loan funds - Construction loans	$ 10,447	$ 11,258
Undisbursed lines of credit – Mortgage loans	20	20
Undisbursed lines of credit – Commercial business loans	778	821
Undisbursed lines of credit – Consumer loans	668	674
Commitments to extend credit on loans to be held for investment	5,946	9,955
Total	$ 17,859	$ 22,728

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 ended September 30, 2016 and 2015.

	For the Quarters Ended September 30,	
(In Thousands)	2016	2015
Balance, beginning of the period	$ 204	$ 76
Recovery	(31)	(11)
Balance, end of the period	$ 173	$ 65

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 September 30, 2016, $2.6 million was included in other assets and $1.4 million was included in other liabilities; at June 30, 2016, $3.8 million was included in other assets and $3.2 million was included in other liabilities. The Corporation does not apply hedge accounting to its derivative financial instruments; therefore, all changes in fair value are recorded in earnings.

The net impact of derivative financial instruments on the gain on sale of loans contained in the Condensed Consolidated Statements of Operations during the quarters ended September 30, 2016 and 2015 was as follows:

	For the Quarters Ended September 30,	
Derivative Financial Instruments	2016	2015
(In Thousands)		
Commitments to extend credit on loans to be held for sale	$ (1,211)	$ 1,005
Mandatory loan sale commitments and TBA MBS trades	1,797	(2,433)
Option contracts, net	(22)	(88)
Total net gain (loss)	$ 564	$ (1,516)

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

	September 30, 2016		June 30, 2016	
Derivative Financial Instruments	Amount	Fair Value	Amount	Fair Value
(In Thousands)				
Commitments to extend credit on loans to be held for sale [1]	$173,937	$2,574	$181,780	$3,785
Best efforts loan sale commitments	(31,761)	—	(29,576)	—
Mandatory loan sale commitments and TBA MBS trades	(372,758)	(1,399)	(302,727)	(3,196)
Option contracts, net	(5,000)	22	(5,000)	—
Total	$(235,582)	$1,197	$(155,523)	$589

(1) Net of 32.6% at September 30, 2016 and 37.5% at June 30, 2016 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 September 30, 2016:			
Loans held for investment, at fair value	$5,529	$5,657	$ (128)
Loans held for sale, at fair value	$264,379	$254,779	$ 9,600
As of June 30, 2016:			
Loans held for investment, at fair value	$5,159	$5,324	$ (165)
Loans held for sale, at fair value	$189,458	$181,380	$ 8,078

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, which are 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 net worth and paying capacity of the borrowers or of the collateral pledged. The non-performing loans are characterized by the distinct possibility that the Corporation will sustain some loss if the deficiencies are not corrected. The fair value of a non-performing loan is determined based on an observable market price or current appraised value of the underlying collateral. Appraised and reported values may be discounted based on management's historical knowledge, changes in market conditions from the time of valuation, and/or management's expertise and knowledge of the borrower. For non-performing loans which are restructured loans, the fair value is derived from discounted cash flow analysis (Level 3), except those which are in the process of foreclosure or 90 days delinquent for which the fair value is derived from the appraised value of its collateral (Level 2). For other non-performing loans which are not restructured loans, 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:

	Fair Value Measurement at September 30, 2016 Using:			
(In Thousands)	Level 1	Level 2	Level 3	Total
Assets:				
Investment securities - available for sale:				
U.S. government agency MBS	$—	$6,131	$—	$6,131
U.S. government sponsored enterprise MBS	—	4,087	—	4,087
Private issue CMO	—	—	560	560
Investment securities - available for sale	—	10,218	560	10,778
Loans held for investment, at fair value	—	—	5,529	5,529
Loans held for sale, at fair value	—	264,379	—	264,379
Interest-only strips	—	—	42	42
Derivative assets:				
Commitments to extend credit on loans to be held for sale	—	—	2,598	2,598
Mandatory loan sale commitments	—	—	30	30
Option contracts	—	—	22	22
Derivative assets	—	—	2,650	2,650
Total assets	$—	$274,597	$8,781	$283,378
Liabilities:				
Derivative liabilities:				
Commitments to extend credit on loans to be held for sale	$—	$—	$24	$24
Mandatory loan sale commitments	—	—	54	54
TBA MBS trades	—	1,375	—	1,375
Derivative liabilities	—	1,375	78	1,453

Total liabilities	$ $1,375	$78	$1,453

	Fair Value Measurement at June 30, 2016 Using:			
(In Thousands)	Level 1	Level 2	Level 3	Total
Assets:				
Investment securities - available for sale:				
U.S. government agency MBS	$ —	$6,572	$—	$6,572
U.S. government sponsored enterprise MBS	—	4,223	—	4,223
Private issue CMO	—	—	601	601
Common stock - community development financial institution	—	147	—	147
Investment securities - available for sale	—	10,942	601	11,543
Loans held for investment, at fair value	—	—	5,159	5,159
Loans held for sale, at fair value	—	189,458	—	189,458
Interest-only strips	—	—	47	47
Derivative assets:				
Commitments to extend credit on loans to be held for sale	—	—	3,788	3,788
Derivative assets	—	—	3,788	3,788
Total assets	$ —	$200,400	$9,595	$209,995
Liabilities:				
Derivative liabilities:				
Commitments to extend credit on loans to be held for sale	$ —	$—	$3	$3
Mandatory loan sale commitments	—	—	31	31
TBA MBS trades	—	3,165	—	3,165
Derivative liabilities	—	3,165	34	3,199
Total liabilities	$ —	$3,165	$34	$3,199

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

	For the Quarter Ended September 30, 2016 Fair Value Measurement Using Significant Other Unobservable Inputs (Level 3)						
(In Thousands)	Private Issue CMO	Loans Held For 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	—	38	—	(1,211)	(5)	(22)	(1,200)
Included in other comprehensive income (loss)	1	—	(5)	—	—	—	(4)
Purchases	—	—	—	—	—	44	44
Issuances	—	—	—	—	—	—	—
Settlements	(42)	(428)	—	—	12	—	(458)
Transfers in and/or out of Level 3	—	760	—	—	—	—	760
Ending balance at September 30, 2016	$560	$ 5,529	$ 42	$2,574	$ (24)	$ 22	$8,703

(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 Quarter Ended September 30, 2015 Fair Value Measurement Using Significant Other Unobservable Inputs (Level 3)							
(In Thousands)	Private Issue CMO	Common stock [(1)]	Loans Held For Investment, at fair value [(2)]	Interest-Only Strips	Loan Commit-ments to Originate [(3)]	Manda-tory Commit-ments [(4)]	Option Contracts	Total
Beginning balance at June 30, 2015	$717	$ 151	$ —	$ 63	$ 1,499	$ (71)	$ 192	$2,551
Total gains or losses (realized/ unrealized):								
Included in earnings	—	—	(155)	—	1,005	(96)	(88)	666
Included in other comprehensive (loss) income	(1)	—	—	(3)	—	—	—	(4)
Purchases	—	—	—	—	—	—	89	89
Issuances	—	—	—	—	—	—	—	—
Settlements	(25)	—	(638)	—	—	17	(136)	(782)
Transfers in and/or out of Level 3	—	—	4,829	—	—	—	—	4,829
Ending balance at September 30, 2015	$691	$ 151	$ 4,036	$ 60	$ 2,504	$ (150)	$ 57	$7,349

(1) Common stock of a community development financial institution.

(2) 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.

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

(4) Consists of mandatory loan sale commitments.

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

	Fair Value Measurement at September 30, 2016 Using:			
(In Thousands)	Level 1	Level 2	Level 3	Total
Non-performing loans	$ —	$ 7,012	$ 3,001	$ 10,013
MSA	—	—	588	588
Real estate owned, net	—	3,496	—	3,496
Total	$ —	$ 10,508	$ 3,589	$ 14,097

	Fair Value Measurement at June 30, 2016 Using:			
(In Thousands)	Level 1	Level 2	Level 3	Total
Non-performing loans	$ —	$ 7,350	$ 2,959	$ 10,309
MSA	—	—	627	627
Real estate owned, net	—	2,706	—	2,706
Total	$ —	$ 10,056	$ 3,586	$ 13,642

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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 September 30, 2016:

(Dollars In Thousands)	Fair Value As of September 30, 2016	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	$ 560	Market comparable pricing	Comparability adjustment	0% – 0.9% (0.7%)	Increase
Loans held for investment, at fair value	$ 5,529	Relative value analysis	Broker quotes	100.0% – 107.1% (103.8%) of par	Increase
			Credit risk factors	1.2% - 100.0% (5.9%)	Decrease
Non-performing loans	$ 74	Discounted cash flow	Default rates	5.0%	Decrease
Non-performing loans	$ 2,927	Relative value analysis	Loss severity	20.0% - 45.0% (22.9%)	Decrease
MSA	$ 588	Discounted cash flow	Prepayment speed (CPR)	13.4% - 60.0% (19.7%)	Decrease
			Discount rate	9.0% - 10.5% (9.1%)	Decrease
Interest-only strips	$ 42	Discounted cash flow	Prepayment speed (CPR)	15.8% - 21.3% (20.5%)	Decrease
			Discount rate	9.0%	Decrease
Commitments to extend credit on loans to be held for sale	$ 2,598	Relative value analysis	TBA-MBS broker quotes	98.9% – 105.0% (102.2%) of par	Increase
			Fall-out ratio [3]	20.2% - 33.5% (32.6%)	Decrease
Mandatory loan sale commitments	$ 30	Relative value analysis	TBA MBS broker quotes	104.8% - 106.2% (104.9%) of par	Decrease
			Roll-forward costs [4]	0.006%	Decrease
Option contracts	$ 22	Relative value analysis	Broker quotes	131.1% of par	Increase
Liabilities:					

Commitments to extend credit on loans to be held for sale	$ 24	Relative value analysis	TBA-MBS broker quotes	100.4% – 103.0% (100.7%) of par	Increase
			Fall-out ratio [3]	20.2% - 33.5% (32.6%)	Decrease
Mandatory loan sale commitments	$ 54	Relative value analysis	TBA MBS broker quotes	100.7% - 107.1% (104.2%) of par	Decrease
			Roll-forward costs [4]	0.006%	Decrease

(1) The range is based on the estimated fair values and management estimates.

