PROVIDENT FINANCIAL HOLDINGS INC
Form 10-K
September 13, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark one)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended June 30, 2012 OR

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

Commission File Number: 000-28304

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

Delaware (State or other jurisdiction of incorporation or organization)	33-0704889 (I.R.S. Employer Identification Number)
3756 Central Avenue, Riverside, California (Address of principal executive offices)	92506 (Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, par value $.01 per share (Title of Each Class)	The NASDAQ Stock Market LLC (Name of Each Exchange on Which Registered)

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES NO X .

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES NO X .

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the 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 X 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 X NO .

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

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

Large accelerated filer _____ Accelerated filer X .
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

As of September 5, 2012, there were 10,758,135 shares of the Registrant's common stock issued and outstanding. The Registrant's common stock is listed on the NASDAQ Global Select Market under the symbol "PROV." The aggregate market value of the common stock held by non affiliates of the Registrant, based on the closing sales price of the Registrant's common stock as quoted on the NASDAQ Global Select Market on December 31, 2011, was $95.1 million.

DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of the Annual Report to Shareholders are incorporated by reference into Part II.

2. Portions of the definitive Proxy Statement for the fiscal 2012 Annual Meeting of Shareholders ("Proxy Statement") are incorporated by reference into Part III.

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

PART I

Item 1. Business

General

Provident Financial Holdings, Inc. (the "Corporation"), a Delaware corporation, was organized in January 1996 for the purpose of becoming the holding company of Provident Savings Bank, F.S.B. (the "Bank") upon the Bank's conversion from a federal mutual to a federal stock savings bank ("Conversion"). The Conversion was completed on June 27, 1996. At June 30, 2012, the Corporation had consolidated total assets of $1.3 billion, total deposits of $961.4 million and stockholders' equity of $144.8 million. The Corporation has not engaged in any significant activity other than holding the stock of the Bank. Accordingly, the information set forth in this Annual Report on Form 10-K ("Form 10-K"), including financial statements and related data, relates primarily to the Bank and its subsidiaries.

The Bank, founded in 1956, is a federally chartered stock savings bank headquartered in Riverside, California. Prior to July 21, 2011, the Bank was regulated by the Office of Thrift Supervision ("OTS"). As a result of the enactment on July 21, 2010 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), the Bank is now regulated by the Office of Comptroller of the Currency ("OCC"), its primary federal regulator, and the Federal Deposit Insurance Corporation ("FDIC"), the insurer of its deposits. The Bank's deposits are federally insured up to applicable limits by the FDIC. The Bank has been a member of the Federal Home Loan Bank ("FHLB") – San Francisco since 1956.

Additionally, the Dodd-Frank Act changed the regulator of all savings and loan holding companies, including the Corporation, from the OTS to the Board of Governors of the Federal Reserve System (the "Federal Reserve Board"). For additional information regarding the Dodd-Frank Act, see "Regulation" on this Form 10-K.

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

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

On June 22, 2006, the Bank established the Provident Savings Bank Charitable Foundation ("Foundation") in order to further its commitment to the local community. The specific purpose of the Foundation is to promote and provide for the betterment of youth, education, housing and the arts in the Bank's primary market areas of Riverside and San Bernardino Counties. The Foundation was funded with a $500,000 charitable contribution made by the Bank in the fourth quarter of fiscal 2006. The Bank has contributed $40,000 annually to the Foundation in fiscal 2012, 2011 and 2010.

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Subsequent Events:

Cash dividend

On July 24, 2012, the Corporation announced that the Corporation's Board of Directors declared a cash dividend of $0.05 per share, reflecting a 25 percent increase from the $0.04 per share paid on June 1, 2012. Shareholders of the Corporation's common stock at the close of business on August 15, 2012 were entitled to receive the cash dividend, which was paid on September 5, 2012.

Resolution on request for accounting method change

On August 2, 2012, the Corporation received a notification from the tax authorities indicating the acceptance of the accounting method change attributable to the Corporation's overstatement certain income items for tax reporting purposes from 2006 through 2007 resulting in an overpayment of taxes and an understatement of the deferred tax liability. As a result, the Corporation will reverse the $825,000 tax liability in the quarter ending September 30, 2012, the same quarter in which the tax authorities granted the Corporation's request.

Market Area

The Bank is headquartered in Riverside, California and operates 14 full-service banking offices in Riverside County and one full-service banking office in San Bernardino County. Management considers Riverside and Western San Bernardino counties to be the Bank's primary market for deposits. Through the operations of PBM, the Bank has expanded its mortgage lending market to include most of Southern California and some of Northern California. PBM operates wholesale loan production offices in Pleasanton and Rancho Cucamonga, California and retail loan production offices in City of Industry, Escondido, Fairfield, Glendora, Hermosa Beach, Pleasanton, Rancho Cucamonga (2), Riverside (4), Roseville and San Rafael, California.

The large geographic area encompassing Riverside and San Bernardino counties is referred to as the "Inland Empire." According to 2010 Census Bureau population statistics, Riverside and San Bernardino Counties have the fourth and fifth largest populations in California, respectively. The Bank's market area consists primarily of suburban and urban communities. Western Riverside and San Bernardino counties are relatively densely populated and are within the greater Los Angeles metropolitan area. The unemployment rate in the Inland Empire in June 2012 was 12.6%, compared to 10.7% in California and 8.2% nationwide, according to the United States of America ("U.S.") Department of Labor, Bureau of Labor Statistics. Current unemployment data improved slightly, yet remains weak, as compared to the unemployment data reported in June 2011 of 13.2% in the Inland Empire, 11.8% in California and 9.2% nationwide.

The number of California homes entering the formal foreclosure process dropped in the second calendar quarter of 2012 to its lowest level since early 2007. The decline is the result of a combination of factors, including an improving housing market, the reduction in the number of the most aggressively underwritten mortgages originated from 2005 through 2007 that may become subject to foreclosure, and the growing use of short sales (Source: DataQuick; DQNews.com – July 23, 2012 News Release).

The number of homes sold in Southern California increased in June 2012 compared to June 2011 and the increase in June 2012 was the sixth consecutive monthly increase, reflecting robust investor demand and significant sales gains for mid- to high-end homes. The continuing pattern of fewer foreclosures re-selling and more activity in pricier coastal counties helped the region's median sale price climb to a two-year high (Source: DataQuick; DQNews.com – July 17, 2012 News Release).

Competition

The Bank faces significant competition in its market area in originating real estate loans and attracting deposits. The population growth in the Inland Empire has attracted numerous financial institutions to the Bank's market area. The Bank's primary competitors are large regional and super-regional commercial banks as well as other communityoriented banks and savings institutions. The Bank also faces competition from credit unions and a large number of mortgage companies that operate within its market area. Many of these institutions are significantly larger than the Bank and therefore have greater financial and marketing resources than the Bank. The Bank's mortgage banking operations also face competition from mortgage bankers, brokers and other financial institutions. This competition may limit the Bank's growth and profitability in the future.

Personnel

As of June 30, 2012, the Bank had 543 full-time equivalent employees, which consisted of 475 full-time, 58 part-time and 10 temporary employees. The employees are not represented by a collective bargaining unit and the Bank believes that its relationship with employees is good.

Segment Reporting

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

Internet Website

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

Lending Activities

General. The lending activity of the Bank is predominately comprised of the origination of first mortgage loans secured by single-family residential properties to be held for sale and, to a lesser extent, to be held for investment. The Bank also originates multi-family and commercial real estate loans and, to a lesser extent, commercial business, consumer and other mortgage loans to be held for investment. The Bank from time to time originates construction loans although there were no construction loans outstanding or loan originations in fiscal 2012 or 2011. Due to the decline in real estate values and deterioration of credit quality, particularly for single-family loans, and the Bank's short-term strategy to improve liquidity and preserve capital, the Bank has reduced new loans held for investment, particularly single-family loans. The Bank's net loans held for investment were $796.8 million at June 30, 2012, representing 63.2% of consolidated total assets. This compares to $881.6 million, or 67.1% of consolidated total assets, at June 30, 2011.

At June 30, 2012, the maximum amount that the Bank could have loaned to any one borrower and the borrower's related entities under applicable regulations was $24.5 million, or 15% of the Bank's unimpaired capital and surplus. At June 30, 2012, the Bank had no loans or group of loans to related borrowers with outstanding balances in excess of this amount. The Bank's five largest lending relationships at June 30, 2012 consists of: seven multi-family loans totaling $4.9 million and two commercial real estate loans totaling $2.0 million to one group of borrowers; one commercial real estate loan totaling $6.2 million to one group of borrowers; four multi-family loans totaling $5.9 million to one group of borrowers; three multi-family loans, one commercial real estate loan and one commercial business loan totaling $5.6 million to one group of borrowers; and two commercial real estate loans totaling $5.6 million to one group of borrowers. The real estate collateral for these loans are located in Southern California. At June 30, 2012, all of these loans were performing in accordance with their repayment terms.

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

	At June 30,									
	2012		2011		2010		2009		2008	
(Dollars In Thousands)	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Per
Mortgage loans:										
Single-family	$439,024	53.79 %	$494,192	54.34 %	$583,126	55.73 %	$694,354	57.52 %	$808,836	58
Multi-family	278,057	34.07	304,808	33.52	343,551	32.83	372,623	30.87	399,733	28
Commercial real estate	95,302	11.67	103,637	11.39	110,310	10.54	122,697	10.17	136,176	9.7
Construction	-	-	-	-	400	0.04	4,513	0.37	32,907	2.3
Other	755	0.09	1,530	0.17	1,532	0.15	2,513	0.21	3,728	0.2
Total mortgage loans	813,138	99.62	904,167	99.42	1,038,919	99.29	1,196,700	99.14	1,381,380	99
Commercial business loans	2,580	0.32	4,526	0.50	6,620	0.63	9,183	0.76	8,633	0.6
Consumer loans	506	0.06	750	0.08	857	0.08	1,151	0.10	625	0.0
Total loans held for investment, gross	816,224	100.00 %	909,443	100.00 %	1,046,396	100.00 %	1,207,034	100.00 %	1,390,638	10
Undisbursed loan funds	-		-		-		(305)		(7,864)	
Deferred loan costs, net	2,095		2,649		3,365		4,245		5,261	
Allowance for loan losses	(21,483)		(30,482)		(43,501)		(45,445)		(19,898)	
Total loans held for investment, net	$796,836		$881,610		$1,006,260		$1,165,529		$1,368,137	

Maturity of Loans Held for Investment. The following table sets forth information at June 30, 2012 regarding the dollar amount of principal payments becoming contractually due during the periods indicated for loans held for investment. Demand loans, loans having no stated schedule of principal payments, loans having no stated maturity, and overdrafts are reported as becoming due within one year. The table does not include any estimate of prepayments, which can significantly shorten the average life of loans held for investment and may cause the Bank's actual principal payment experience to differ materially from that shown below.

(In Thousands)	Within One Year	After One Year Through 3 Years	After 3 Years Through 5 Years	After 5 Years Through 10 Years	Beyond 10 Years	Total
Mortgage loans:						
Single-family	$ 9	$ 548	$ 359	$ 3,605	$ 434,503	$ 439,024
Multi-family	261	10,347	47,678	29,127	190,644	278,057
Commercial real estate	5,564	18,883	32,536	31,373	6,946	95,302
Other	522	-	233	-	-	755
Commercial business loans	720	1,180	177	503	-	2,580
Consumer loans	506	-	-	-	-	506
Total loans held for investment, gross	$ 7,582	$ 30,958	$ 80,983	$ 64,608	$ 632,093	$ 816,224

The following table sets forth the dollar amount of all loans held for investment due after June 30, 2013 which have fixed and floating or adjustable interest rates.

(In Thousands)	Fixed-Rate	% (1)	Floating or Adjustable Rate	% (1)
Mortgage loans:				
Single-family	$ 6,919	2%	$ 432,096	98%
Multi-family	14,344	5%	263,452	95%
Commercial real estate	15,188	17%	74,550	83%
Other	233	100%	-	- %
Commercial business loans	1,056	57%	804	43%
Total loans held for investment, gross	$ 37,740	5%	$ 770,902	95%

(1) As percentage of each category.

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

Single-Family Mortgage Loans. The Bank's predominant lending activity is the origination by PBM of loans secured by first mortgages on owner-occupied, single-family (one to four units) residences in the communities where the Bank has established full service branches and loan production offices. At June 30, 2012, total single-family loans held for investment decreased to $439.0 million, or 53.8% of the total loans held for investment, from $494.2 million, or 54.3% of the total loans held for investment, at June 30, 2011. The decrease in the single-family loans in fiscal 2012 was primarily attributable to loan principal payments and real estate owned acquired in the settlement of loans, partly offset by new loans originated for investment.