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

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

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

The significant unobservable inputs used in the fair value measurement of the Corporation’s assets and liabilities include the following: prepayment speeds, discount rates, MBS – TBA quotes, fallout ratios, broker quotes and roll-forward costs, among

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others. Significant increases or decreases in any of these inputs in isolation could result in significantly lower or higher fair value measurement. The various unobservable inputs used to determine valuations may have similar or diverging impacts on valuation.

The carrying amount and fair value of the Corporation's other financial instruments as of September 30, 2016 and June 30, 2016 was as follows:

	September 30, 2016				
(In Thousands)	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Investment securities - held to maturity	$36,290	$36,749	—	$36,749	$—
Loans held for investment, not recorded at fair value	$848,429	$854,095	—	—	$854,095
FHLB – San Francisco stock	$8,094	$8,094	—	$8,094	—
Financial liabilities:					
Deposits	$943,502	$910,815	—	—	$910,815
Borrowings	$146,281	$149,528	—	—	$149,528

	June 30, 2016				
(In Thousands)	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Investment securities - held to maturity	$39,979	$40,438	—	$40,438	—
Loans held for investment, not recorded at fair value	$834,863	$844,124	—	—	$844,124
FHLB – San Francisco stock	$8,094	$8,094	—	$8,094	—
Financial liabilities:					
Deposits	$926,384	$896,033	—	—	$896,033
Borrowings	$91,299	$95,898	—	—	$95,898

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.

Investment securities - held to maturity: The investment securities - held to maturity consist of time deposits at CRA qualified minority financial institutions and U.S. government sponsored enterprise MBS. Due to the short-term nature of the time deposits, the principal balance approximated fair value (Level 2). For the 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).

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 September 30, 2016, 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: Reclassification adjustment of Accumulated Other Comprehensive Income ("AOCI")

The following tables provide the changes in AOCI by component for the quarters ended September 30, 2016 and 2015.

	For the Quarter Ended September 30, 2016		
(In Thousands)	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	(30)	(3)	(33)
Amount reclassified from accumulated other comprehensive income	—	—	—
Net other comprehensive loss	(30)	(3)	(33)
Ending balance at September 30, 2016	$256	$ 24	$280

	For the Quarter Ended September 30, 2015		
(In Thousands)	Unrealized gains and losses on Investment securities available for sale	Interest-only strips	Total
Beginning balance at June 30, 2015	$294	$ 37	$331
Other comprehensive loss before reclassifications	(29)	(2)	(31)

Amount reclassified from accumulated other comprehensive income	—	—	—
Net other comprehensive loss	(29)	(2)	(31)
Ending balance at September 30, 2015	$265	$ 35	$300

There were no significant items reclassified out of AOCI for the quarters ended September 30, 2016 and 2015.

Note 10: Offsetting Derivative and Other Financial Instruments

The Corporation’s derivative transactions are generally governed by International Swaps and Derivatives Association Master Agreements and similar arrangements, which include provisions governing the setoff of assets and liabilities between the parties. When the Corporation has more than one outstanding derivative transaction with a single counterparty, the setoff provisions contained within these agreements generally allow the non-defaulting party the right to reduce its liability to the defaulting party by amounts eligible for setoff, including the collateral received as well as eligible offsetting transactions with that counterparty, irrespective of the currency, place of payment, or booking office. The Corporation’s policy is to present its derivative assets and derivative liabilities on the Condensed Consolidated Statements of Financial Condition on a net basis for each type of derivative. 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 September 30, 2016:

(In Thousands)	Gross Amount of Recognized Assets	Gross Amount Offset in the Condensed Consolidated Statements of Financial Condition	Net Amount of Assets in the Condensed Consolidated Statements of Financial Condition	Gross Amount Not Offset in the Condensed Consolidated Statements of Financial Condition: Financial Instruments	Cash Collateral Received	Net Amount
Assets						
Derivatives	$ 51	$ 21	$ 30	$ —	$ —	$ 30
Total	$ 51	$ 21	$ 30	$ —	$ —	$ 30

(In Thousands)	Gross Amount of Recognized Liabilities	Gross Amount Offset in the Condensed Consolidated Statements of Financial Condition	Net Amount of Liabilities in the Condensed Consolidated Statements of Financial Condition	Gross Amount Not Offset in the Condensed Consolidated Statements of Financial Condition: Financial Instruments	Cash Collateral Received	Net Amount
Liabilities						
Derivatives	$ 1,428	$ 21	$ 1,407	$ —	$ —	$ 1,407
Total	$ 1,428	$ 21	$ 1,407	$ —	$ —	$ 1,407

As of June 30, 2016:

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

(In Thousands)	Gross Amount of Recognized Liabilities	Gross Amount Offset in the Condensed Consolidated Statements of Financial Condition	Net Amount of Liabilities in the Condensed Consolidated Statements of Financial Condition	Gross Amount Not Offset in the Condensed Consolidated Statements of Financial Condition: Financial Instruments	Gross Amount Not Offset in the Condensed Consolidated Statements of Financial Condition: Cash Collateral Received	Net Amount
Liabilities						
Derivatives	$ 3,196	$ —	$ 3,196	$ —	$ —	$ 3,196
Total	$ 3,196	$ —	$ 3,196	$ —	$ —	$ 3,196

Note 11: Subsequent Events

On October 25, 2016, the Corporation announced that the Corporation's Board of Directors declared a quarterly cash dividend of $0.13 per share. Shareholders of the Corporation's common stock at the close of business on November 15, 2016 will be entitled to receive the cash dividend. The cash dividend will be payable on December 6, 2016.

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 September 30, 2016, the Corporation had total assets of $1.24 billion, total deposits of $943.5 million and total stockholders' equity of $133.2 million. The Corporation has not engaged in any significant activity other than holding the stock of the Bank. Accordingly, the information set forth in this 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 14 retail loan production offices located throughout California. The Corporation's revenues are derived principally from interest on its loans and investment securities and fees generated through its community banking and mortgage banking activities. There are various risks inherent in the Corporation's business including, among others, the general business environment, interest rates, the California real estate market, the demand for loans, the prepayment of loans, the repurchase of loans previously sold to investors, the secondary market conditions to sell loans, competitive conditions, legislative and regulatory changes, fraud and other risks.

The Corporation began to distribute quarterly cash dividends in the quarter ended December 31, 2002. On July 25, 2016, the Corporation declared a quarterly cash dividend of $0.13 per share for the Corporation's shareholders of record at the close of business on August 15, 2016, which was paid on September 5, 2016. 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 11 of the Notes to Unaudited Interim Condensed Consolidated Financial Statements.

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

Safe-Harbor Statement

Certain matters in this Form 10-Q constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. This Form 10-Q contains statements that the Corporation believes are "forward-looking statements." These statements relate to the Corporation's financial condition, results of operations, plans, objectives, future performance or business. When considering these forward-looking statements, you should keep in mind these risks and uncertainties, as well as any cautionary statements the Corporation may make. Moreover, you should treat these statements as speaking only as of the date they are made and based only on information then actually known to the Corporation. There are a number of important factors that could cause future results to differ materially from historical performance and these forward-looking statements. Factors which could cause actual results to differ materially include, but are not limited to, the credit risks of lending activities, including changes in the level and trend of loan delinquencies and charge-offs and changes in our allowance for loan losses and provision for loan losses that may be impacted by deterioration in the residential and commercial real estate markets and may lead to increased losses and non-performing assets and may result in our allowance for loan losses not being adequate to cover actual losses and require us to materially increase our reserve; changes in general economic conditions, either nationally or in our market areas; changes in the levels of general interest rates, and the relative differences between short and long term interest rates, deposit interest rates, our net interest margin and funding sources; fluctuations in the demand for loans, the number of unsold homes, land and other properties and fluctuations in real estate values in our market areas; secondary market conditions for loans and our ability to sell loans in the secondary market; results of examinations of the Corporation by the FRB or of the Bank by the OCC or other regulatory authorities, including the possibility that any such regulatory authority may, among other things, require us to enter into a formal enforcement action or to increase our allowance for loan losses, write-down assets, change our regulatory capital position or affect our ability to borrow funds or maintain or increase deposits, or impose additional requirements and restrictions on us, any of which could adversely affect our liquidity and earnings; legislative or regulatory changes that adversely affect our business including changes in regulatory policies and principles, including the interpretation of regulatory capital or other rules, including as a result of Basel III; the impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd Frank Act") and the implementing regulations; the availability of resources to address changes in laws, rules, or regulations or to respond to regulatory actions; adverse changes in the securities markets; our ability to attract and retain deposits; increases in premiums for deposit insurance; our ability to control operating costs and expenses; the use of estimates in determining fair value of certain of our assets, which estimates may prove to be incorrect and result in significant declines in valuation; difficulties in reducing risk associated with the loans on our balance sheet; staffing fluctuations in response to product demand or the implementation of corporate strategies that affect our workforce and potential associated charges; computer systems on which we depend could fail or experience a security breach; our ability to implement our branch expansion strategy; our ability to successfully integrate any assets, liabilities, customers, systems, and management personnel we have acquired or may in the future acquire into our operations and our ability to realize related revenue synergies and cost savings within expected time frames and any goodwill charges related thereto; our ability to manage loan delinquency rates; our ability to retain key members of our senior management team; costs and effects of litigation, including settlements and judgments; increased competitive pressures among financial services companies; changes in consumer spending, borrowing and savings habits; the availability of resources to address changes in laws, rules, or regulations or to respond to regulatory actions; our ability to pay dividends on our common stock; adverse changes in the securities markets; the inability of key third-party providers to perform their obligations to us; changes in accounting policies and practices, as may be adopted by the financial institution regulatory agencies or the Financial Accounting Standards Board, including additional guidance and interpretation on accounting issues and details of the implementation of new accounting methods; war or terrorist activities; and other economic, competitive, governmental, regulatory, and technological factors affecting our operations, pricing, products and services and other risks detailed in this report and in the Corporation’s other reports filed with or furnished to the SEC, including its Annual Report on Form 10-K for the fiscal year ended June 30, 2016. 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 2016 Annual Report on Form 10-K ended June 30, 2016 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 to the critical accounting policies as described in the Corporation's 2016 Annual Report on Form 10-K for the period ended June 30, 2016.

Executive Summary and Operating Strategy

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

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

During the next three years, subject to market conditions, the Corporation intends to improve its community banking business by moderately growing total assets; by decreasing the concentration of single-family mortgage loans within loans held for investment; and by increasing the concentration of higher yielding preferred loans (i.e., multi-family, commercial real estate, construction and commercial business loans). In addition, the Corporation intends to decrease the percentage of time deposits in its deposit base and to increase the percentage of lower cost checking and savings accounts. This strategy is intended to improve core revenue through a higher net interest margin and ultimately, coupled with the growth of the Corporation, an increase in net interest income. While the Corporation’s long-term strategy is for moderate growth, management recognizes that growth may not occur as a result of weaknesses in general 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, further tightening of underwriting standards, variations in its operating expenses or a combination of these and other changes.

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

There are a number of risks associated with the business activities of the Corporation, many of which are beyond the Corporation’s control, including: changes in accounting principles, laws, regulation, interest rates and the economy, among others. The Corporation attempts to mitigate many of these risks through prudent banking practices, such as interest rate risk management, credit risk management, operational risk management, and liquidity risk management. The 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 September 30, 2016 and the effect these obligations are expected to have on the Corporation's liquidity and cash flows in future periods:

	Payments Due by Period				
(In Thousands)	Less than 1 year	1 to less than 3 years	3 to 5 years	Over 5 years	Total
Operating obligations	$2,181	$2,918	$721	$1,180	$7,000
Pension benefits	235	470	470	6,774	7,949
Time deposits	149,641	103,036	46,127	9,950	308,754
FHLB – San Francisco advances	37,854	25,170	35,451	63,282	161,757
FHLB – San Francisco letter of credit	4,000	—	—	—	4,000
FHLB – San Francisco MPF credit enhancement[(1)]	31	62	62	2,303	2,458
Total	$193,942	$131,656	$82,831	$83,489	$491,918

(1) Represents the potential future obligation for loans previously sold by the Bank to the FHLB – San Francisco under its Mortgage Partnership Finance ("MPF") program. As of September 30, 2016, the Bank serviced $19.0 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 September 30, 2016 and June 30, 2016

Total assets increased $71.1 million, or six percent, to $1.24 billion at September 30, 2016 from $1.17 billion at June 30, 2016. The increase was primarily attributable to an increase in loans held for sale and loans held for investment, partly offset by a decrease in cash and cash equivalents.

Total cash and cash equivalents, primarily excess cash deposited with the Federal Reserve Bank of San Francisco, decreased $11.8 million, or 23 percent, to $39.4 million at September 30, 2016 from $51.2 million at June 30, 2016. The decrease in the total cash and cash equivalents was primarily attributable to the deployment of excess cash to fund loans held for sale and loans held for investment.

Total investment securities decreased $4.4 million, or nine percent, to $47.1 million at September 30, 2016 from $51.5 million at June 30, 2016. The decrease was primarily due to scheduled and accelerated principal payments on mortgage-backed securities. For further analysis on investment securities, see Note 5 of the Notes to Unaudited Interim Condensed Consolidated Financial Statements.

Loans held for investment increased $14.0 million, or two percent, to $854.0 million at September 30, 2016 from $840.0 million at June 30, 2016. During the first three months of fiscal 2017, the Corporation originated $35.3 million of loans held for investment, consisting primarily of single-family and multi-family loans. During the first three months of fiscal 2017, the Corporation also purchased $23.0 million of loans to be held for investment, primarily multi-family loans. Total loan principal payments during the first three months of fiscal 2017 were $50.5 million, up 10 percent from $45.8 million during the comparable period in fiscal 2016, due primarily to higher loan refinance activity. In addition, real estate owned acquired in the settlement of loans in the first three months of fiscal 2017 and 2016 was $1.3 million and $1.0 million, respectively. The balance of preferred loans increased $25.3 million, or five percent, to $544.5 million at September 30, 2016, compared to $519.2 million at June 30, 2016, net of undisbursed loan funds of $10.4 million and $11.3 million, respectively, and represented 63 percent and 61 percent of loans held for investment, respectively. The balance of single-family loans held for investment decreased $11.7 million, or four percent, to $312.8 million at September 30, 2016, compared to $324.5 million at June 30, 2016, and represented approximately 36 percent and 38 percent of loans held for investment, respectively. The change in the mix between the preferred loans and single-family loans was consistent with the Corporation’s strategy to increase the average loan yield.

The tables below describe the geographic dispersion of gross real estate secured loans held for investment at September 30, 2016 and June 30, 2016, as a percentage of the total dollar amount outstanding:

As of September 30, 2016

(Dollars In Thousands)	Inland Empire		Southern California [1]		Other California		Other States		Total	
Loan Category	Balance	%	Balance	%	Balance	%	Balance	%	Balance	%
Single-family	$98,223	31%	$160,350	51%	$52,740	17%	$1,482	1%	$312,795	100%
Multi-family	74,976	17%	252,897	58%	107,727	24%	2,823	1%	438,423	100%
Commercial real estate	34,056	34%	40,930	41%	25,150	25%	—	—%	100,136	100%
Construction	1,458	9%	10,036	64%	4,317	27%	—	—%	15,811	100%
Other	260	78%	71	22%	—	—%	—	—%	331	100%
Total	$208,973	24%	$464,284	53%	$189,934	22%	$4,305	1%	$867,496	100%

[1] Other than the Inland Empire.

As of June 30, 2016

(Dollars In Thousands)	Inland Empire		Southern California [1]		Other California		Other States		Total	
Loan Category	Balance	%	Balance	%	Balance	%	Balance	%	Balance	%
Single-family	$100,148	31%	$167,574	51%	$55,277	17%	$1,498	1%	$324,497	100%
Multi-family	77,075	18%	245,301	59%	90,409	22%	2,842	1%	415,627	100%
Commercial real estate	34,162	34%	40,066	40%	25,300	26%	—	—%	99,528	100%
Construction	1,457	10%	10,514	72%	2,682	18%	—	—%	14,653	100%
Other	260	78%	72	22%	—	—%	—	—%	332	100%
Total	$213,102	25%	$463,527	54%	$173,668	20%	$4,340	1%	$854,637	100%

[1] Other than the Inland Empire.

Loans held for sale increased $74.9 million, or 40 percent, to $264.4 million at September 30, 2016 from $189.5 million at June 30, 2016. The increase was primarily due to the higher volume of loans originated and purchased for sale, $647.3 million during the quarter ended September 30, 2016 as compared to $557.2 million during the quarter ended June 30, 2016 and the timing difference between loan fundings and loan sale settlements.

Total deposits increased by $17.1 million, or two percent, to $943.5 million at September 30, 2016 from $926.4 million at June 30, 2016. Transaction accounts increased $24.1 million, or four percent, to $641.6 million at September 30, 2016 from $617.5 million at June 30, 2016, while time deposits decreased $7.0 million, or two percent, to $301.9 million at September 30, 2016 from $308.9 million at June 30, 2016. The change in deposit mix was consistent with the Corporation's marketing strategy to promote transaction accounts and the strategic decision to increase the percentage of lower cost transaction accounts in its deposit base and decrease the percentage of time deposits by competing less aggressively for time deposits.

Total borrowings increased $55.0 million to $146.3 million, or 60 percent, at September 30, 2016 as compared to $91.3 million at June 30, 2016, primarily due to borrowing short-term FHLB advances to fund increased mortgage banking activity.

Total stockholders' equity decreased $228,000 to $133.2 million at September 30, 2016 from $133.5 million at June 30, 2016, primarily as a result of stock repurchases totaling $1.7 million (see Part II, Item 2, "Unregistered Sales of Equity Securities and Use of Proceeds") and $1.0 million of quarterly cash dividends paid, partly offset by net income of $1.6 million during the first three months of fiscal 2017.