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

In fiscal 2009, the Bank implemented tighter underwriting standards commensurate with the decline in real estate market conditions. These standards remain in place today. The Bank requires verified documentation of income and assets and our underwriting conforms to agency mandated credit score requirements. Generally, mortgage insurance is required on all loans exceeding 80% loan-to-value based on the lower of purchase price or appraised value. The maximum allowable loan-to-value is 97% on a purchase transaction for conventional financing with mortgage insurance and 96.5% loan-to-value for FHA financing with mortgage insurance. Second home purchases and rate and term refinance transactions are capped at 90% loan-to-value with mortgage insurance. Non-owner purchase and rate and term refinance transactions are capped at 80% loan-to-value while non-owner refinance cash-out transactions are capped at 75% loan-to-value. We manage our underwriting standards, loan-to-value ratios and credit standards to the currently required agency and investor policies and guidelines. These standards may change at any time, given changes in real estate market conditions, secondary mortgage market requirements and changes to investor policies and guidelines.

The Bank previously offered closed-end, fixed-rate home equity loans that were secured by the borrower's primary residence. These loans did not exceed 100% of the appraised value of the residence and have terms of up to 15 years requiring monthly payments of principal and interest. At June 30, 2012, home equity loans amounted to $1.5 million or 0.4% of single-family loans held for investment, as compared to $1.7 million or 0.3% of single-family loans held for investment at June 30, 2011. The Bank also offered secured lines of credit, which are generally secured by a second mortgage on the borrower's primary residence up to 100% of the appraised value of the residence. Secured lines of credit have an interest rate that is typically one to two percentage points above the prime lending rate. As of June 30, 2012 and 2011, the outstanding balance of secured lines of credit was $1.2 million and $1.0 million, respectively. The Bank ceased the origination of home equity loans and secured lines of credit in the second quarter of fiscal 2008 as a result of the deterioration in single-family real estate values.

The Bank offers adjustable rate mortgage ("ARM") loans at rates and terms competitive with market conditions. Substantially all of the ARM loans originated by the Bank meet the underwriting standards of the secondary market. The Bank offers several ARM products, which adjust monthly, semi-annually, or annually after an initial fixed period ranging from one month to five years subject to a limitation on the annual increase of one to two percentage points and an overall limitation of three to six percentage points. The following indexes, plus a margin of 2.00% to 3.25%, are used to calculate the periodic interest rate changes; the London Interbank Offered Rate ("LIBOR"), the FHLB Eleventh District cost of funds ("COFI"), the 12-month average U.S. Treasury ("12 MAT") or the weekly average yield on one year U.S. Treasury securities adjusted to a constant maturity of one year ("CMT"). Loans based on the LIBOR index constitute a majority of the Bank's loans held for investment. The majority of the ARM loans held for investment have three or five-year fixed periods prior to the first adjustment ("3/1 or 5/1 hybrids"), and do not require principal amortization for up to 120 months. Loans of this type have embedded interest rate risk if interest rates should rise during the initial fixed rate period.

The reset of interest rates on ARM loans, primarily interest-only single-family loans, to fully-amortizing status has not created a payment shock for most borrowers primarily because the majority of loans are repricing at 2.75% over six-month LIBOR, which has resulted in a lower interest rate than the borrower's pre-adjustment interest rate. Management expects that the economic recovery will be slow to develop, which may translate to an extended period of lower interest rates and a reduced risk of mortgage payment shock for the foreseeable future, though the continuation of currently weak economic conditions may increase the risk of delinquencies and defaults. The higher delinquency levels experienced by the Bank in fiscal 2008 through 2012 was primarily due to higher unemployment, the recent U.S. recession, continuing weak economic conditions and the decline in real estate values, particularly in California. It should be noted, however, that the delinquency level experienced in fiscal 2012 has improved as compared to the levels experienced in fiscal 2008 through 2011.

In fiscal 2006, during the Bank's 50th Anniversary, the Bank offered 50-year single-family ARM loans. At June 30, 2012, the Bank had 32 loans outstanding for $11.9 million with a 50-year term, compared to 35 loans for $13.8 million at June 30, 2011.

As of June 30, 2012, the Bank had $40.2 million in negative amortization mortgage loans (a loan in which accrued interest exceeding the required monthly loan payment may be added to the loan principal), which consisted of $26.7 million of multi-family loans, $7.0 million of commercial real estate loans and $6.5 million of single-family loans. This compares to $50.4 million at June 30, 2011, which consisted of $31.3 million of multi-family loans, $11.5 million of commercial real estate loans and $7.6 million of single-family loans. Negative amortization involves a greater risk to the Bank because the credit risk exposure increases when the loan incurs negative amortization and the value of the property serving as a collateral for the loan does not increase proportionally. Negative amortization is only permitted up to a specific level, typically up to 115% of the original loan amount, and the payment on such loans is subject to increased payments when the level is reached, adjusting periodically as provided in the loan documents and potentially resulting in a higher payment by the borrower. The adjustment of these loans to higher payment requirements can be a substantial factor in higher delinquency levels because the borrower may not be able to make the higher payments. Also, real estate values may decline and credit standards may tighten in concert with the higher payment requirement, making it difficult for borrowers to sell their homes or refinance their mortgages to pay off their mortgage obligation.

Borrower demand for ARM loans versus fixed-rate mortgage loans is a function of the level of interest rates, the expectations of changes in the level of interest rates and the difference between the initial interest rates and fees charged for each type of loan. The relative amount of fixed-rate mortgage loans and ARM loans that can be originated at any time is largely determined by the demand for each product in a given interest rate and competitive environment. Given the recent market environment, the production of ARM loans has been substantially reduced because borrowers favor fixed rate mortgages.

The retention of ARM loans, rather than fixed-rate loans, helps to reduce the Bank's exposure to changes in interest rates. There is, however, unquantifiable credit risk resulting from the potential of increased interest charges to be paid by the borrower as a result of increases in interest rates or the expiration of interest-only periods. It is possible that, during periods of rising interest rates, the risk of default on ARM loans may increase as a result of the increase in the required payment from the borrower. Furthermore, the risk of default may increase because ARM loans originated by the Bank occasionally provide, as a marketing incentive, for initial rates of interest below those rates that would apply if the adjustment index plus the applicable margin were initially used for pricing. Such loans are subject to increased risks of default or delinquency. Additionally, while ARM loans allow the Bank to decrease the sensitivity of its assets as a result of changes in interest rates, the extent of this interest sensitivity is limited by the periodic and lifetime interest rate adjustment limits.

In addition to fully amortizing ARM loans, the Bank has interest-only ARM loans, which typically have a fixed interest rate for the first three to five years, followed by a periodic adjustable interest rate, coupled with an interest only payment of three to ten years, followed by a fully amortizing loan payment for the remaining term. As of June 30, 2012 and 2011, interest-only, first trust deed, ARM loans were $209.1 million and $241.6 million, or 25.6% and 26.5%, respectively, of the loans held for investment. Furthermore, because loan indexes may not respond perfectly to changes in market interest rates, upward adjustments on loans may occur more slowly than increases in the Bank's cost of interest-bearing liabilities, especially during periods of rapidly increasing interest rates. Because of these characteristics, the Bank has no assurance that yields on ARM loans will be sufficient to offset increases in the Bank's cost of funds.

The following table describes certain credit risk characteristics of the Bank's single-family, first trust deed, mortgage loans held for investment as of June 30, 2012:

(Dollars in Thousands)	Outstanding Balance (1)	Weighted-Average FICO (2)	Weighted-Average LTV (3)	Weighted-Average Seasoning (4)
Interest only	$ 209,134	734	72%	5.86 years
Stated income (5)	$ 226,166	732	70%	6.54 years
FICO less than or equal to 660	$ 13,420	642	66%	7.29 years
Over 30-year amortization	$ 16,852	733	67%	6.90 years

(1) The outstanding balance presented on this table may overlap more than one category. Of the outstanding balance, $17.8 million of "Interest only," $20.2 million of "Stated income," $4.0 million of "FICO less than or equal to 660," and $547,000 of "Over 30-year amortization" balances were non-performing.
(2) 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) Loan-to-value ("LTV") is the ratio calculated by dividing the original 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 a loan to a borrower whose stated income on his/her loan application was not subject to verification during the loan origination process.

The following table summarizes the amortization schedule of the Bank's interest only single-family, first trust deed, mortgage loans held for investment, including the percentage of those which are identified as non-performing or 30 – 89 days delinquent as of June 30, 2012:

(Dollars In Thousands)	Balance	Non-Performing (1)	30 - 89 Days Delinquent (1)
Fully amortize in the next 12 months	$ 7,163	22%	- %
Fully amortize between 1 year and 5 years	161,603	9%	- %
Fully amortize after 5 years	40,368	5%	- %
Total	$ 209,134	8%	- %

(1) As a percentage of each category.

The following table summarizes the interest rate reset (repricing) schedule of the Bank's stated income single-family, first trust deed, mortgage loans held for investment, including the percentage of those which are identified as non-performing or 30 – 89 days delinquent as of June 30, 2012:

(Dollars In Thousands)	Balance (1)	Non-Performing (1)	30 - 89 Days Delinquent (1)
		9%	- %

Interest rate reset in the next 12 months	$ 223,575		
Interest rate reset between 1 year and 5 years	2,581	28%	- %
Interest rate reset after 5 years	10	- %	- %
Total	$ 226,166	9%	- %

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

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

The following table provides a detailed breakdown of the Bank's single-family, first trust deed, mortgage loans held for investment by the calendar year of origination and geographic location as of June 30, 2012:

	Calendar Year of Origination									
(Dollars In Thousands)	2004 & Prior	2005	2006	2007	2008	2009	2010	2011	YTD June 30, 2012	Total
Loan balance	$ 90,315	$ 136,397	$ 109,634	$ 65,566	$ 29,354	$ 1,155	$ 1,033	$ 2,233	$ 726	$ 436,413
Weighted average LTV (1)	67%	69%	70%	72%	76%	58%	77%	70%	89%	70%
Weighted average age (in years)	8.93	6.93	5.97	4.99	4.25	3.05	1.99	0.96	0.35	6.57
Weighted average FICO	721	730	742	732	743	746	738	734	675	733
Number of loans	394	365	251	130	54	5	4	8	1	1,212
Geographic breakdown (%):										
Inland Empire	31%	30%	29%	29%	31%	100%	78%	32%	- %	30%
Southern California (other than Inland Empire)	64%	64%	52%	38%	37%	- %	22%	41%	- %	54%
Other California	5%	6%	17%	32%	32%	- %	- %	27%	100%	15%
Other states	- %	- %	2%	1%	- %	- %	- %	- %	- %	1%
	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

(1) Current loan balance in comparison to the original appraised value. Due to the decline in single-family real estate values, the weighted average LTV presented above may be significantly understated to current market values.

Multi-Family and Commercial Real Estate Mortgage Loans. At June 30, 2012, multi-family mortgage loans were $278.1 million and commercial real estate loans were $95.3 million, or 34.1% and 11.7%, respectively, of loans held for investment. This compares to multi-family mortgage loans of $304.8 million and commercial real estate loans of $103.6 million, or 33.5% and 11.4%, respectively, of loans held for investment at June 30, 2011. Consistent with its strategy to diversify the composition of loans held for investment, the Bank has made the origination and purchase of multi-family and commercial real estate loans a priority. During fiscal 2012 the Bank originated $46.6 million and purchased $8.2 million of multi-family and commercial real estate loans, all of which were reunderwritten in accordance with the Bank's origination guidelines. This compares to loan originations of $3.8 million and purchases of $7.1 million during fiscal 2011. At June 30, 2012, the Bank had 376 multi-family and 123 commercial real estate loans in loans held for investment.