Comparison of Operating Results for the Quarters Ended September 30, 2016 and 2015

The Corporation's net income for the first quarter of fiscal 2017 was $1.6 million, a decrease of $849,000, or 35 percent, as compared to the same period of fiscal 2016. The decrease in net income for the first quarter of fiscal 2017 was primarily attributable to a decrease in non-interest income and an increase in non-interest expense, partly offset by an increase in net interest income, compared to the same period one year ago.

The Corporation's efficiency ratio, defined as non-interest expense divided by the sum of net interest income and non-interest income, deteriorated to 85 percent for the first quarter of fiscal 2017 from 78 percent for the same period of fiscal 2016. Return on average assets declined 30 basis points to 0.53 percent in the first quarter of fiscal 2017 from 0.83 percent in the same period last year; and return on average equity decreased to 4.79 percent in the first quarter of fiscal 2017 from 6.96 percent in the same period last year.

Diluted earnings per share for the first quarter of fiscal 2017 were $0.20, a 29 percent decrease from $0.28 in the same period last year. The lower percentage decrease in the diluted earnings per share in comparison to the percentage decrease in the net income was primarily attributable to stock repurchases during the last 12 months.

Net Interest Income:

For the Quarters Ended September 30, 2016 and 2015. Net interest income increased $1.0 million, or 12 percent, to $9.1 million for the first quarter of fiscal 2017 from $8.1 million for the comparable period in fiscal 2016, due to a higher net interest margin and a higher average earning asset balance. The net interest margin was 3.08 percent in the first quarter of fiscal 2017, a 26 basis points increase from 2.82 percent in the same period of fiscal 2016, 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 3.67 percent from 3.45 percent in the same quarter last year, while the weighted-average cost of interest-bearing liabilities decreased by six basis points to 0.64 percent for the first quarter of fiscal 2017 as compared to 0.70 percent in the same quarter last year. The increase in the average yield of interest-earning assets was primarily due to the utilization of interest-earning deposits earning a nominal yield to fund higher balances of loans receivable and investment securities, which earned a significantly higher yield. The average balance of interest-earning assets increased $35.9 million, or three percent, to $1.18 billion in the first quarter of fiscal 2017 from $1.14 billion in the comparable period of fiscal 2016, primarily reflecting increases in average loans receivable and investment securities, partly offset by a decrease in average interest-earning deposits. The decrease in average interest-earning deposits was primarily due to the deployment of excess cash to fund loans held for sale and loans held for investment.

Interest Income:

For the Quarters Ended September 30, 2016 and 2015. Total interest income increased by $947,000, or 10 percent, to $10.8 million for the first quarter of fiscal 2017 from $9.9 million in the same quarter of fiscal 2016. This increase was primarily due to the higher average balance of loans receivable.

Interest income on loans receivable increased $990,000, or 10 percent, to $10.5 million in the first quarter of fiscal 2017 from $9.5 million for the same quarter of fiscal 2016. This increase was attributable to a higher average loan balance, partly offset by a lower average loan yield. The average balance of loans receivable, including loans held for sale, increased by $115.4 million, or 12 percent, to $1.08 billion for the first quarter of fiscal 2017 from $962.6 million in the same quarter of fiscal 2016. The average balance of loans held for sale increased $80.3 million, or 53 percent, to $231.1 million during the first quarter of fiscal 2017 from $150.8 million in the same quarter of fiscal 2016. The average yield on the loans held for sale decreased by 27 basis points to 3.59 percent in the first quarter of fiscal 2017 from 3.86 percent in the same quarter of fiscal 2016. The average loan yield, including loans held for sale, during the first quarter of fiscal 2017 decreased five basis points to 3.89 percent from 3.94 percent during the same quarter last year, primarily due to the decrease in the average yield of loans held for sale.

Interest income from investment securities increased $17,000, or 25 percent, to $84,000 in the first quarter of fiscal 2017 from $67,000 for the same quarter of fiscal 2016. This increase was attributable to a higher average balance, partly offset by a lower average yield. The average balance of investment securities increased $35.0 million, or 240 percent, to $49.6 million in the first quarter of fiscal 2017 from $14.6 million in the same quarter of fiscal 2016. The increase in average balance of investment securities was primarily the result of purchases of mortgage-backed securities during fiscal 2016, partly offset by scheduled and accelerated principal payments on mortgage-backed securities. The average investment securities yield decreased 115 basis points to 0.68% in the first quarter of fiscal 2017 from 1.83% in the same quarter of fiscal 2016. The decrease in the average investment securities yield was primarily attributable to the purchases of investment securities which had lower average yields than the existing portfolio and accelerated amortization of purchase premiums resulting from accelerated principal payments.

The FHLB – San Francisco cash dividend received in the first quarter of fiscal 2017 was $185,000, down eight percent from $200,000 in the same quarter of fiscal 2016. The average yield decreased 74 basis points to 9.14% in the first quarter of fiscal 2017 from 9.88% in the comparable quarter last year.

Interest income from interest-earning deposits, primarily cash deposited at the Federal Reserve Bank of San Francisco, was $55,000 in the first quarter of fiscal 2017, down 45 percent from $100,000 in the same quarter of fiscal 2016. The decrease was due to a lower average balance, partly offset by a higher average yield in the first quarter of fiscal 2017, as compared to the same quarter last year. The average balance of the interest-earning deposits in the first quarter of fiscal 2017 was $43.3 million, a decrease of $114.5 million or 73 percent, from $157.8 million in the same quarter of fiscal 2016. The decrease in interest-earning deposits was primarily due to the deployment of excess cash to fund the increase in loans held for sale and loans held for investment, consistent with the Corporation's interest rate risk management strategy. The average yield increased 25 basis points to 0.50% in the first quarter of fiscal 2017 from 0.25% in the comparable quarter last year, due primarily to the increase in the federal funds rate from 0.25% to 0.50% effective December 17, 2015.

Interest Expense:

For the Quarters Ended September 30, 2016 and 2015. Total interest expense for the first quarter of fiscal 2017 was $1.7 million as compared to $1.8 million for the same period last year, a decrease of $75,000, or four percent. This decrease was attributable to a lower average cost of interest-bearing liabilities, partly offset by a higher average balance of interest-bearing liabilities.

Interest expense on deposits for the first quarter of fiscal 2017 was $1.0 million as compared to $1.1 million for the same period last year, a decrease of $129,000, or 11 percent. The decrease in interest expense on deposits was primarily attributable to a lower average cost of deposits, partly offset by a slightly higher average balance. The average cost of deposits decreased six basis points to 0.43 percent during the first quarter of fiscal 2017 from 0.49 percent during the same quarter last year. The decrease in the average cost of deposits was attributable primarily to a lower average cost of transaction accounts and a lower percentage of time deposits to the total deposit balance. The average balance of deposits increased $6.3 million, or one percent, to $932.8 million during the quarter ended September 30, 2016 from $926.5 million during the same period last year. The increase in the average balance was primarily attributable to an increase in transaction accounts, partly offset by a decrease in time deposits. Strategically, the Corporation has been promoting transaction accounts and competing less aggressively for time deposits. The Corporation believes the increase in transaction accounts was also attributable to the impact of depositors seeking an alternative to lower yielding time deposits in light of the current low interest rate environment. The average balance of transaction accounts to total deposits in the first quarter of fiscal 2017 was 67 percent, compared to 63 percent in the same period of fiscal 2016.

Interest expense on borrowings, consisting of FHLB – San Francisco advances, for the first quarter of fiscal 2017 increased $54,000, or eight percent, to $702,000 from $648,000 for the same period last year. The increase in interest expense on borrowings was the result of a higher average balance, partly offset by a lower average cost. The average balance of borrowings increased $35.5 million, or 39 percent, to $126.9 million during the quarter ended September 30, 2016 from $91.4 million during the same period last year. The average cost of borrowings decreased 62 basis points to 2.19 percent for the quarter ended September 30, 2016 from 2.81 percent in the same quarter last year. The decrease in average cost of advances was primarily due to the increased utilization of overnight borrowings and short-term advances with a much lower average cost than long-term FHLB advances.

The following tables present the average balance sheets for the quarters ended September 30, 2016 and 2015, respectively:

Average Balance Sheets

(Dollars In Thousands)	Quarter Ended September 30, 2016			Quarter Ended September 30, 2015		
	Average Balance	Interest	Yield/ Cost	Average Balance	Interest	Yield/ Cost
Interest-earning assets:						
Loans receivable, net [1]	$1,078,082	$10,480	3.89 %	$962,635	$9,490	3.94 %
Investment securities	49,597	84	0.68 %	14,648	67	1.83 %
FHLB – San Francisco stock	8,094	185	9.14 %	8,094	200	9.88 %
Interest-earning deposits	43,309	55	0.50 %	157,784	100	0.25 %
Total interest-earning assets	1,179,082	10,804	3.67 %	1,143,161	9,857	3.45 %
Non interest-earning assets	31,568			31,973		
Total assets	$1,210,650			$1,175,134		
Interest-bearing liabilities:						
Checking and money market accounts [2]	$350,692	98	0.11 %	$328,574	117	0.14 %
Savings accounts	276,787	144	0.21 %	256,911	168	0.26 %
Time deposits	305,355	772	1.00 %	340,997	858	1.00 %
Total deposits	932,834	1,014	0.43 %	926,482	1,143	0.49 %
Borrowings	126,940	702	2.19 %	91,357	648	2.81 %
Total interest-bearing liabilities	1,059,774	1,716	0.64 %	1,017,839	1,791	0.70 %
Non interest-bearing liabilities	17,701			16,799		
Total liabilities	1,077,475			1,034,638		
Stockholders’ equity	133,175			140,496		
Total liabilities and stockholders’ equity	$1,210,650			$1,175,134		
Net interest income		$9,088			$8,066	
Interest rate spread [3]			3.03 %			2.75 %
Net interest margin [4]			3.08 %			2.82 %
Ratio of average interest-earning assets to average interest-bearing liabilities			111.26 %			112.31 %
Return on average assets			0.53 %			0.83 %
Return on average equity			4.79 %			6.96 %

(1) Includes loans held for sale and non-performing loans, as well as net deferred loan cost amortization of $168 and $61 for the quarters ended September 30, 2016 and 2015, respectively.

(2) Includes the average balance of non interest-bearing checking accounts of $70.6 million and $65.7 million during the quarters ended September 30, 2016 and 2015, respectively.

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

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

The following tables provide the rate/volume variances for the quarters ended September 30, 2016 and 2015, respectively:

Rate/Volume Variance

	Quarter Ended September 30, 2016 Compared To Quarter Ended September 30, 2015 Increase (Decrease) Due to			
(In Thousands)	Rate	Volume	Rate/ Volume	Net
Interest-earning assets:				
Loans receivable [1]	$(120)	$1,124	$(14)	$990
Investment securities	(43)	160	(100)	17
FHLB – San Francisco stock	(15)	—	—	(15)
Interest-bearing deposits	98	(72)	(71)	(45)
Total net change in income on interest-earning assets	(80)	1,212	(185)	947
Interest-bearing liabilities:				
Checking and money market accounts	(25)	8	(2)	(19)
Savings accounts	(34)	13	(3)	(24)
Time deposits	—	(86)	—	(86)
Borrowings	(142)	252	(56)	54
Total net change in expense on interest-bearing liabilities	(201)	187	(61)	(75)
Net increase (decrease) in net interest income	$121	$1,025	$(124)	$1,022

(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 September 30, 2016 and 2015. During the first quarter of fiscal 2017, the Corporation recorded a recovery from the allowance for loan losses of $150,000, a 295 percent increase from the $38,000 recovery from the allowance for loan losses in the same period of fiscal 2016. The increase in the recovery was primarily attributable to further improvement in credit quality, partly offset by an increase of the outstanding balance of loans held for investment. Non-performing loans decreased $296,000, or three percent, to $10.0 million at September 30, 2016 as compared to $10.3 million at June 30, 2016 and were $14.8 million at September 30, 2015. Net recoveries in the first quarter of fiscal 2017 were $205,000 or 0.08 percent (annualized) of average loans receivable, compared to net recoveries of $348,000 or 0.14 percent (annualized) of average loans receivable in the same quarter of fiscal 2016. Total classified loans, consisting of special mention and substandard loans, were $18.9 million at September 30, 2016 as compared to $19.2 million at June 30, 2016 and to $25.6 million at September 30, 2015.

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 September 30, 2016, the allowance for loan losses was $8.7 million, comprised of collectively evaluated allowances of $8.7 million and individually evaluated allowances of $20,000; in comparison to the allowance for loan losses of $8.7 million at June 30, 2016, comprised of collectively evaluated allowances of $8.7 million and individually evaluated allowances of $20,000. The allowance for loan losses as a percentage of gross loans held for investment was 1.01 percent at September 30, 2016 compared to 1.02 percent at June 30, 2016. 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 September 30, 2016 and 2015. Total non-interest income decreased $1.2 million, or 11 percent, to $9.3 million for the quarter ended September 30, 2016 from $10.5 million for the same period last year. The decrease was primarily attributable to a decrease in the net gain on sale of loans and losses on the sale and operations of real estate owned during the current quarter as compared to the comparable period last year.

The net gain on sale of loans decreased $928,000, or 10 percent, to $8.0 million for the first quarter of fiscal 2017 from $8.9 million in the same quarter of fiscal 2016 reflecting the impact of a lower average loan sale margin, partly offset by a higher loan sale volume. The average loan sale margin for PBM decreased to 1.25 percent in the first quarter of fiscal 2017, down 40 basis points from 1.65 percent in the same period of fiscal 2016. The decrease in the average loan sale margin for the quarter ended September 30, 2016 was primarily attributable to volatility in loan servicing premiums in the cash markets. Additionally, product composition was less favorable with a higher percentage of loan sales comprised of lower margin products. Refinance transactions rose as a percentage of total volume, particularly from the wholesale channel, and volume also consisted of higher percentage of conventional high balance product. Total loan sale volume, which includes the net change in commitments to extend credit on loans to be held for sale, increased $100.7 million or 19 percent to $640.3 million in the quarter ended September 30, 2016 from $539.6 million in the comparable quarter last year. The increase in loan sale volume was attributable to the increase in the refinance market as compared to the same period last year. The total refinance loans as percentage of total loans originated by PBM during the first quarter of fiscal 2017 was 58 percent, up from 43 percent in the same quarter of fiscal 2016. The gain on sale of loans includes a favorable fair-value adjustment on loans held for sale and derivative financial instruments (commitments to extend credit, commitments to sell loans, commitments to sell mortgage-backed securities, and option contracts) pursuant to ASC 815 and ASC 825 that amounted to a net gain of $2.1 million in the first quarter of fiscal 2017 as compared to an unfavorable fair-value adjustment net loss of $345,000 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 September 30, 2016, the fair value of derivative financial instruments pursuant to ASC 815 and ASC 825 was $10.8 million, compared to $8.7 million at June 30, 2016 and $7.6 million at September 30, 2015.

Non-Interest Expense:

For the Quarters Ended September 30, 2016 and 2015. Total non-interest expense in the quarter ended September 30, 2016 was $15.6 million, an increase of $1.2 million, or eight percent, as compared to $14.4 million in the quarter ended September 30, 2015. The increase in non-interest expense was primarily due to increases in salaries and employee benefits, premises and occupancy expenses and other operating expenses primarily related to mortgage banking operations.

Total salaries and employee benefits expense increased $522,000, or five percent, to $11.3 million in the first quarter of fiscal 2017 from $10.8 million in the same period of fiscal 2016. The increase was primarily attributable to higher incentive compensation costs related to higher loan originations. Total loan originations and purchases (including loans originated and purchased for investment and loans originated and purchased for sale) increased $130.1 million, or 23 percent, to $705.6 million in the first quarter of fiscal 2017 from $575.5 million in the comparable quarter in fiscal 2016.

Provision for Income Taxes:

The income tax provision reflects accruals for taxes at the applicable rates for federal income tax and California franchise tax based upon reported pre-tax income, adjusted for the effect of all permanent differences between income for tax and financial reporting purposes, such as non-deductible stock-based compensation, bank-owned life insurance policies and certain California tax-exempt loans, among others. 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 September 30, 2016 and 2015. The income tax provision was $1.3 million for the quarter ended September 30, 2016 as compared to $1.8 million for the same quarter last year. The effective income tax rate for the quarter ended September 30, 2016 was 44.2 percent as compared to 41.7 percent in the same quarter last year. The increase in the effective tax rate for the first quarter of fiscal 2017 was due primarily to lower tax benefits related to deferred compensation, as compared to the same quarter last year. The Corporation believes that the effective income tax rate applied in the first quarter of fiscal 2017 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 primarily located in California, decreased $296,000, or three percent, to $10.0 million at September 30, 2016 from $10.3 million at June 30, 2016. Non-performing loans as a percentage of loans held for investment improved to 1.17 percent at September 30, 2016 from 1.23 percent at June 30, 2016. The non-performing loans at September 30, 2016 were primarily comprised of 34 single-family loans ($9.2 million); two multi-family loans ($703,000); one commercial business loan ($74,000); and one consumer loan (fully reserved). This compares to the $10.3 million of non-performing loans at June 30, 2016 which were primarily comprised of 35 single-family loans ($9.5 million); two multi-family loans ($709,000); one commercial business loan ($76,000); and one consumer loan (fully reserved). 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 September 30, 2016, total restructured loans decreased $874,000, or 19 percent, to $3.7 million from $4.6 million at June 30, 2016. At September 30, 2016 and June 30, 2016, $3.7 million and $3.3 million, respectively, of these restructured loans were classified as non-performing. As of September 30, 2016, $1.2 million, or 31 percent, of the restructured loans have a current payment status, consistent with their modified payment terms; this compares to $1.9 million, or 41 percent, of restructured loans that had a current payment status, consistent with their modified payment terms as of June 30, 2016.

Real estate owned was $3.5 million at September 30, 2016, an increase of $790,000 or 29 percent from $2.7 million at June 30, 2016. Real estate owned at September 30, 2016 was comprised of six single-family properties, five of which are located in California and one is located in Arizona. The Corporation has not suspended foreclosure activity at any time through the most recent credit cycle because, to date, the Corporation has not been in a situation where its foreclosure documentation, process or legal standing has been challenged by a court. The Corporation maintains the original promissory note and deed of trust for loans held for investment. As a result, the Corporation does not rely on lost-note affidavits to fulfill foreclosure filing requirements.