Multi-family mortgage loans originated by the Bank are predominately adjustable rate loans, including 3/1, 5/1 and 7/1 hybrids, with a term to maturity of 10 to 30 years and a 25 to 30 year amortization schedule. Commercial real estate loans originated by the Bank are also predominately adjustable rate loans, including 3/1 and 5/1 hybrids, with a term to maturity of 10 years and a 25 year amortization schedule. Rates on multi-family and commercial real estate ARM loans generally adjust monthly, quarterly, semi-annually or annually at a specific margin over the respective interest rate index, subject to annual interest rate caps and life-of-loan interest rate caps. At June 30, 2012, $242.8 million, or 87.0%, of the Bank's multi-family loans were secured by five to 36 unit projects. The Bank's commercial real estate loan portfolio generally consists of loans secured by small office buildings, light industrial centers, warehouses and small retail centers. Properties securing multi-family and commercial real estate loans are primarily located in Los Angeles, Orange, Riverside, San Bernardino and San Diego counties. The Bank originates multi-family and commercial real estate loans in amounts typically ranging from $350,000 to $4.0 million. At June 30, 2012, the Bank had 50 commercial real estate and multi-family loans with principal balances greater than $1.5 million totaling $119.9 million, all of which were performing in accordance with their terms. The Bank obtains appraisals on properties that secure multi-family and commercial real estate loans. Underwriting of multi-family and commercial real estate loans includes, among other considerations, a thorough analysis of the cash flows generated by the property to support the debt service and the financial resources, experience and the income level of the borrowers and guarantors.

Multi-family and commercial real estate loans afford the Bank an opportunity to receive higher interest rates than those generally available from single-family mortgage loans. However, loans secured by such properties are generally greater in amount, more difficult to evaluate and monitor and are more susceptible to default as a result of general economic conditions and, therefore, involve a greater degree of risk than single-family residential mortgage loans. Because payments on loans secured by multi-family and commercial properties are often dependent on the successful operation and management of the properties, repayment of such loans may be impacted by adverse conditions in the real estate market or the economy. At June 30, 2012, the Bank had $1.5 million, net of individually and collectively evaluated allowances, of non-performing multi-family loans and $3.2 million, net of individually and collectively evaluated allowances, of non-performing commercial real estate loans. At June 30, 2012, the Bank had no multi-family or commercial real estate loans which were past due 30 to 89 days. Non-performing loans and delinquent loans may increase as a result of the general decline in Southern California real estate markets and poor general economic conditions.

The following table summarizes the interest rate reset or maturity schedule of the Bank's multi-family loans held for investment, including the percentage of those which are identified as non-performing, 30 – 89 days delinquent or not fully amortizing as of June 30, 2012:

(Dollars In Thousands)	Balance	Non-	30 - 89 Days Delinquent	Percentage Not Fully

		Performing (1)	(1)	Amortizing (1)
Interest rate reset or mature in the next 12 months	$ 190,773	1%	- %	36%
Interest rate reset or mature between 1 year and 5 years	70,718	1%	- %	15%
Interest rate reset or mature after 5 years	16,566	- %	- %	26%
Total	$ 278,057	1%	- %	30%

(1) As a percentage of each category.

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The following table summarizes the interest rate reset or maturity schedule of the Bank's commercial real estate loans held for investment, including the percentage of those which are identified as non-performing, 30 – 89 days delinquent or not fully amortizing as of June 30, 2012:

(Dollars In Thousands)	Balance	Non-Performing (1)	30 - 89 Days Delinquent (1)	Percentage Not Fully Amortizing (1)
Interest rate reset or mature in the next 12 months	$ 64,139	3%	- %	92%
Interest rate reset or mature between 1 year and 5 years	23,372	7%	- %	79%
Interest rate reset or mature after 5 years	7,791	- %	- %	60%
Total	$ 95,302	4%	- %	86%

(1) As a percentage of each category.

The following table provides a detailed breakdown of the Bank's multi-family mortgage loans held for investment by the calendar year of origination and geographic location as of June 30, 2012:

	Calendar Year of Origination									
(Dollars In Thousands)	2004 & Prior	2005	2006	2007	2008	2009	2010	2011	YTD June 30, 2012	Total
Loan balance	$ 46,251	$ 43,191	$ 60,552	$ 66,044	$ 9,342	$ -	$ 956	$ 36,916	$ 14,805	$ 278,057
Weighted average LTV (1)	46%	51%	54%	55%	48%	- %	68%	61%	59%	54%
Weighted average debt coverage ratio (2)	1.54x	1.27x	1.28x	1.25x	1.40x	- x	1.33x	1.49x	1.56x	1.36x
Weighted average age (in years)	8.53	7.00	6.02	4.96	4.19	-	2.17	0.79	0.29	5.26
Weighted average FICO	714	708	704	695	758	-	715	732	750	719
Number of loans	79	70	71	87	13	-	4	37	15	376
Geographic breakdown (%):										
Inland Empire	20%	9%	11%	4%	16%	- %	- %	32%	14%	13%
Southern California (other than Inland Empire)	75%	63%	53%	84%	81%	-	33%	60%	59%	68%
Other California	4%	27%	32%	12%	3%	-	67%	8%	27%	18%
Other states	1%	1%	4%	- %	- %	-	- %	- %	- %	1%
	100%	100%	100%	100%	100%	- %	100%	100%	100%	100%

(1) Current loan balance in comparison to the original appraised value. Due to the decline in multi-family real estate values, the weighted average LTV presented above may be significantly understated to current market values.

(2) At time of loan origination.

The following table provides a detailed breakdown of the Bank's commercial real estate mortgage loans held for investment by the calendar year of origination and geographic location as of June 30, 2012:

	Calendar Year of Origination									
(Dollars In Thousands)	2004 & Prior	2005	2006	2007	2008	2009	2010	2011	YTD June 30, 2012	Total (3) (4)
Loan balance	$ 19,585	$ 14,612	$ 17,007	$ 18,442	$ 6,067	$ 8,935	$ 387	$ 4,439	$ 5,828	$ 95,302
Weighted average LTV (1)	43%	46%	58%	53%	36%	60%	60%	40%	46%	50%
Weighted average debt coverage ratio (2)	1.96x	2.07x	2.50x	2.25x	1.74x	1.23x	1.26x	1.98x	1.87x	2.04x
Weighted average age (in years)	9.51	6.95	5.93	4.99	4.18	2.95	2.10	0.74	0.24	5.64
Weighted average FICO	715	696	724	717	756	722	705	707	755	718
Number of loans	41	20	17	18	10	3	2	5	7	123
Geographic breakdown (%):										
Inland Empire	48%	64%	21%	40%	7%	100%	52%	76%	60%	49%
Southern California (other than Inland Empire)	52%	36%	79%	50%	93%	- %	48%	24%	40%	49%
Other California	- %	- %	- %	10%	- %	- %	- %	- %	- %	2%
Other states	- %	- %	- %	- %	- %	- %	- %	- %	- %	- %
	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

(1) Current loan balance in comparison to the original appraised value. Due to the decline in commercial real estate values, the weighted average LTV presented above may be significantly understated to current market values.

(2) At time of loan origination.

(3) Comprised of the following: $25.3 million in retail; $21.8 million in office; $11.8 million in mixed use; $8.9 million in medical/dental office; $6.4 million in light industrial/manufacturing; $4.2 million in warehouse; $4.0 million in mini-storage; $3.4 million in restaurant/fast food; $2.9 million in research and development; $1.8 million in hotel and motel; $1.5 million in school; $1.5 million in automotive - non gasoline; and $1.8 million in other.

(4) Consists of $60.9 million or 63.9% in investment properties and $34.4 million or 36.1% in owner occupied properties.

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Construction Mortgage Loans. The Bank originates from time to time two types of construction loans: short-term construction loans and construction/permanent loans. The Bank had no construction loans at June 30, 2012 and 2011, as a result of management's decision in fiscal 2006 to reduce tract construction loan originations (given anticipated unfavorable real estate market conditions). There were no loan originations of construction mortgage loans in fiscal 2012 and 2011.

Other mortgage loans. At June 30, 2012, other mortgage loans, which consisted of land loans, were $755,000, or 0.1% of loans held for investment, down from $1.5 million, or 0.2% of loans held for investment, at June 30, 2011. The Bank makes land loans, primarily lot loans, to accommodate borrowers who intend to build on the land within a specified period of time. The majority of these land loans are for the construction of single-family residences; however, the Bank may make short-term loans on a limited basis for the construction of commercial properties. The terms generally require a fixed rate with maturity between 18 to 36 months.

Participation Loan Purchases and Sales. In an effort to expand production and diversify risk, the Bank purchases loan participations, with collateral primarily in California, which allows for greater geographic distribution of the Bank's loans and increases loan production volume. The Bank solicits other lenders to purchase participating interests in multi-family and commercial real estate loans. The Bank generally purchases between 50% and 100% of the total loan amount. When the Bank purchases a participation loan, the lead lender will usually retain a servicing fee, thereby decreasing the loan yield. This servicing fee approximates the expense the Bank would incur if the Bank were to service the loan. All properties serving as collateral for loan participations are inspected by an employee of the Bank or a third party inspection service prior to being approved by the Loan Committee and the Bank relies upon the same underwriting criteria required for those loans originated by the Bank. The Bank purchased $8.2 million of loans in fiscal 2012, slightly higher than $7.1 million purchased in fiscal 2011. As of June 30, 2012, total loans serviced by other financial institutions were $18.7 million, down 8% from $20.4 million at June 30, 2011. As of June 30, 2012, all loans serviced by others were performing according to their contractual agreements.

The Bank also sells participating interests in loans when it has been determined that it is beneficial to diversify the Bank's risk. Participation sales enable the Bank to maintain acceptable loan concentrations and comply with the Bank's loans to one borrower policy. Generally, selling a participating interest in a loan increases the yield to the Bank on the portion of the loan that is retained. The Bank did not sell any loan participation interests in fiscal 2012 and 2011.

Commercial Business Loans. The Bank has a Business Banking Department that primarily serves businesses located within the Inland Empire. Commercial business loans allow the Bank to diversify its lending and increase the average loan yield. As of June 30, 2012, commercial business loans were $2.6 million, or 0.3% of loans held for investment, a decrease of $1.9 million, or 42%, during fiscal 2012. These loans represent secured and unsecured lines of credit and term loans secured by business assets.

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

Commercial business loans involve greater risk than residential mortgage loans and involve risks that are different from those associated with residential and commercial real estate loans. Real estate loans are generally considered to be collateral based lending with loan amounts based on predetermined loan to collateral values and liquidation of the underlying real estate collateral is viewed as the primary source of repayment in the event of borrower default. Although commercial business loans are often collateralized by equipment, inventory, accounts receivable or other business assets including real estate, the liquidation of collateral in the event of a borrower default is often an insufficient source of repayment because accounts receivable may not be collectible and inventories and equipment may be obsolete or of limited use. Accordingly, the repayment of a commercial business loan depends primarily on the creditworthiness of the borrower (and any guarantors), while liquidation of collateral is secondary and oftentimes an insufficient source of repayment. The Bank had $172,000 of non-performing commercial business loans at June 30, 2012, up 20% from $143,000 at June 30, 2011. During fiscal 2012, the Bank had net charge-offs of $261,000 on commercial business loans, as compared to a net recovery of $25,000 during fiscal 2011.

Consumer Loans. At June 30, 2012, the Bank's consumer loans were $506,000, or 0.1% of the Bank's loans held for investment, a decrease of 33% during fiscal 2012. The Bank offers open-ended lines of credit on either a secured or unsecured basis. The Bank offers secured savings lines of credit which have an interest rate that is four percentage points above the COFI, which adjusts monthly. Secured savings lines of credit at June 30, 2012 and 2011 were $314,000 and $520,000, respectively, and are included in consumer loans.

Consumer loans potentially have a greater risk than residential mortgage loans, particularly in the case of loans that are unsecured. Consumer loan collections are dependent on the borrower's ongoing financial stability, and thus are more likely to be adversely affected by job loss, illness or personal bankruptcy. Furthermore, the application of various federal and state laws, including federal and state bankruptcy and insolvency laws, may limit the amount that can be recovered on such loans. The Bank had no consumer loans accounted for on a non-performing basis at June 30, 2012 or 2011.

Mortgage Banking Activities

General. Mortgage banking involves the origination and sale of single-family mortgages (first and second trust deeds), including equity lines of credit, by PBM for the purpose of generating gains on sale of loans and fee income on the origination of loans. PBM also originates single-family loans to be held for investment. Due to the recent economic and real estate conditions and consistent with the Bank's short-term strategy, PBM has been primarily originating loans and, to a lesser extend, purchasing loans for sale to investors. Given current pricing in the mortgage markets, the Bank sells the majority of its loans on a servicing-released basis. Generally, the level of loan sale activity and, therefore, its contribution to the Bank's profitability depends on maintaining a sufficient volume of loan originations. Changes in the level of interest rates and the California economy affect the number of loans originated by PBM and, thus, the amount of loan sales, gain on sale of loans, net interest income and loan fees earned. The origination and purchases of loans, primarily fixed rate loans, during fiscal 2012, 2011 and 2010 were $2.52 billion, $2.15 billion and $1.80 billion, respectively. The total loan origination volume in fiscal 2012 was higher than fiscal 2011 and 2010, primarily as a result of relatively low mortgage interest rates, a less competitive mortgage banking environment and more stable, though still weakened, real estate market. The low mortgage rates were primarily a result of the actions taken by the U.S. Department of Treasury and Federal Reserve to reduce interest rates in response to the global credit crisis. Of the total PBM loan originations, loans originated for investment were $2.5 million, $1.8 million and $818,000 in fiscal 2012, 2011 and 2010, respectively.