Non-performing assets, which includes non-performing loans and real estate owned, decreased $494,000, or four percent, to $13.5 million or 1.09 percent of total assets at September 30, 2016 from $13.0 million or 1.11 percent of total assets at June 30, 2016. 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 three months of fiscal 2017, the Corporation repurchased one loan of $389,000 from an investor pursuant to the recourse/repurchase covenants contained in the loan sale agreement, which was subsequently paid off. This compares to the first three months of fiscal 2016 when the Corporation repurchased four loans, totaling $1.2 million, from investors pursuant to the recourse/repurchase covenants contained in the loan sale agreements, while additional repurchase requests were settled that did not result in the repurchase of the loan itself. The primary reasons for honoring the repurchase requests are borrower fraud, undisclosed liabilities on borrower applications, and documentation, verification and appraisal disputes. For the first three months of fiscal 2017, the Corporation did not record a recourse provision and did not settle any claims. This compares to the first three months of fiscal 2016 when the Corporation had a recourse provision of $3,000 and settled claims for $3,000. As of September 30, 2016, the total recourse reserve for loans sold that are subject to repurchase was $453,000, unchanged from June 30, 2016 and down from $768,000 at September 30, 2015.

Beginning in 2008, in connection with the down turn in the real estate market, the Corporation implemented tighter underwriting standards to reduce potential loan repurchase requests, including requiring higher credit scores, generally lower debt-to-income ratios, and verification of income and assets, among other criteria. Despite management's diligent estimate of the recourse reserve, the Corporation is still subject to risks and uncertainties associated with potentially higher loan repurchase claims from investors, 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 ended September 30, 2016 and 2015:

Recourse Liability (In Thousands)	For the Quarters Ended September 30, 2016	2015
Balance, beginning of the period	$453	$768
Provision for recourse liability	—	3
Net settlements in lieu of loan repurchases	—	(3)
Balance, end of the period	$453	$768

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 occurred and the specific location of the individual properties. The Corporation has not quantified the current LTVs of its loans held for investment nor the impact the decline in real estate values has had on the original LTVs of its loans held for investment.

The following table describes certain credit risk characteristics of the Corporation's single-family, first trust deed, mortgage loans held for investment as of September 30, 2016:

(Dollars In Thousands)	Outstanding Balance (1)	Weighted-Average FICO (2)	Weighted-Average LTV (3)	Weighted-Average Seasoning (4)
Interest only	$ 53,659	730	73%	9.29 years
Stated income (5)	$ 126,061	729	64%	10.73 years
FICO less than or equal to 660	$ 9,307	645	62%	9.68 years
Over 30-year amortization	$ 11,750	733	64%	10.91 years

(1) The outstanding balance presented on this table may overlap more than one category. Of the outstanding balance, $452,000 of "interest only," $6.5 million of "stated income," $578,000 of "FICO less than or equal to 660," and $223,000 of "over 30-year amortization" balances were non-performing.

(2)

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.

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

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

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

The following table summarizes the amortization schedule of the Corporation's interest only single-family, first trust deed, mortgage loans held for investment, including the percentage of those which are identified as non-performing or 30 – 89 days delinquent as of September 30, 2016:

(Dollars In Thousands)	Balance	Non-Performing (1)	30 - 89 Days Delinquent (1)
Fully amortize in the next 12 months	$35,549	1%	—%
Fully amortize between 1 year and 5 years	18,110	—%	3%
Fully amortize after 5 years	—	—%	—%
Total	$53,659	1%	1%

(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 September 30, 2016:

(Dollars In Thousands)	Balance (1)	Non-Performing (1)	30 - 89 Days Delinquent (1)
Interest rate reset in the next 12 months	$124,662	5%	—%
Interest rate reset between 1 year and 5 years	1,399	48%	—%
Interest rate reset after 5 years	—	—%	—%
Total	$126,061	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.

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 has started to accelerate and may create a payment shock for some of the Corporation's borrowers as the loans reprice 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 September 30, 2016:

(Dollars In Thousands)	Calendar Year of Origination 2008 & Prior	2009	2010	2011	2012	2013	2014	2015	YTD 2016	Total
Loan balance (in thousands)	$225,544	$859	$120	$1,005	$3,838	$3,232	$17,506	$20,131	$29,262	$301,497
Weighted-average LTV (1)	65%	50%	67%	63%	57%	49%	65%	70%	73%	66%
Weighted-average age (in years)	10.77	7.15	5.87	5.17	4.18	3.28	2.16	1.29	0.36	8.43
Weighted-average FICO (2)	730	750	700	711	740	748	746	748	747	734
Number of loans	699	3	1	4	19	23	34	30	50	863
Geographic breakdown (%)										
Inland Empire	31%	100%	100%	58%	11%	47%	36%	26%	28%	31%
Southern California (3)	55%	—%	—%	42%	41%	27%	36%	46%	49%	52%
Other California (4)	13%	—%	—%	—%	48%	26%	28%	28%	23%	16%
Other States	1%	—%	—%	—%	—%	—%	—%	—%	—%	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 September 30, 2016:

(Dollars In Thousands)	Calendar Year of Origination 2008 & Prior	2009	2010	2011	2012	2013	2014	2015	YTD 2016	Total
Loan balance (in thousands)	$33,670	$—	$—	$8,000	$24,396	$73,579	$87,154	$95,552	$116,072	$438,423
Weighted-average LTV (1)	44%	—%	—%	53%	54%	56%	55%	54%	50%	52%
Weighted-average DCR (2)	1.55x	—	—	1.54x	1.75x	1.70x	1.66x	1.62x	1.71x	1.66x
Weighted-average age (in years)	11.05	—	—	4.96	4.09	3.15	2.22	1.22	0.29	2.48
Weighted-average FICO (3)	694	—	—	761	722	758	765	758	759	752
Number of loans	68	—	—	11	28	102	105	134	126	574
Geographic breakdown (%)										
Inland Empire	25%	—%	—%	10%	16%	34%	12%	17%	9%	17%
Southern California (4)	50%	—%	—%	77%	50%	46%	55%	65%	63%	58%
Other California (5)	17%	—%	—%	13%	34%	20%	33%	18%	28%	24%
Other States	8%	—%	—%	—%	—%	—%	—%	—%	—%	1%
Total	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 September 30, 2016:

(Dollars In Thousands)	Balance	Non-Performing (1)	30 - 89 Days Delinquent	Percentage Not Fully Amortizing (1)
Interest rate reset or mature in the next 12 months	$67,240	1%	—%	17%
Interest rate reset or mature between 1 year and 5 years	360,358	—%	—%	5%
Interest rate reset or mature after 5 years	10,825	—%	—%	—%
Total	$438,423	—%	—%	7%

(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 September 30, 2016:

(Dollars In Thousands)	Calendar Year of Origination 2008 & Prior	2009	2010	2011	2012	2013	2014	2015	YTD 2016	Total [5][6]
Loan balance (in thousands)	$6,897	$—	$349	$738	$13,114	$17,085	$23,738	$21,618	$16,597	$100,136
Weighted-average LTV [1]	40%	—%	55%	59%	48%	47%	46%	43%	53%	47%
Weighted-average DCR [2]	1.60x	—	1.26x	1.47x	1.89x	1.77x	1.93x	1.78x	1.61x	1.78x
Weighted-average age (in years)	10.82	—	6.35	4.77	3.99	3.14	2.17	1.23	0.40	2.71
Weighted-average FICO [2]	707	—	704	770	752	758	756	751	760	753
Number of loans	13	—	2	1	11	21	29	27	20	124
Geographic breakdown (%):										
Inland Empire	48%	—%	50%	—%	74%	31%	35%	25%	10%	34%
Southern California [3]	28%	—%	50%	100%	26%	37%	47%	33%	61%	41%
Other California [4]	24%	—%	—%	—%	—%	32%	18%	42%	29%	25%
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: $38.1 million in Mixed Use; $13.7 million in Retail; $13.3 million in Office; $11.4 million in Mobile Home Park; $6.1 million in Warehouse; $5.1 million in Medical/Dental Office; $4.1 million in Mini-Storage; $3.3 million in Restaurant/Fast Food; $1.8 million in Light Industrial/Manufacturing; $1.6 million in Hotel and Motel and $1.6 million in Automotive – Non Gasoline.
(6) Consisting of $90.7 million or 90.6 percent in investment properties and $9.4 million or 9.4 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 September 30, 2016:

(Dollars In Thousands)	Balance	Non-Performing [1]	30 - 89 Days Delinquent	Percentage Not Fully Amortizing [1]
Interest rate reset or mature in the next 12 months	$13,213	—%	—%	81%
Interest rate reset or mature between 1 year and 5 years	86,923	—%	—%	82%
Interest rate reset or mature after 5 years	—	—%	—%	—%
Total	$100,136	—%	—%	82%

(1) As a percentage of each category.