Loan Solicitation and Processing. The Bank's mortgage banking operations consist of both wholesale and retail loan originations. The Bank's wholesale loan production utilizes a network of approximately 654 loan brokers approved by the Bank who originate and submit loans at a markup over the Bank's daily published price. Accepted loans are funded and sold by the Bank. Wholesale loans originated and purchased for sale in fiscal 2012, 2011 and 2010 were $1.51 billion, $1.39 billion and $1.34 billion, respectively. PBM has two regional wholesale lending offices: one in Pleasanton and one in Rancho Cucamonga, California, housing wholesale originators, underwriters and processors.

PBM's retail loan production operations utilize loan officers, underwriters and processors. PBM's loan officers generate retail loan originations primarily through referrals from realtors, builders, employees and customers. As of June 30, 2012, PBM operated stand-alone retail loan production offices in City of Industry, Escondido, Fairfield, Glendora, Hermosa Beach, Pleasanton, Rancho Cucamonga (2), Riverside (4), Roseville and San Rafael, California. Generally, the cost of retail operations exceeds the cost of wholesale operations as a result of the additional employees needed for retail operations. The revenue per mortgage for retail originations is, however, generally higher since the origination fees are retained by the Bank instead of the wholesale loan broker. Retail loans originated for sale in fiscal 2012, 2011 and 2010 were $1.01 billion, $750.7 million and $464.1 million, respectively.

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

Loan Commitments and Rate Locks. The Bank issues commitments for residential mortgage loans conditioned upon the occurrence of certain events. Such commitments are made with specified terms and conditions. Interest rate locks are generally offered to prospective borrowers for up to a 60-day period. The borrower may lock in the rate at any time from application until the time they wish to close the loan. Occasionally, borrowers obtaining financing in new home developments are offered rate locks for up to 120 days from application. The Bank's outstanding commitments to originate loans to be held for sale at June 30, 2012 and 2011 were $220.4 million and $107.5 million, respectively (see Note 15 of the Notes to Consolidated Financial Statements contained in Item 8 of this Form 10-K). When the Bank issues a loan commitment to a borrower, there is a risk to the Bank that a rise in interest rates will reduce the value of the mortgage before it can be closed and sold. To control the interest rate risk caused by mortgage banking activities, the Bank uses loan sale commitments and over-the-counter put and call option contracts related to mortgage-backed securities. If the Bank is unable to reasonably predict the amount of loan commitments which may not fund (fallout), the Bank may enter into "best-efforts" loan sale commitments (see "Derivative Activities" on this Form 10-K).

Loan Origination and Other Fees. The Bank may receive origination points and loan fees. Origination points are a percentage of the principal amount of the mortgage loan, which is charged to a borrower for funding a loan. The amount of points charged by the Bank ranges from 0% to 2.5%. Current accounting standards require points and fees received for originating loans held for investment (net of certain loan origination costs) to be deferred and amortized into interest income over the contractual life of the loan. Origination fees and costs for loans originated for sale are deferred until the related loans are sold. Net deferred fees or costs associated with loans that are prepaid or sold are recognized as income or expense at the time of prepayment or sale. At June 30, 2012 and 2011, the Bank had $2.1 million and $2.6 million, respectively, of unamortized deferred loan origination costs (net) in loans held for investment.

Loan Originations, Sales and Purchases.   The Bank's mortgage originations include loans insured by the FHA and VA as well as conventional loans. Except for loans originated as held for investment, loans originated through mortgage banking activities are intended for eventual sale into the secondary market. As such, these loans must meet the origination and underwriting criteria established by secondary market investors. The Bank sells a large percentage of the mortgage loans that it originates as whole loans to investors. The Bank also sells conforming whole loans to Fannie Mae and Freddie Mac (see "Derivative Activities" on this Form 10-K).

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

	Year Ended June 30,		
(In Thousands)	2012	2011	2010
Loans originated and purchased for sale:			
Retail originations	$ 1,005,499	$ 750,737	$ 464,145
Wholesale originations	1,511,138	1,392,806	1,336,686
Total loans originated and purchased for sale (1)	2,516,637	2,143,543	1,800,831
Loans sold:			
Servicing released	(2,460,281)	(2,115,845)	(1,778,684)
Servicing retained	(13,121)	(1,999)	(2,541)
Total loans sold (2)	(2,473,402)	(2,117,844)	(1,781,225)
Loans originated for investment:			
Mortgage loans:			
Single-family	2,545	2,059	1,209
Multi-family	37,328	3,220	841
Commercial real estate	9,281	539	1,872
Commercial business loans	375	416	-
Consumer loans	13	9	124
Total loans originated for investment (3)	49,542	6,243	4,046
Loans purchased for investment:			
Mortgage loans:			
Multi-family	8,218	6,610	-
Commercial real estate	-	481	-
Total loans purchased for investment	8,218	7,091	-
Mortgage loan principal repayments	(130,951)	(106,041)	(106,961)
Real estate acquired in the settlement of loans	(24,113)	(47,316)	(59,038)
Increase in other items, net (4)	9,256	11,097	7,288
Net decrease in loans held for investment and loans held for sale at fair value	$ (44,813)	$ (103,227)	$ (135,059)

(1) Includes PBM loans originated and purchased for sale during fiscal 2012, 2011 and 2010 totaling $2.52 billion, $2.14 billion and $1.80 billion, respectively.

(2) Includes PBM loans sold during fiscal 2012, 2011 and 2010 totaling $2.47 billion, $2.12 billion and $1.78 billion, respectively.

(3) Includes PBM loans originated for investment during fiscal 2012, 2011 and 2010 totaling $2.5 million, $1.8 million, and $818, respectively.

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

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

Loans previously sold by the Bank to the FHLB – San Francisco under its Mortgage Partnership Finance ("MPF") program have a recourse provision. The FHLB – San Francisco absorbs the first four basis points of loss, and a credit scoring process is used to calculate the credit enhancement or recourse amount to the Bank once the first four basis points is exhausted. All losses above this calculated recourse amount are the responsibility of the FHLB – San Francisco in addition to the first four basis points of loss. The FHLB – San Francisco pays the Bank a credit enhancement fee on a monthly basis to compensate the Bank for accepting the recourse obligation. FHLB – San Francisco discontinued the MPF program on October 6, 2006. As of June 30, 2012 and 2011, the Bank serviced $68.0 million and $87.0 million, respectively, of loans under this program and has established a recourse liability of $734,000 and $96,000, respectively. In fiscal 2012, 2011 and 2010, a net recourse loss of $439,000, $9,000 and $19,000, respectively, was recognized under this program.

Occasionally, the Bank is required to repurchase loans sold to Fannie Mae, Freddie Mac or investors if it is determined that such loans do not meet the credit requirements of the investor, or if one of the parties involved in the loan misrepresented pertinent facts, committed fraud, or if such loans were 30 days past due within 120 days of the loan funding date. During fiscal 2012, 2011 and 2010, the Bank repurchased $1.6 million, $0 and $368,000 of single-family mortgage loans, respectively. However, additional repurchase requests were settled for an aggregate of $439,000, $2.0 million and $3.4 million in fiscal 2012, 2011 and 2010, respectively, that did not result in the repurchase of the loan itself.

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

Under mandatory loan sale commitments, usually with Fannie Mae, Freddie Mac or investors, the Bank is obligated to sell certain dollar amounts of mortgage loans that meet specific underwriting and legal criteria before the expiration of the commitment period. These terms include the maturity of the individual loans, the yield to the purchaser, the servicing spread to the Bank (if servicing is retained) and the maximum principal amount of the individual loans. The mandatory loan sale commitments protect loan sale prices from interest rate fluctuations that may occur from the time the interest rate of the loan is established to the time of its sale. The amount of and delivery date of the loan sale commitments are based upon management's estimates as to the volume of loans that will close and the length of the origination commitments. The mandatory loan sale commitments do not provide complete interest-rate protection, however, because of the possibility of loans which may not fund during the origination process. Differences between the estimated volume and timing of loan originations and the actual volume and timing of loan originations can expose the Bank to significant losses. If the Bank is not able to deliver the mortgage loans during the appropriate delivery period, the Bank may be required to pay a non-delivery fee or repurchase the commitments at current market prices. Similarly, if the Bank has too many loans to deliver, the Bank must execute additional loan sale commitments at current market prices, which may be unfavorable to the Bank. Generally, the Bank seeks to maintain loan sale commitments equal to the funded loans held for sale at fair value, plus those applications that the Bank has rate locked and/or committed to close, adjusted by the projected fallout. The ultimate accuracy of such projections will directly bear upon the amount of interest rate risk incurred by the Bank.

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

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

At June 30, 2012 and 2011, the Bank had put option contracts outstanding with a nominal value of $15.0 million and $13.0 million, respectively. At June 30, 2012 and 2011, the Bank had outstanding mandatory loan sale commitments of $101.6 million and $96.4 million, respectively; outstanding TBA-MBS trades of $307.0 million and $183.5 million, respectively; outstanding best-efforts loan sale commitments of $30.5 million and $8.2 million, respectively; and commitments to originate loans to be held for sale of $220.4 million and $107.5 million, respectively (see Note 15 of the Notes to Consolidated Financial Statements contained in Item 8 of this Form 10-K). Additionally, as of June 30, 2012 and 2011, the Bank's loans held for sale at fair value were $231.6 million and $191.7 million, respectively, which were also covered by the loan sale commitments described above. For fiscal 2012 and 2011, the Bank had a net gain of $5.7 million and $590,000, respectively, attributable to the underlying derivative financial instruments used to mitigate the interest rate risk of its mortgage banking activities and the fair-value adjustment on loans held for sale.

Loan Servicing

The Bank receives fees from a variety of investors in return for performing the traditional services of collecting individual loan payments on loans sold by the Bank to such investors. At June 30, 2012, the Bank was servicing $98.9 million of loans for others, a decline from $109.4 million at June 30, 2011. The decrease was primarily attributable to loan prepayments. Loan servicing includes processing payments, accounting for loan funds and collecting and paying real estate taxes, hazard insurance and other loan-related items such as private mortgage insurance. After the Bank receives the gross mortgage payment from individual borrowers, it remits to the investor a predetermined net amount based on the loan sale agreement for that mortgage.

Servicing assets are amortized in proportion to and over the period of the estimated net servicing income and are carried at the lower of cost or fair value. The fair value of servicing assets is determined by calculating the present value of the estimated net future cash flows consistent with contractually specified servicing fees. The Bank periodically evaluates servicing assets for impairment, which is measured as the excess of cost over fair value. This review is performed on a disaggregated basis, based on loan type and interest rate. Generally, loan servicing becomes more valuable when interest rates rise (as prepayments typically decrease) and less valuable when interest rates decline (as prepayments typically increase). In estimating fair values at June 30, 2012 and 2011, the Bank used a weighted average Constant Prepayment Rate ("CPR") of 26.61% and 19.10%, respectively, and a weighted-average discount rate of 9.10% and 9.02%, respectively. The required impairment reserve against servicing assets at June 30, 2012 and 2011 was $164,000 and $76,000, respectively. The increase in impairment reserve was due primarily to expected higher prepayments. In aggregate, servicing assets had a carrying value of $327,000 and a fair value of $398,000 at June 30, 2012, compared to a carrying value of $354,000 and a fair value of $589,000 at June 30, 2011.

Rights to future income from serviced loans that exceed contractually specified servicing fees are recorded as interest-only strips. Interest-only strips are carried at fair value, utilizing the same assumptions used to calculate the value of the underlying servicing assets, with any unrealized gain or loss, net of tax, recorded as a component of accumulated other comprehensive income (loss). Interest-only strips had a fair value of $130,000, gross unrealized gains of $127,000 and an amortized cost of $3,000 at June 30, 2012, compared to a fair value of $200,000, gross unrealized gains of $197,000 and an amortized cost of $3,000 at June 30, 2011.

Delinquencies and Classified Assets

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

A loan is placed on non-performing status when its contractual payments are more than 90 days delinquent or if the loan is deemed impaired. 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.

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

The loan terms which have been modified or restructured due to a borrower's financial difficulty, include but are not limited to:
a) A reduction in the stated interest rate.
b) An extension of the maturity at an interest rate below market.
c) A reduction in the accrued interest.
d) Extensions, deferrals, renewals and rewrites.

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

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

	At June 30,											
	2012				2011				2010			
	30 – 89 Days		Non-performing		30 - 89 Days		Non-performing		30 - 89 Days		Non-performing	
(Dollars in Thousands)	Number of Loans	Principal Balance of Loans	Number of Loans	Principal Balance of Loans	Number of Loans	Principal Balance of Loans	Number of Loans	Principal Balance of Loans	Number of Loans	Principal Balance of Loans	Number of Loans	Principal Balance of Loans
Mortgage loans:												
Single-family	2	$ 613	87	$ 34,566	6	$ 1,655	116	$ 44,492	18	$ 5,835	165	$ 64,956
Multi-family	-	-	4	1,806	-	-	2	2,534	-	-	6	8,151
Commercial real estate	-	-	6	3,820	1	387	3	2,451	-	-	5	2,164
Construction	-	-	-	-	-	-	-	-	-	-	1	400
Other	-	-	1	522	-	-	1	1,293	-	-	-	-
Commercial business loans	-	-	6	246	1	13	4	472	-	-	3	936
Consumer loans	5	3	-	-	3	2	-	-	4	14	1	1
Total	7	$ 616	104	$ 40,960	11	$ 2,057	126	$ 51,242	22	$ 5,849	181	$ 76,608

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

			At June 30,		
	2012	2011	2010	2009	2008
(Dollars In Thousands)					
Loans on non-performing status (excluding restructured loans):					
Mortgage loans:					
Single-family	$ 17,095	$ 16,705	$ 30,129	$ 35,434	$ 15,975
Multi-family	967	1,463	3,945	4,930	-
Commercial real estate	764	560	725	1,255	572
Construction	-	-	350	250	4,716
Other	-	-	-	-	575
Commercial business loans	7	-	-	198	-
Consumer loans	-	-	1	-	-
Total	18,833	18,728	35,150	42,067	21,838
Accruing loans past due 90 days or more	-	-	-	-	-
Restructured loans on non-performing status:					
Mortgage loans:					
Single-family	11,995	15,133	19,522	23,695	1,355
Multi-family	490	490	2,541	-	-
Commercial real estate	2,483	1,660	1,003	1,406	-
Construction	-	-	-	2,037	-
Other	522	972	-	1,565	-
Commercial business loans	165	143	567	1,048	-
Total	15,655	18,398	23,633	29,751	1,355
Total non-performing loans	34,488	37,126	58,783	71,818	23,193
Real estate owned, net	5,489	8,329	14,667	16,439	9,355
Total non-performing assets	$ 39,977	$ 45,455	$ 73,450	$ 88,257	$ 32,548
Restructured loans on accrual status:					
Mortgage loans:					
Single-family	$ 6,148	$ 15,589	$ 33,212	$ 10,880	$ 9,101
Multi-family	3,266	3,665	-	-	-
Commercial real estate	-	1,142	1,832	-	-
Other	-	237	1,292	240	28
Commercial business loans	33	125	-	-	-
Total	$ 9,447	$ 20,758	$ 36,336	$ 11,120	$ 9,129
Non-performing loans as a percentage of loans held for investment, net	4.33%	4.21%	5.84%	6.16%	1.70%
Non-performing loans as a percentage					

of total assets	2.74%	2.83%	4.20%	4.55%	1.42%
Non-performing assets as a percentage of total assets	3.17%	3.46%	5.25%	5.59%	1.99%

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The following table describes the non-performing loans, net of allowance for loan losses, by the calendar year of origination as of June 30, 2012:

	Calendar Year of Origination									
(Dollars In Thousands)	2004 & Prior	2005	2006	2007	2008	2009	2010	2011	YTD June 30, 2012	Total
Mortgage loans:										
Single-family	$ 4,200	$ 11,561	$ 5,382	$ 7,106	$ 383	$ -	$ -	$ 458	$ -	$ 29,090
Multi-family	193	-	1,017	247	-	-	-	-	-	1,457
Commercial real estate	1,361	333	925	-	-	-	-	-	628	3,247
Other	-	-	-	-	-	522	-	-	-	522
Commercial business loans	-	-	-	-	-	125	-	12	35	172
Total	$ 5,754	$ 11,894	$ 7,324	$ 7,353	$ 383	$ 647	$ -	$ 470	$ 663	$ 34,488

The following table describes the non-performing loans, net of allowance for loan losses, by the geographic location as of June 30, 2012:

(Dollars In Thousands)	Inland Empire	Southern California (1)	Other California (2)	Other States	Total
Mortgage loans:					
Single-family	$ 7,353	$ 16,677	$ 4,720	$ 340	$ 29,090
Multi-family	930	-	527	-	1,457
Commercial real estate	1,631	1,616	-	-	3,247
Other	522	-	-	-	522
Commercial business loans	69	-	7	96	172
Total	$ 10,505	$ 18,293	$ 5,254	$ 436	$ 34,488

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

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

	At June 30, 2012		At June 30, 2011	
(Dollars In Thousands)	Balance	Count	Balance	Count
Special mention loans:				
Mortgage loans:				
Single-family	$ 2,118	5	$ 2,570	12
Multi-family	2,755	1	3,665	2
Commercial real estate	-	-	6,531	6
Commercial business loans	33	1	78	2
Total special mention loans	4,906	7	12,844	22
Substandard loans:				
Mortgage loans:				
Single-family	29,594	92	33,493	125
Multi-family	7,668	7	3,265	5
Commercial real estate	10,114	12	7,527	9
Other	522	1	972	1
Commercial business loans	173	6	156	5
Total substandard loans	48,071	118	45,413	145
Total classified loans	52,977	125	58,257	167
Real estate owned:				
Single-family	4,737	18	6,718	26
Multi-family	366	1	1,041	1
Commercial real estate	-	1	102	1
Other	386	4	468	26
Total real estate owned	5,489	24	8,329	54
Total classified assets	$ 58,466	149	$ 66,586	221

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

Accounting Standards Codification ("ASC") 310, "Receivables," establishes a collectively evaluated or individually evaluated allowance and charges off those loans or portions of loans deemed uncollectible.

During the fiscal year ended June 30, 2012, 24 loans for $10.1 million were modified from their original terms, were re-underwritten at current market interest rates and were identified in the Bank's asset quality reports as restructured loans. This compares to 43 loans for $20.7 million that were modified in the fiscal year ended June 30, 2011. As of June 30, 2012, the outstanding balance of modified (restructured) loans was $25.1 million, comprised of 56 loans. These restructured loans are classified as follows: 12 loans are classified as pass, are not included in the classified asset totals and remain on accrual status ($5.5 million); three loans are classified as special mention and remain on accrual status ($4.0 million); and 41 loans are classified as substandard on non-performing status ($15.6 million, all are on non-accrual status). As of June 30, 2012, 74%, or $18.5 million of the restructured loans have a current payment status. Restructured loans which are initially classified as "Substandard" and placed on non-performing status may be upgraded and placed on accrual status once there is a sustained period of payment performance (usually six months or longer) and there is a reasonable assurance that the payment will continue.

The following table shows the restructured loans by type, net of allowance for loan losses, at June 30, 2012 and 2011:

	June 30, 2012		
(In Thousands)	Recorded Investment	Allowance For Loan Losses (1)	Net Investment
Mortgage loans:			
Single-family:			
With a related allowance	$ 9,465	$ (486)	$ 8,979
Without a related allowance	9,164	-	9,164
Total single-family loans	18,629	(486)	18,143
Multi-family:			
With a related allowance	517	(27)	490
Without a related allowance	3,266	-	3,266
Total multi-family loans	3,783	(27)	3,756
Commercial real estate:			
With a related allowance	2,921	(438)	2,483
Total commercial real estate loans	2,921	(438)	2,483
Other:			
Without a related allowance	522	-	522
Total other loans	522	-	522
Commercial business loans:			
With a related allowance	236	(71)	165
Without a related allowance	33	-	33
Total commercial business loans	269	(71)	198
Total restructured loans	$ 26,124	$ (1,022)	$ 25,102

(1) Consists of collectively and individually evaluated allowances.

(In Thousands)	Recorded Investment	June 30, 2011 Allowance For Loan Losses (1)	Net Investment
Mortgage loans:			
Single-family:			
With a related allowance	$ 19,092	$ (3,959)	$ 15,133
Without a related allowance	15,589	-	15,589
Total single-family loans	34,681	(3,959)	30,722
Multi-family:			
With a related allowance	517	(27)	490
Without a related allowance	3,665	-	3,665
Total multi-family loans	4,182	(27)	4,155
Commercial real estate:			
With a related allowance	1,837	(177)	1,660
Without a related allowance	1,142	-	1,142
Total commercial real estate loans	2,979	(177)	2,802
Other:			
With a related allowance	1,293	(321)	972
Without a related allowance	237	-	237
Total other loans	1,530	(321)	1,209
Commercial business loans:			
With a related allowance	53	(51)	2
Without a related allowance	266	-	266
Total commercial business loans	319	(51)	268
Total restructured loans	$ 43,691	$ (4,535)	$ 39,156

(1) Consists of specific valuation allowances.

As of June 30, 2012, total non-performing assets were $40.0 million, or 3.17% of total assets, which was primarily comprised of: 87 single-family loans ($29.1 million); six commercial real estate loans ($3.2 million); four multi-family loans ($1.5 million); one other mortgage loan ($522,000); six commercial business loans ($172,000); and real estate owned comprised of 18 single-family properties ($4.7 million), one multi-family property ($366,000), four undeveloped lots acquired in the settlement of loans ($385,000) and one commercial real estate property (fully reserved). As of June 30, 2012, 49%, or $17.1 million of non-performing loans have a current payment status, primarily restructured loans. Compared to June 30, 2011, total non-performing assets decreased $5.5 million, or 12%.

Foregone interest income, which would have been recorded for the fiscal years ended June 30, 2012 and 2011 had the non-performing loans been current in accordance with their original terms, amounted to $876,000 and $1.3 million, respectively, and was not included in the results of operations for the fiscal years ended June 30, 2012 and 2011.

As of June 30, 2012, $4.9 million of loans which were not disclosed as non-performing loans or restructured loans but where known information about possible credit problems of the borrowers causes management to have serious doubts as to the ability of such borrowers to comply with present loan repayment terms were classified as special mention, of which $2.1 million were single-family mortgage loans, $2.8 million were multi-family mortgage loans and $33,000 were commercial business loans. As of June 30, 2011, $12.8 million of loans were classified by the Bank as special mention.

Foreclosed Real Estate. Real estate acquired by the Bank as a result of foreclosure or by deed-in-lieu of foreclosure is classified as real estate owned until it is sold. When a property is acquired, it is recorded at the lower of its cost, which is the unpaid principal balance, net of deferred fees/costs, escrow balances and foreclosure costs, or its market value less the estimated cost of sale. Subsequent declines in value are charged to operations. As of June 30, 2012, the real estate owned balance was $5.5 million (24 properties), primarily single-family residences located in Southern California, compared to $8.3 million (54 properties) at June 30, 2011. In managing the real estate owned properties for quick disposition, the Bank completes the necessary repairs and maintenance to the individual properties before listing for sale, obtains new appraisals and broker price opinions (“BPO”) to determine current market listing prices, and engages local realtors who are most familiar with real estate sub-markets, among other techniques, which generally results in the quick disposition of real estate owned.

Asset Classification. The OCC has adopted various regulations regarding the problem assets of savings institutions. The regulations require that each institution review and classify its assets on a regular basis. In addition, in connection with examinations of institutions, OCC examiners have the authority to identify problem assets and, if appropriate, require them to be classified. There are three classifications for problem assets: substandard, doubtful and loss. Substandard assets have one or more defined weaknesses and are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected. Doubtful assets have the weaknesses of substandard assets with the additional characteristic that the weaknesses make collection or liquidation in full on the basis of currently existing facts, conditions and values questionable, and there is a high possibility of loss. An asset classified as a loss is considered uncollectible and of such little value that continuance as an asset of the institution is not warranted. If an asset or portion thereof is classified as loss, the institution establishes an individually evaluated allowance and may subsequently charge-off for the full amount or for the portion of the asset classified as loss. A portion of allowances for loan losses established to cover probable losses related to assets classified substandard or doubtful may be included in determining an institution’s regulatory capital. Assets that do not currently expose the institution to sufficient risk to warrant classification in one of the aforementioned categories but possess weaknesses are designated as special mention and are closely monitored by the Bank.