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

(In Thousands)	At September 30, 2016		At June 30, 2016	
Loans on non-accrual status (excluding restructured loans):				
Mortgage loans:				
Single-family	$5,586		$6,292	
Multi-family	703		709	
Total	6,289		7,001	
Accruing loans past due 90 days or more	—		—	
Restructured loans on non-accrual status:				
Mortgage loans:				
Single-family	3,650		3,232	
Commercial business loans	74		76	
Total	3,724		3,308	
Total non-performing loans	10,013		10,309	
Real estate owned, net	3,496		2,706	
Total non-performing assets	$13,509		$13,015	
Non-performing loans as a percentage of loans held for investment, net of allowance for loan losses	1.17	%	1.23	%
Non-performing loans as a percentage of total assets	0.81	%	0.88	%
Non-performing assets as a percentage of total assets	1.09	%	1.11	%

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 September 30, 2016:

(In Thousands)	Calendar Year of Origination 2008 & Prior	2009	2010	2011	2012	2013	2014	2015	YTD 2016	Total
Mortgage loans:										
Single-family	$9,146	$ —	$ —	$ —	$ 90	$ —	$ —	$ —	$ —	$9,236
Multi-family	703	—	—	—	—	—	—	—	—	703
Commercial business loans	—	74	—	—	—	—	—	—	—	74
Total	$9,849	$ 74	$ —	$ —	$ 90	$ —	$ —	$ —	$ —	$10,013

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The following table describes the non-performing loans, net of allowance for loan losses and fair value adjustments, by the geographic location as of September 30, 2016:

(In Thousands)	Inland Empire	Southern California (1)	Other California (2)	Other States	Total
Mortgage loans:					
Single-family	$ 2,495	$ 5,093	$ 1,648	$ —	$ 9,236
Multi-family	—	326	—	377	703
Commercial business loans	—	74	—	—	74
Total	$ 2,495	$ 5,493	$ 1,648	$ 377	$ 10,013

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

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

	At September 30, 2016		At June 30, 2016	
(Dollars In Thousands)	Balance	Count	Balance	Count
Special mention loans:				
Mortgage loans:				
Single-family	$ 3,879	9	$ 4,896	14
Multi-family	5,013	6	3,974	4
Total special mention loans	8,892	15	8,870	18
Substandard loans:				
Mortgage loans:				
Single-family	9,236	36	9,524	37
Multi-family	703	2	709	2
Commercial business loans	74	1	76	1
Consumer loans	—	1	—	1
Total substandard loans	10,013	40	10,309	41
Total classified loans	18,905	55	19,179	59
Real estate owned:				
Single-family	3,496	6	2,706	4
Total real estate owned	3,496	6	2,706	4
Total classified assets	$ 22,401	61	$ 21,885	63

Loan Volume Activities

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

(In Thousands)	For the Quarters Ended September 30, 2016	2015
Loans originated and purchased for sale:		
Retail originations	$318,970	$275,098
Wholesale originations and purchases	328,372	265,191
Total loans originated and purchased for sale (1)	647,342	540,289
Loans sold:		
Servicing released	(559,013)	(589,590)
Servicing retained	(9,301)	(11,421)
Total loans sold (2)	(568,314)	(601,011)
Loans originated for investment:		
Mortgage loans:		
Single-family	11,830	5,430
Multi-family	19,041	22,703
Commercial real estate	2,827	6,444
Construction	1,635	382
Other	—	72
Total loans originated for investment (3)	35,333	35,031
Loans purchased for investment:		
Mortgage loans:		
Single-family	50	193
Multi-family	22,906	—
Total loans purchased for investment (3)	22,956	193
Mortgage loan principal payments	(50,542)	(45,847)
Real estate acquired in settlement of loans	(1,298)	(1,006)
Increase in other items, net (4)	3,380	2,732
Net increase (decrease) in loans held for investment and loans held for sale at fair value	$88,857	$(69,619)

(1) Includes PBM loans originated and purchased for sale during the quarters ended September 30, 2016 and 2015 totaling $647.3 million and $540.3 million, respectively.

(2) Includes PBM loans sold during the quarters ended September 30, 2016 and 2015 totaling $568.3 million and $601.0 million, respectively.

(3) Includes PBM loans originated and purchased for investment during the quarters ended September 30, 2016 and 2015 totaling $11.2 million and $5.6 million, respectively.

(4) Includes net changes in undisbursed loan funds, deferred loan fees or costs, allowance for loan losses, fair vale 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. The Corporation does not believe that completing this additional registration clouds ownership of the note since the steps previously described have also been taken. Also, the Corporation retains an imaged copy of the entire loan file and collateral instruments as an abundance of caution in the event questions arise that can only be answered by reviewing the loan file. Additionally, the Corporation does not originate or sponsor mortgage-backed securities.

Liquidity and Capital Resources

The Corporation's primary sources of funds are deposits, proceeds from the sale of loans originated and purchased for sale, proceeds from principal and interest payments on loans, proceeds from the maturity and sale of investment securities, FHLB – San Francisco advances, 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 three months of fiscal 2017 and 2016, the Corporation originated and purchased $705.6 million and $575.5 million of loans, respectively. The total loans sold in the first three months of fiscal 2017 and 2016 were $568.3 million and $601.0 million, respectively. At September 30, 2016, the Corporation had loan origination commitments totaling $179.9 million, undisbursed lines of credit totaling $1.5 million and undisbursed construction loan funds totaling $10.4 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 three months of fiscal 2017, the net increase in deposits was $17.1 million or two percent, primarily due to the increase in transaction accounts, partly offset by scheduled maturities in time deposits. The increase in transaction accounts and the decrease in time deposits were consistent with the Corporation's operating strategy. As of September 30, 2016, total deposits were $943.5 million. At September 30, 2016, time deposits scheduled to mature in one year or less were $147.5 million and total time deposits with a principal amount of $100,000 or higher were $152.2 million. Historically, the Corporation has been able to retain a significant percentage of its time deposits as they mature by adjusting deposit rates to the current interest rate environment.

The Corporation must maintain an adequate level of liquidity to ensure the availability of sufficient funds to support loan growth and deposit withdrawals, to satisfy financial commitments and to take advantage of investment opportunities. The Corporation generally maintains sufficient cash and cash equivalents to meet short-term liquidity needs. At September 30, 2016, total cash and cash equivalents were $39.4 million, or three percent of total assets. Depending on market conditions and the pricing of deposit products and FHLB – San Francisco advances, the Bank may rely on FHLB – San Francisco advances for part of its liquidity needs. As of September 30, 2016, total borrowings were $146.3 million and the financing availability at FHLB – San Francisco was limited to 35 percent of total assets; the remaining borrowing facility was $257.2 million and the remaining available collateral was $607.9 million. In addition, the Bank has secured a $42.5 million discount window facility at the Federal Reserve Bank of San Francisco, collateralized by investment securities with a fair market value of $45.2 million. As of September 30, 2016, the Bank also has a borrowing arrangement in the form of a federal funds facility with its correspondent bank for $17.0 million which matures on June 30, 2017 which the Bank intends to renew upon maturity. The Bank had no advances under its correspondent bank or discount window facility as of September 30, 2016.

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 September 30, 2016 decreased to 29.9 percent from 31.2 percent for the quarter ended June 30, 2016.

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 September 30, 2016, Provident Financial Holdings, Inc. and the Bank each exceeded all regulatory capital requirements. The Bank was categorized "well-capitalized" at September 30, 2016 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 September 30, 2016						
Tier 1 leverage capital (to adjusted average assets)	$132,889	10.98%	$48,411	4.00%	$60,514	5.00 %
Common Equity Tier 1 ("CET1") capital (to risk-weighted assets) [(1)]	$132,889	17.00%	$40,064	5.13%	$50,813	6.50 %
Tier 1 capital (to risk-weighted assets)	$132,889	17.00%	$51,790	6.63%	$62,539	8.00 %
Total capital (to risk-weighted assets)	$141,787	18.14%	$67,425	8.63%	$78,174	10.00%
As of June 30, 2016						
Tier 1 leverage capital (to adjusted assets)	$133,081	11.40%	$46,706	4.00%	$58,382	5.00 %
CET1 capital (to risk-weighted assets)	$133,081	17.89%	$38,117	5.13%	$48,343	6.50 %
Tier 1 capital (to risk-weighted assets)	$133,081	17.89%	$49,273	6.63%	$59,500	8.00 %
Total capital (to risk-weighted assets)	$141,955	19.09%	$64,148	8.63%	$74,375	10.00%
Provident Savings Bank, F.S.B.:						
As of September 30, 2016						
Tier 1 leverage capital (to adjusted average assets)	$112,827	9.32 %	$48,411	4.00%	$60,514	5.00 %
CET1 capital (to risk-weighted assets)	$112,827	14.44%	$40,058	5.13%	$50,805	6.50 %
Tier 1 capital (to risk-weighted assets)	$112,827	14.44%	$51,782	6.63%	$62,529	8.00 %
Total capital (to risk-weighted assets)	$121,725	15.57%	$67,414	8.63%	$78,161	10.00%
As of June 30, 2016						
Tier 1 leverage capital (to adjusted assets)	$120,192	10.29%	$46,706	4.00%	$58,382	5.00 %
CET1 capital (to risk-weighted assets)	$120,192	16.16%	$38,112	5.13%	$48,337	6.50 %
Tier 1 capital (to risk-weighted assets)	$120,192	16.16%	$49,266	6.63%	$59,491	8.00 %
Total capital (to risk-weighted assets)	$129,066	17.36%	$64,139	8.63%	$74,364	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 new requirement began to be phased on January 1, 2016 at 0.625% of risk-weighted assets and will increase each year to an amount equal to 2.5% of risk-weighted assets when fully implemented in January 2019.

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 three months of fiscal 2017, the Bank paid a cash dividend of $10.0 million to the Corporation; while the Corporation paid

$1.0 million of cash dividends to its shareholders.

Supplemental Information

	At September 30, 2016	At June 30, 2016	At September 30, 2015
Loans serviced for others (in thousands)	$105,548	$105,469	$86,658
Book value per share	$16.70	$16.73	$16.52

ITEM 3 – Quantitative and Qualitative Disclosures about Market Risk.