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

	At June 30,	
(Dollars In Thousands)	2012	2011
Special mention loans	$ 4,906	$ 12,844
Substandard loans	48,071	45,413
Total classified loans	52,977	58,257
Real estate owned, net	5,489	8,329
Total classified assets	$ 58,466	$ 66,586
Total classified assets as a percentage of total assets	4.64%	5.07%

Classified assets decreased at June 30, 2012 from the June 30, 2011 level primarily due to loan classification upgrades, particularly those restructured loans with satisfactory contractual payments for at least six consecutive months; disposition of real estate owned properties and a general improvement in the real estate market, resulting in fewer delinquent loans. The classified assets are primarily located in Southern California.

As set forth below, loans classified as substandard and special mention as of June 30, 2012 were comprised of 125 loans totaling $53.0 million.

(Dollars In Thousands)	Number of Loans	Special Mention	Substandard	Total
Mortgage loans:				
Single-family	97	$ 2,118	$ 29,594	$ 31,712
Multi-family	8	2,755	7,668	10,423
Commercial real estate	12	-	10,114	10,114
Other	1	-	522	522
Commercial business loans	7	33	173	206
Total	125	$ 4,906	$ 48,071	$ 52,977

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

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

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

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

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

In compliance with the OCC's regulatory reporting requirements which do not recognize specific valuation allowances, the Bank modified its charge-off policy on non-performing loans during the quarter ended March 31, 2012 and, subsequent to the OCC's review, the Bank further modified its charge-off policy in the quarter ended June 30, 2012. Historically, the Bank established a specific valuation allowance for non-performing loans at under ASC

310 based upon the estimated fair value of the underlying collateral, less disposition costs, in comparison to the loan balance or used a discounted cash flow method for non-performing restructured loans. The specific valuation allowance was not charged-off until the foreclosure process was complete. Under the modified policy, 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 restructured loans, the charge-off occurs when the loans becomes 90 days delinquent; and where borrowers file bankruptcy, the charge-off occurs when the loan becomes 60 days delinquent. The amount of the charge-off is determined by comparing the loan balance to the estimated fair value of the underlying collateral, less disposition costs, with the loan balance in excess of the estimated fair value charged-off against the allowance for loan losses. Both methods are acceptable under accounting principles generally accepted in the United States of America ("GAAP"). The modification to the charge-off policy resulted in $3.01 million of additional charge-offs in the fourth quarter of fiscal 2012 and a total of $4.00 million of additional charge-offs for fiscal 2012, but had no impact to the allowance for loans losses or the provision for loan losses because these charge-offs were timely identified in previous periods as specific valuation allowances and were included in the Bank's loss experience as part of the evaluation of the allowance for loan losses in those prior periods. The allowance for loan losses for non-performing loans is determined by applying ASC 310. The change in method did not have a material impact to the allowance for loan losses. For restructured loans that are less than 90 days delinquent, the allowance for loan losses are segregated into (a) individually evaluated allowances for those loans with applicable discounted cash flow calculations or (b) collectively evaluated allowances based on the aggregated pooling method. For non-performing loans less than 60 days delinquent where the borrower has filed bankruptcy, the collectively evaluated allowances are assigned based on the aggregated pooling method.

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

At June 30, 2012, the Bank had an allowance for loan losses of $21.5 million, or 2.63% of gross loans held for investment, compared to an allowance for loan losses at June 30, 2011 of $30.5 million, or 3.34% of gross loans held for investment. A $5.8 million provision for loan losses was recorded in fiscal 2012, compared to $5.5 million in fiscal 2011. Although management believes the best information available is used to make such provisions, future adjustments to the allowance for loan losses may be necessary and results of operations could be significantly and adversely affected if circumstances differ substantially from the assumptions used in making the determinations.

The Bank's first trust deed, single-family mortgage loans held for investment contain certain non-traditional underwriting characteristics (e.g. interest only, stated income, negative amortization, FICO less than or equal to 660, and/or over 30-year amortization schedule) as described in Item 1 – Business – Single-Family Mortgage Loans in the table on this Form 10-K. These loans may have a greater risk of default in comparison to single-family mortgage loans that have been underwritten with more stringent requirements. As a result, the Bank may experience higher future levels of non-performing single-family loans that may require additional allowances for loan losses and may adversely affect the Bank's financial condition and results of operations. As of June 30, 2012, the allowance for loan losses for non-performing interest-only loans, non-performing stated income loans and non-performing negative amortization loans was $2.2 million, $2.9 million and $0, respectively, as compared with $5.8 million, $7.6 million and $461,000, respectively as of June 30, 2011 (please note that each loan type may be described in more than one category under the concept generally known as “layered-risk”).

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

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

	Year Ended June 30,				
(Dollars In Thousands)	2012	2011	2010	2009	2008
Allowance at beginning of period	$ 30,482	$ 43,501	$ 45,445	$ 19,898	$ 14,845
Provision for loan losses	5,777	5,465	21,843	48,672	13,108
Recoveries:					
Mortgage Loans:					
Single-family	347	1	442	160	188
Commercial real estate	-	-	192	-	-
Construction	28	-	69	115	32
Commercial business loans	-	25	14	-	-
Consumer loans	-	1	-	1	3
Total recoveries	375	27	717	276	223
Charge-offs:					
Mortgage loans:					
Single-family	(13,869)	(17,996)	(20,937)	(22,999)	(6,028)
Multi-family	(541)	(205)	(597)	-	(335)
Commercial real estate	(49)	-	(455)	(104)	-
Construction	-	(298)	(1,597)	(73)	(1,911)
Other	(400)	-	-	(216)	-
Commercial business loans	(261)	-	(907)	-	-
Consumer loans	(31)	(12)	(11)	(9)	(4)
Total charge-offs	(15,151)	(18,511)	(24,504)	(23,401)	(8,278)
Net charge-offs	(14,776)	(18,484)	(23,787)	(23,125)	(8,055)
Allowance at end of period	$ 21,483	$ 30,482	$ 43,501	$ 45,445	$ 19,898
Allowance for loan losses as a percentage of gross loans held for investment	2.63%	3.34%	4.14%	3.75%	1.43%
Net charge-offs as a percentage of average loans receivable, net, during the period	1.38%	1.67%	1.96%	1.72%	0.58%
Allowance for loan losses as a percentage of gross non-performing loans at the end of the period	52.45%	59.49%	56.78%	46.77%	67.01%

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

	At June 30,								
	2012		2011		2010		2009		2008
(Dollars In Thousands)	Amount	% of Loans in Each Category to Total Loans	Amount	% of Loans in Each Category to Total Loans	Amount	% of Loans in Each Category to Total Loans	Amount	% of Loans in Each Category to Total Loans	Amou
Mortgage loans:									
Single-family	$ 15,933	53.79%	$ 24,215	54.34%	$ 35,708	55.73%	$ 37,057	57.52%	$ 8,7
Multi-family	3,551	34.07	3,391	33.52	4,957	32.83	3,789	30.87	5,1
Commercial real estate	1,810	11.67	2,027	11.39	2,064	10.54	2,106	10.17	3,6
Construction	-	-	-	-	50	0.04	1,570	0.37	1,9
Other	7	0.09	325	0.17	89	0.15	94	0.21	1
Commercial business loans	169	0.32	508	0.50	613	0.63	810	0.76	3
Consumer loans	13	0.06	16	0.08	20	0.08	19	0.10	
Total allowance for loan losses	$ 21,483	100.00%	$ 30,482	100.00%	$ 43,501	100.00%	$ 45,445	100.00%	$ 19,8

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Investment Securities Activities

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

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

At June 30, 2012, the Bank's investment securities portfolio was $22.9 million, which primarily consisted of federal agency and government sponsored enterprise obligations. The Bank's investment securities portfolio was classified as available for sale.

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

	At June 30,								
	2012			2011			2010		
(Dollars In Thousands)	Amortized Cost	Estimated Fair Value	Percent	Amortized Cost	Estimated Fair Value	Percent	Amortized Cost	Estimated Fair Value	Percent
Available for sale securities:									
U.S. government sponsored enterprise debt securities	$ -	$ -	- %	$ -	$ -	- %	$ 3,250	$ 3,317	9.48 %
U.S. government agency MBS (1)	11,854	12,314	53.78	13,935	14,409	55.01	17,291	17,715	50.61
U.S. government sponsored enterprise MBS (1)	8,850	9,342	40.80	9,960	10,417	39.77	11,957	12,456	35.58
Private issue CMO (2)	1,243	1,242	5.42	1,396	1,367	5.22	1,599	1,515	4.33
Total investment securities -									

available for sale	$ 21,947	$ 22,898	100.00%	$ 25,291	$ 26,193	100.00%	$ 34,097	$ 35,003	100.00%

(1) Mortgage-backed securities ("MBS")
(2) Collateralized mortgage obligations ("CMO")

As of June 30, 2012, the Bank held investments in a continuous unrealized loss position totaling $5,000, consisting of the following:

(In Thousands)	Unrealized Holding Losses Less Than 12 Months		Unrealized Holding Losses 12 Months or More		Unrealized Holding Losses Total	
Description of Securities	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
Private issue CMO	$ -	$ -	$ 183	$ 5	$ 183	$ 5
Total	$ -	$ -	$ 183	$ 5	$ 183	$ 5

As of June 30, 2012, the unrealized holding losses relate to one adjustable-rate private issue CMO with an unrealized loss position for more than 12 months, primarily the result of perceived credit and liquidity concerns. Based on the nature of the investments (e.g. AA rating, 2003 issuance, weighted average LTV of 52% at the time of origination, weighted average FICO score of 740 at the time of origination, over collateralization, and senior tranche position) and the Bank's ability and intent to hold the investments until maturity, management concluded that such unrealized losses were not other than temporary as of June 30, 2012.

The following table sets forth the outstanding balance, maturity and weighted average yield of the investment securities at June 30, 2012:

	Due in One Year or Less		Due After One to Five Years		Due After Five to Ten Years		Due After Ten Years		Total	
(Dollars in Thousands)	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
Available for sale securities:										
U.S. government agency MBS	$ -	- %	$ -	- %	$ -	- %	$ 12,314	1.96%	$ 12,314	1.96%
U.S. government sponsored enterprise MBS	-	- %	-	- %	-	- %	9,342	2.43%	9,342	2.43%
Private issue CMO	-	- %	-	- %	-	- %	1,242	2.40%	1,242	2.40%
Total investment securities available for sale	$ -	- %	$ -	- %	$ -	- %	$ 22,898	2.17%	$ 22,898	2.17%

Deposit Activities and Other Sources of Funds

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

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

The Bank generally offers time deposits for terms not exceeding five years. As illustrated in the following table, time deposits represented 46% of the Bank's deposit portfolio at June 30, 2012, compared to 50% at June 30, 2011. As of June 30, 2012, total brokered deposits were $7.1 million with a weighted average interest rate of 3.41% and remaining maturities between one and seven years. At June 30, 2011, total brokered deposits were $12.2 million with a weighted average interest rate of 3.11% and remaining maturities between one and eight years. The Bank attempts to reduce the overall cost of its deposit portfolio and to increase its franchise value by emphasizing transaction accounts, which are subject to a heightened degree of competition (see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" on this Form 10-K).

The following table sets forth information concerning the Bank's weighted-average interest rate of deposits at June 30, 2012.

Weighted Average Interest Rate	Term	Deposit Account Type	Minimum Amount	Balance (In Thousands)	Percentage of Total Deposits
		Transaction accounts:			
- %	N/A	Checking accounts – non interest-bearing	$ -	$ 55,688	5.79%
0.17%	N/A	Checking accounts – interest-bearing	$ -	204,524	21.27
0.29%	N/A	Savings accounts	$ 10	226,051	23.51
0.42%	N/A	Money market accounts	$ -	29,382	3.06
		Time deposits:			
0.10%	30 days or less	Fixed-term, fixed rate	$ 1,000	23	-
0.22%	31 to 90 days	Fixed-term, fixed rate	$ 1,000	7,408	0.77
0.23%	91 to 180 days	Fixed-term, fixed rate	$ 1,000	16,981	1.77
0.34%		Fixed-term, fixed rate	$ 1,000	71,192	7.41

	181 to 365 days				
1.11%	Over 1 to 2 years	Fixed-term, fixed rate	$ 1,000	238,360	24.79
1.60%	Over 2 to 3 years	Fixed-term, fixed rate	$ 1,000	15,951	1.66
3.13%	Over 3 to 5 years	Fixed-term, fixed rate	$ 1,000	92,761	9.65
3.70%	Over 5 to 10 years	Fixed-term, fixed rate	$ 1,000	3,090	0.32
0.76%				$ 961,411	100.00%

The following table indicates the aggregate dollar amount of the Bank's time deposits with balances of $100,000 or more differentiated by time remaining until maturity as of June 30, 2012.

Maturity Period (In Thousands)	Amount
Three months or less	$ 25,518
Over three to six months	35,909
Over six to twelve months	41,683
Over twelve months	111,123
Total	$ 214,233

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

	At June 30,					
	2012			2011		
(Dollars In Thousands)	Amount	Percent of Total	Increase (Decrease)	Amount	Percent of Total	Increase (Decrease)
Checking accounts – non interest-bearing	$ 55,688	5.79%	$ 10,251	$ 45,437	4.80%	$ (6,793)
Checking accounts – interest-bearing	204,524	21.27	19,295	185,229	19.59	8,565
Savings accounts	226,051	23.51	17,252	208,799	22.08	4,397
Money market accounts	29,382	3.06	(3,456)	32,838	3.47	8,107
Time deposits:						
Fixed-term, fixed rate which mature:						
Within one year	223,696	23.27	(60,818)	284,514	30.08	(23,820)
Over one to two years	162,168	16.87	57,134	105,034	11.11	27,967
Over two to five years	58,284	6.06	(24,012)	82,296	8.70	(3,916)
Over five years	1,618	0.17	(2)	1,620	0.17	(1,474)
Fixed-term, variable rate	-	-	-	-	-	(199)
Total	$ 961,411	100.00%	$ 15,644	$ 945,767	100.00%	$ 12,834

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

At June 30,

(In Thousands)	2012	2011	2010
Below 1.00%	$ 165,903	$ 118,869	$ 107,530
1.00 to 1.99%	189,175	245,404	195,946
2.00 to 2.99%	33,112	47,070	99,496
3.00 to 3.99%	44,014	47,001	55,252
4.00 to 4.99%	13,562	15,120	16,612
5.00 to 5.99%	-	-	70
Total	$ 445,766	$ 473,464	$ 474,906

Time Deposits by Maturities. The following table sets forth the aggregate dollar amount of time deposits at June 30, 2012 differentiated by interest rates and maturity.

(In Thousands)	One Year or Less	Over One to Two Years	Over Two to Three Years	Over Three to Four Years	After Four Years	Total
Below 1.00%	$ 117,870	$ 44,281	$ 3,465	$ 236	$ 51	$ 165,903
1.00 to 1.99%	95,181	83,746	2,341	981	6,926	189,175
2.00 to 2.99%	3,614	1,479	16,535	9,361	2,123	33,112
3.00 to 3.99%	5,052	21,079	14,817	1,499	1,567	44,014
4.00 to 4.99%	1,979	11,583	-	-	-	13,562
Total	$ 223,696	$ 162,168	$ 37,158	$ 12,077	$ 10,667	$ 445,766

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

	At or For the Year Ended June 30,		
(In Thousands)	2012	2011	2010
Beginning balance	$ 945,767	$ 932,933	$ 989,245
Net deposit (withdrawals) before interest credited	7,229	2,574	(71,812)
Interest credited	8,415	10,260	15,500
Net increase (decrease) in deposits	15,644	12,834	(56,312)
Ending balance	$ 961,411	$ 945,767	$ 932,933

Borrowings. The FHLB – San Francisco functions as a central reserve bank providing credit for member financial institutions. As a member, the Bank is required to own capital stock in the FHLB – San Francisco and is authorized to apply for advances using such stock and certain of its mortgage loans and other assets (principally investment securities) as collateral, provided certain creditworthiness standards have been met. Advances are made pursuant to several different credit programs. Each credit program has its own interest rate, maturity, terms and conditions. Depending on the program, limitations on the amount of advances are based on the financial condition of the member institution and the adequacy of collateral pledged to secure the credit. The Bank utilizes advances from the FHLB – San Francisco as an alternative to deposits to supplement its supply of lendable funds, to meet deposit withdrawal requirements and to help manage interest rate risk. The FHLB – San Francisco has, from time to time, served as the Bank's primary borrowing source. As of June 30, 2012 and 2011, the FHLB – San Francisco borrowing capacity was limited to 35% of the Bank's total assets at both dates. Advances from the FHLB – San Francisco are typically secured by the Bank's single-family residential, multi-family and commercial real estate mortgage loans. Total mortgage loans pledged to the FHLB – San Francisco were $819.4 million at June 30, 2012 as compared to $923.1 million at June 30, 2011. In addition, the Bank pledged investment securities totaling $1.1 million at June 30, 2012 as compared to $985,000 at June 30, 2011 to collateralize its FHLB – San Francisco advances under the Securities-Backed Credit ("SBC") facility. At June 30, 2012 and 2011, the Bank had $126.5 million and $206.6 million of borrowings, respectively, from the FHLB – San Francisco with a weighted-average interest rate of 3.53% and 3.77%, respectively. At June 30, 2012, the outstanding borrowings mature between 2013 and 2021 with a weighted average maturity of 39 months. In addition to the total borrowings mentioned above, the Bank utilized its borrowing facility for letters of credit and MPF credit enhancement. The outstanding letters of credit at June 30, 2012 and 2011 was $10.0 million and $13.0 million, respectively; and the outstanding MPF credit enhancement was $3.0 million and $3.1 million, respectively (see the MPF credit enhancement discussion on this Form 10-K). As of June 30, 2012 and 2011, the remaining financing availability was $310.9 million and $245.9 million, respectively, with remaining available collateral of $409.0 million and $372.9 million, respectively.

In addition, as of June 30, 2012 and 2011, the Bank had secured a discount window facility of $20.2 million and $23.1 million, respectively, at the Federal Reserve Bank of San Francisco, collateralized by investment securities with a fair market value of $21.2 million and $24.3 million, respectively.

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

	At or For the Year Ended June 30,		
(Dollars In Thousands)	2012	2011	2010
Balance outstanding at the end of period:			
FHLB – San Francisco advances	$ 126,546	$ 206,598	$ 309,647
Correspondent bank advances	$ -	$ -	$ -
Weighted average rate at the end of period:			
FHLB – San Francisco advances	3.53%	3.77%	4.13%
Correspondent bank advances	- %	- %	- %
Maximum amount of borrowings outstanding at any month end:			
FHLB – San Francisco advances	$ 216,577	$ 309,643	$ 456,688
Correspondent bank advances	$ -	$ -	$ -
Average short-term borrowings during the period with respect to (1):			
FHLB – San Francisco advances	$ 57,500	$ 110,833	$ 103,833
Correspondent bank advances	$ -	$ -	$ -
Weighted average short-term borrowing rate during the period with respect to (1):			
FHLB – San Francisco advances	3.54%	4.32%	4.23%
Correspondent bank advances	- %	- %	- %

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

As a member of the FHLB – San Francisco, the Bank is required to maintain a minimum investment in FHLB – San Francisco stock. The Bank held the required investment of $9.4 million and an excess investment of $12.9 million at June 30, 2012, as compared to the required investment of $14.0 million and an excess investment of $13.0 million at June 30, 2011. During fiscal 2012 and 2011, the Bank received a partial redemption of the excess FHLB – San Francisco stock of $4.7 million and $4.8 million, respectively. Also in fiscal 2012, 2011 and 2011, the Bank received cash dividends on the FHLB – San Francisco stock of $99,000, $110,000 and $112,000, respectively.

Subsidiary Activities

Federal savings institutions generally may invest up to 3% of their assets in service corporations, provided that at least one-half of any amount in excess of 1% is used primarily for community, inner-city and community development projects. The Bank's investment in its service corporations did not exceed these limits at June 30, 2012.

The Bank has three wholly owned subsidiaries: Provident Financial Corp ("PFC"), Profed Mortgage, Inc., and First Service Corporation. PFC's current activities include: (i) acting as trustee for the Bank's real estate transactions and (ii) holding real estate for investment, if any. Profed Mortgage, Inc., which formerly conducted the Bank's mortgage banking activities, and First Service Corporation are currently inactive. At June 30, 2012 and 2011, the Bank's investment in its subsidiaries was $105,000 and $114,000, respectively.

REGULATION

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

Legislation is introduced from time to time in the United States Congress that may affect the Corporation's and the Bank's operations. In addition, the regulations governing the Corporation and the Bank may be amended from time to time by the OCC, FDIC and Federal Reserve Board. Any such legislation or regulatory changes could adversely affect the Corporation and the Bank and no prediction can be made as to whether any such changes may occur.

Recently Enacted Regulatory Reform. On July 21 2010, the Dodd-Frank Act was signed into law. The Dodd-Frank Act implements new restrictions and an expanded framework of regulatory oversight related to the Bank's operations, including provisions to:

- Transfer the responsibilities and authority of the OTS to supervise and examine federal thrifts, including the Bank, to the OCC, and transfer the responsibilities and authority of the OTS to supervise and examine savings and loan holding companies, including the Corporation, to the Federal Reserve Board, effective July 21, 2011.
- Centralize responsibility for consumer financial protection by creating a new agency within the Federal Reserve Board, the Bureau of Consumer Financial Protection, with broad rulemaking, supervision and enforcement authority for a wide range of consumer protection laws that would apply to all banks and thrifts. Smaller financial institutions, including the Bank, are subject to the supervision and enforcement of their primary federal banking regulator with respect to the federal consumer financial protection laws.
- Require new capital rules and apply the same leverage and risk-based capital requirements that apply to insured depository institutions to savings and loan holding companies.
- Require the federal banking regulators to seek to make their capital requirements counter cyclical, so that capital requirements increase in times of economic expansion and decrease in times of economic contraction.
- Provide for new disclosure and other requirements relating to executive compensation and corporate governance.
- Make permanent the $250,000 limit for federal deposit insurance and provide unlimited federal deposit insurance until January 1, 2013 for non interest-bearing demand transaction accounts at all insured depository institutions.
- Repeal the federal prohibitions on the payment of interest on demand deposits, thereby permitting depository institutions to pay interest on business transaction and other accounts, effective July 21, 2011.
- Require all depository institution holding companies to serve as a source of financial strength to their depository institution subsidiaries in the event such subsidiaries suffer from financial distress.

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, the Bank and the financial services industry more generally. The elimination of the prohibition on the payment of interest on demand deposits could materially increase the Bank's interest expense, depending on our competitor's responses. Provisions in the legislation that require revisions to the capital requirements of the Corporation and the Bank could require the Corporation and the Bank to seek additional sources of capital in the future.

General

As discussed above, effective July 21, 2011, pursuant to the Dodd-Frank Act, the supervision and examination authority of the Bank was transferred from the OTS to the OCC and the supervision and examination authority of the Corporation was transferred from the OTS to the Federal Reserve Board. As part of this process, the regulations of the OTS have been incorporated into the respective regulations of the OCC and the Federal Reserve Board.

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

Federal Regulation of Savings Institutions

Office of Comptroller of the Currency. The OCC has extensive authority over the operations of savings institutions. As part of this authority, the Bank is required to file periodic reports with the OCC and is subject to periodic examinations by the OCC and the FDIC. The OCC also has extensive enforcement authority over all savings institutions, including the Bank. This enforcement authority includes, among other things, the ability to assess civil money penalties, issue a cease-and-desist order and initiate injunctive actions. In general, these enforcement actions may be initiated for violations of laws and regulations and unsafe or unsound practices. Other actions or inaction may provide the basis for enforcement action, including misleading or untimely reports filed with the OCC. Except under certain circumstances, public disclosure of final enforcement actions by the OCC is required.

If the OCC deems an institution to be in "troubled condition" (because it receives a composite CAMELS rating of 4 or 5, is subject to a cease-and-desist order, a capital or prompt corrective action directive, or a formal written agreement, or because of other reasons), the institution will become subject to various restrictions, such as growth limits, requirement for prior application of any new director or senior executive officer, restrictions on dividends, compensation and golden parachute and indemnification payments, and restrictions on transactions with affiliates and third parties. Higher assessment and application fees will also apply.

The investment, lending and branching authority of the Bank is prescribed by federal laws and it is prohibited from engaging in any activities not permitted by these laws. For example, no savings institution may invest in non-investment grade corporate debt securities. In addition, the permissible level of investment by federal institutions in loans secured by non-residential real estate property may not exceed 400% of total capital, except with the approval of the OCC. Federal savings institutions are also generally authorized to branch nationwide. The Bank is in compliance with the noted restrictions.