One of the Corporation's principal financial objectives is to achieve long-term profitability while reducing its exposure to fluctuating interest rates. The Corporation has sought to reduce the exposure of its earnings to changes in interest rates by attempting to manage the repricing mismatch between interest-earning assets and interest-bearing liabilities. The principal element in achieving this objective is to increase the interest-rate sensitivity of the Corporation's interest-earning assets by retaining for its portfolio new loan originations with interest rates subject to periodic adjustment to market conditions and by selling fixed-rate, single-family mortgage loans. In addition, the Corporation maintains an investment portfolio, which is largely in U.S. government agency MBS and U.S. government sponsored enterprise MBS with contractual maturities of up to 30 years that reprice frequently. The Corporation relies on retail deposits as its primary source of funds while utilizing FHLB – San Francisco advances as a secondary source of funding. Management believes retail deposits, unlike brokered deposits, reduces the effects of interest rate fluctuations 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 0.50 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 September 30, 2016 (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	$234,423	$81,315	$1,338,216	17.52%	+558 bp
+300 bp	$219,792	$66,684	$1,330,219	16.52%	+458 bp
+200 bp	$201,980	$48,872	$1,318,194	15.32%	+338 bp
+100 bp	$177,362	$24,254	$1,301,885	13.62%	+168 bp
0 bp	$153,108	$—	$1,282,547	11.94%	0 bp
-100 bp	$132,477	$(20,631)	$1,274,284	10.40%	-154 bp

(1) Represents the increase (decrease) of the NPV at the indicated interest rate change in comparison to the NPV at September 30, 2016 ("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 September 30, 2016 and June 30, 2016.

	At September 30, 2016 (-100 bp rate shock)	At June 30, 2016 (-100 bp rate shock)
Pre-Shock NPV Ratio: NPV as a % of PV Assets	11.94%	13.28%
Post-Shock NPV Ratio: NPV as a % of PV Assets	10.40%	11.59%
Sensitivity Measure: Change in NPV Ratio	-154 bp	-169 bp.

The pre-shock NPV ratio declined 134 basis points to 11.94% at September 30, 2016 from 13.28% at June 30, 2016 and the post-shock NPV ratio declined 119 basis points to 10.40% at September 30, 2016 from 11.59% at June 30, 2016. The decline of the NPV ratios was primarily attributable to a $10.0 million cash dividend distribution from the Bank to the Corporation in September 2016, partly offset by the net income in the first three months of fiscal 2017.

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

The Corporation also models the sensitivity of net interest income for the 12-month period subsequent to any given month-end assuming a dynamic balance sheet (accounting for the Corporation’s current balance sheet, 12-month business plan, embedded options, rate floors, periodic caps, lifetime caps, and loan, investment, deposit and borrowing cash flows, among others), and immediate, permanent and parallel movements in interest rates of plus 400, 300, 200 and 100 and minus 100 basis points. The following table describes the results of the analysis at September 30, 2016 and June 30, 2016.

At September 30, 2016		At June 30, 2016	
Basis Point (bp) Change in Rates	Change in Net Interest Income	Basis Point (bp) Change in Rates	Change in Net Interest Income
+400 bp	(5.49)%	+400 bp	(5.20)%
+300 bp	3.10%	+300 bp	4.00%
+200 bp	1.19%	+200 bp	2.05%
+100 bp	(2.47)%	+100 bp	(1.48)%
-100 bp	(18.57)%	-100 bp	(16.10)%

At both September 30, 2016 and June 30, 2016, the Corporation was partially 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 September 30, 2016, in a rising interest rate environment, the model projects an increase in net interest income over the subsequent 12-month period, except under plus 100 basis point and plus 400 basis point scenarios. In a falling interest rate environment, the results project a decrease in net interest income over the subsequent 12-month period.

Management believes that the assumptions used to complete the analysis described in the table above are reasonable. However, past experience has shown that immediate, permanent and parallel movements in interest rates will not necessarily occur. Additionally, while the analysis provides a tool to evaluate the projected net interest income to changes in interest rates, actual results may be substantially different if actual experience differs from the assumptions used to complete the analysis, particularly with respect to the 12-month business plan when asset growth is forecast. Therefore, the model results that the

Corporation discloses should be thought of as a risk management tool to compare the trends of the Corporation's current disclosure to previous disclosures, over time, within the context of the actual performance of the treasury yield curve.

ITEM 4 – Controls and Procedures.

a) An evaluation of the Corporation's disclosure controls and procedures (as defined in Section 13a-15(e) or 15d-15(e) of the Securities Exchange Act of 1934 (the "Act")) was carried out under the supervision and with the participation of the Corporation's Chief Executive Officer, Chief Financial Officer and the Corporation's Disclosure Committee as of the end of the period covered by this quarterly report. In designing and evaluating the Corporation's disclosure controls and procedures, management recognizes that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Also, because of the inherent limitations in all control procedures, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Corporation have been detected. Additionally, in designing disclosure controls and procedures, management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any disclosure controls and procedures is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Based on their evaluation, the Corporation's Chief Executive Officer and Chief Financial Officer concluded that the Corporation's disclosure controls and procedures as of September 30, 2016 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 September 30, 2016, that has materially affected, or is reasonably likely to materially affect, the Corporation's internal control over financial reporting. The Corporation does not expect that its internal control over financial reporting will prevent all error and all fraud. A control procedure, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control procedure are met. Because of the inherent limitations in all control procedures, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Corporation have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any control procedure is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control procedure, misstatements due to error or fraud may occur and not be detected.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings.

From time to time, the Corporation or its subsidiaries are engaged in legal proceedings in the ordinary course of business, none of which are currently considered to have a material impact on the Corporation's financial position or results of operations, except as previously disclosed in Part I, Item 3 of the Corporation's Annual Report on Form 10-K for the year ended June 30, 2016 and the matter described below.

A wrongful termination lawsuit has been filed by an ex-employee of the Bank and on November 4, 2016 the jury awarded approximately $173,000 of damages to the ex-employee. The Bank previously established a litigation reserve which is sufficient to cover the damages that were awarded. However, in addition to the general damages awarded, the jury will also consider, and
may award, punitive damages which cannot be estimated, and therefore are not accrued, at the time of the filing of this Form 10-Q. The Bank has not determined if it will file an appeal regarding this matter.

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, 2016.

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 first quarter of fiscal 2017.

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plan	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plan [1]
July 1 – 31, 2016	799	$ 18.86	799	27,551
August 1 – 31, 2016	49,537	19.29	49,537	375,014
September 1 – 30, 2016	35,498	19.46	9,900	365,114
Total	85,834	$ 19.36	60,236	365,114

(1) Represents the remaining shares available for future purchases under the May 2016 stock repurchase plan which became effective upon the completion of the October 2015 stock repurchase plan.

During the quarter ended September 30, 2016, the Corporation purchased 85,834 shares of the Corporation's common stock at an average cost of $19.36 per share, including the repurchase of 25,598 shares of distributed restricted stock at an average cost of $19.56 per share to cover employee withholding tax obligations, consistent with the distribution. As of September 30, 2016, a total of 31,886 shares or eight percent of the shares authorized in the May 2016 stock repurchase plan have been purchased at an average cost of $19.26 per share, leaving 365,114 shares available for future purchases. During the quarter ended September 30, 2016, 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 (a)	Certificate of Incorporation of Provident Financial Holdings, Inc. (incorporated by reference to Exhibit 3.1 to the Corporation's Registration Statement on Form S-1 (File No. 333-2230))

3.1 (b)	Certificate of Amendment to Certificate of Incorporation of Provident Financial Holdings, Inc. as filed with the Delaware Secretary of State on November 24, 2009 (incorporated by reference to Exhibit 3.1 to the Corporation's Quarterly Report on Form 10-Q filed on November 9, 2010)
3.1 (c)	Amended and Restated Bylaws of Provident Financial Holdings, Inc. (incorporated by reference to Exhibit 3.1 to the Corporation’s Current Report on Form 8-K filed on December 1, 2014)
10.1	Employment Agreement with Craig G. Blunden (incorporated by reference to Exhibit 10.1 to the Corporation’s Form 8-K dated December 19, 2005)
10.2	Post-Retirement Compensation Agreement with Craig G. Blunden (incorporated by reference to Exhibit 10.2 to the Corporation’s Form 8-K dated December 19, 2005)
10.3	Post-Retirement Compensation Agreement with Donavon P. Ternes (incorporated by reference to Exhibit 10.13 to the Corporation’s Form 8-K dated July 7, 2009)
10.4	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 10.1 in the Corporation's Form 8-K dated November 30, 2013)
10.15	Form of Non-Qualified Stock Option Agreement for options granted under the 2013 Equity Incentive Plan (incorporated by reference to Exhibit 10.2 in the Corporation's Form 8-K dated November 30, 2013)

10.16	Form of Restricted Stock Agreement for restricted shares awarded under the 2013 Equity Incentive Plan (incorporated by reference to Exhibit 10.3 in the Corporation's Form 8-K dated November 30, 2013)
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 September 30, 2016, 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: November 7, 2016 /s/ Craig G. Blunden
Craig G. Blunden
Chairman and Chief Executive Officer
(Principal Executive Officer)

Date: November 7, 2016 /s/ Donavon P. Ternes
Donavon P. Ternes
President, Chief Operating Officer and
Chief Financial Officer
(Principal Financial and Accounting Officer)

Exhibit Index

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