All savings institutions must pay assessments to the OCC (or the OTS prior to July 21, 2011), to fund the agency's operations. The general assessments, which were paid on a semi-annual basis, were determined based on the savings institution's total assets, including consolidated subsidiaries. The Bank's annual assessment for the fiscal years ended June 30, 2012, 2011 and 2010 were $283,000, $490,000 and $499,000 respectively.

Federal law provides that savings institutions are generally subject to the national bank limit on loans to one borrower. A savings institution may not make a loan or extend credit to a single or related group of borrowers in excess of 15% of its unimpaired capital and surplus. An additional amount may be lent, equal to 10% of unimpaired capital and surplus, if secured by specified readily marketable collateral. The Bank's limit on loans to one borrower or group of related borrowers was $24.5 million and $23.1 million, at June 30, 2012 and 2011, respectively. At June 30, 2012, the Bank's largest lending relationship to a single borrower or group of borrowers totaled $6.9 million, consisting of multi-family and commercial real estate loans, all of which are performing according to their original terms.

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

Federal Home Loan Bank System. The Bank is a member of the FHLB – San Francisco, which is one of 12 regional FHLBs that administer the home financing credit function of member financial institutions. Each FHLB serves as a reserve or central bank for its members within its assigned region. It is funded primarily from proceeds derived from the sale of consolidated obligations of the FHLB System. It makes loans or advances to members in accordance with policies and procedures, established by the Board of Directors of the FHLB, which are subject to the oversight of the Federal Housing Finance Agency. All advances from the FHLB are required to be fully secured by sufficient collateral as determined by the FHLB. In addition, all long-term advances are required to provide funds for residential home financing. At June 30, 2012 and 2011, the Bank had $126.5 million and $206.6 million of outstanding advances, respectively, from the FHLB – San Francisco under an available credit facility of $450.4 million and $468.6 million, respectively, based on 35% of total assets for both dates, which is limited to available collateral. See "Business – Deposit Activities and Other Sources of Funds – Borrowings" on this Form 10-K.

As a member, the Bank is required to purchase and maintain stock in the FHLB – San Francisco. At June 30, 2012 and 2011, the Bank held the required stock investment of $9.4 million and $14.0 million, respectively, and an excess stock investment of $12.9 million and $13.0 million, respectively. In fiscal 2012 and 2011, the FHLB – San Francisco redeemed $4.7 million and $4.8 million of excess capital stock, respectively, consistent with its stated desire to strengthen its capital ratios. In fiscal 2012, 2011 and 2010, the FHLB – San Francisco distributed $99,000, $110,000 and $112,000 of cash dividends, respectively. There is no guarantee that the FHLB – San Francisco will maintain its cash dividend and partial redemption of excess stock held by its members.

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

Insurance of Accounts and Regulation by the FDIC. The Bank's deposits are insured up to applicable limits by the Deposit Insurance Fund ("DIF") of the FDIC. Deposits are insured up to the applicable limits by the FDIC, backed by the full faith and credit of the United States Government. As insurer, the FDIC imposes deposit insurance premiums and is authorized to conduct examinations of and to require reporting by FDIC insured institutions. It also may prohibit any FDIC insured institution from engaging in any activity the FDIC determines by regulation or order to pose a serious risk to the insurance fund. The FDIC also has the authority to initiate enforcement actions against savings institutions, after giving the OCC an opportunity to take such action, and may terminate the deposit insurance if it determines that the institution has engaged in unsafe or unsound practices or is in an unsafe or unsound condition.

As a result of a decline in the reserve ratio (the ratio of the DIF to estimated insured deposits) and concerns about expected failure costs and available liquid assets in the DIF, the FDIC adopted a rule requiring each insured institution to prepay on December 30, 2009 the estimated amount of its quarterly assessments for the fourth quarter of 2009 and all quarters through the end of 2012 (in addition to the regular quarterly assessment for the third quarter which was due on December 30, 2009). The prepaid amount is recorded as an asset with a zero risk weight and the institution will continue to record quarterly expenses for deposit insurance. For purposes of calculating the prepaid amount, assessments were measured at the institution's assessment rate as of September 30, 2009, with a uniform increase of three basis points effective January 1, 2011, and were based on the institution's assessment base for the third quarter of 2009, with growth assumed quarterly at an annual rate of 5%. If events cause actual assessments during the prepayment period to vary from the prepaid amount, institutions will pay excess assessments in cash or receive a rebate of prepaid amounts not exhausted after collection of assessments due on June 30, 2013, as applicable. Collection of the prepayment does not preclude the FDIC from changing assessment rates or revising the risk-based assessment system in the future. The rule includes a process for exemption from the prepayment for institutions whose safety and soundness would be affected adversely. In December 2009, the Bank paid the prepaid assessment of $10.4 million; and as of June 30, 2012, the outstanding prepaid assessment was $5.2 million. The Bank's annual FDIC assessment for the fiscal years ended June 30, 2012, 2011 and 2010 was $1.0 million, $2.1 million and $2.5 million, respectively.

As required by the Dodd-Frank Act, the FDIC adopted rules effective April 1, 2011, under which insurance premium assessments are based on an institution's total assets minus its tangible equity (defined as Tier 1 capital) instead of its deposits. Under these rules, an institution with total assets of less than $10 billion will be assigned one of four risk categories based on its capital, supervisory ratings and other factors. Well capitalized institutions that are financially sound with only a few minor weaknesses are assigned to Risk Category I. Risk Categories II, III and IV present progressively greater risks to the DIF. A range of initial base assessment rates will apply to each category, subject to adjustment downward based on unsecured debt issued by the institution and, except for an institution in Risk Category I, adjustment upward if the institution's brokered deposits exceed 10% of its domestic deposits, to produce total base assessment rates. Total base assessment rates range from 2.5 to nine basis points for Risk Category I, nine to 24 basis points for Risk Category II, 18 to 33 basis points for Risk Category III and 30 to 45 basis points for Risk Category IV, all subject to further adjustment upward if the institution holds more than a de minimis amount of unsecured debt issued by another FDIC-insured institution. The FDIC may increase or decrease its rates by 2.0 basis points without further rulemaking. In an emergency, the FDIC may also impose a special assessment.

The Dodd-Frank Act establishes 1.35% as the minimum reserve ratio. The FDIC has adopted a plan under which it will meet this ratio by September 30, 2020, the deadline imposed by the Dodd-Frank Act. The Dodd-Frank Act requires the FDIC to offset the effect on institutions with assets less than $10 billion for the increase in the statutory minimum reserve ratio to 1.35% from the former statutory minimum of 1.15%. The FDIC has not yet announced how it will implement this offset. In addition to the statutory minimum ratio the FDIC must designate a reserve ratio, known as the designated reserve ratio ("DRR"), which may exceed the statutory minimum. The FDIC has established 2.0% as the DRR.

Under the Dodd-Frank Act, beginning on January 1, 2011, all non interest-bearing transaction accounts and IOLTA accounts qualify for unlimited deposit insurance by the FDIC through December 31, 2012. NOW accounts, which were previously fully insured under the Transaction Account Guarantee Program, are no longer eligible for an unlimited guarantee due to the expiration of this program on December 31, 2010. NOW accounts, along with all other deposits maintained at the Savings Bank, are now insured by the FDIC up to $250,000 per account owner.

In addition to the assessment for deposit insurance, institutions are required to make payments on bonds issued in the late 1980s by the Financing Corporation to recapitalize a predecessor deposit insurance fund. These assessments, which may be revised based upon the level of DIF deposits, will continue until the bonds mature in the years 2017 through 2019. This payment is established quarterly and during the fiscal year ending March 31, 2012 averaged 0.75 basis points of assessable deposits. The Financing Corporation was chartered in 1987, by the OTS' predecessor, the Federal Home Loan Bank Board, solely for the purpose of functioning as a vehicle for the recapitalization of the deposit insurance system.

As insurer, the FDIC is authorized to conduct examinations of and to require reporting by FDIC-insured institutions. It also may prohibit any FDIC-insured institution from engaging in any activity the FDIC determines by regulation or order to pose a serious threat to the DIF. The FDIC also has the authority to take enforcement actions against banks and savings associations.

A significant increase in insurance premiums would likely have an adverse effect on the operating expenses and results of operations of the Bank. There can be no prediction as to what insurance assessment rates will be in the future. Insurance of deposits may be terminated by the FDIC upon a finding that the institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC or the OCC. Management of the Bank is not aware of any practice, condition or violation that might lead to termination of the Bank's deposit insurance.

Prompt Corrective Action. Federal statutes establish a supervisory framework based on five capital categories: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. An institution's category depends upon where its capital levels are in relation to relevant capital measures, which include a tier 1 leverage capital measure, a risk-based capital measure, and certain other factors. The federal banking agencies have adopted regulations that implement this statutory framework. Under these regulations, an institution is treated as well capitalized if its ratio of tier 1 capital to adjusted total assets (tier 1 leverage capital ratio) is 5% or more, its ratio of tier 1 capital to risk-weighted assets is 6% or more and its ratio of total capital to risk-weighted assets is 10% or more, and it is not subject to any federal supervisory order or directive to meet a specific capital level. In order to be adequately capitalized, an institution must have a leverage capital ratio of not less than 4%, a Tier 1 risk-based capital ratio of not less than 4% and a total risk-based capital ratio of not less than 8%. Any institution which is neither well capitalized nor adequately capitalized is considered undercapitalized.

Undercapitalized institutions are subject to certain prompt corrective action requirements, regulatory controls and restrictions which become more extensive as an institution becomes more severely undercapitalized. Failure by institutions to comply with applicable capital requirements would, if not remedied, result in progressively more severe restrictions on their respective activities and lead to enforcement actions, including, but not limited to, the issuance of a capital directive to ensure the maintenance of required capital levels and, ultimately, the appointment of the FDIC as receiver or conservator. Banking regulators will take prompt corrective action with respect to depository institutions that do not meet minimum capital requirements. Additionally, approval of any regulatory application filed for their review may be dependent on compliance with capital requirements.

At June 30, 2012, the Bank was categorized as "well capitalized" under the prompt corrective action regulations of the OCC. The OCC defines "well capitalized" to mean that an institution has a tier 1 leverage capital ratio of at least 5.0%, a ratio of Tier 1 capital to risk-weighted assets of at least 6.0%, a ratio of total capital to risk-weighted assets of at least 10.0%, and is not subject to a written agreement, order or directive requiring it to maintain any specific capital measure.

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

A savings institution that fails to meet the QTL is subject to certain operating restrictions and may be required to convert to a national bank charter. As of June 30, 2012 and 2011, the Bank maintained 100.84% and 99.27%, respectively, of its portfolio assets in qualified thrift investments and, therefore, met the qualified thrift lender test.

Capital Requirements. OCC's capital regulations require federal savings institutions to meet two minimum capital standards: a 4% Tier 1 leverage capital ratio and an 8% total risk-based capital ratio. In addition, the prompt corrective action standards discussed above also establish, in effect, a minimum ratio of 4% Tier 1 leverage capital (3% for institutions receiving the highest rating on the CAMELS system), 4% Tier 1 risk-based capital and 8% total risk-based capital. The OCC regulations also require that, in meeting Tier 1 leverage and total risk-based capital ratios, institutions must generally deduct investments in and loans to subsidiaries engaged in activities as principal that are not permissible for a national bank.

The total risk-based capital standard requires federal savings institutions to maintain Tier 1 and total capital (which is defined as Tier 1 leverage capital and supplementary capital) to total risk-weighted assets of at least 4% and 8%,

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respectively. In determining the amount of risk-weighted assets, all assets, including certain off-balance sheet assets, recourse obligations, residual interests and direct credit substitutes, are multiplied by a risk-weight factor of 0% to 100%, assigned by the OCC capital regulation based on the risks believed inherent in the type of asset. Tier 1 leverage capital is defined as common stockholders' equity (including retained earnings), certain noncumulative perpetual preferred stock and related surplus and minority interests in equity accounts of consolidated subsidiaries, less intangibles other than certain mortgage servicing rights and credit card relationships. The components of supplementary capital currently include cumulative preferred stock, long-term perpetual preferred stock, mandatory convertible securities, subordinated debt and intermediate preferred stock, the allowance for loan losses limited to a maximum of 1.25% of risk-weighted assets and up to 45% of unrealized gains on available-for-sale equity securities with readily determinable fair market values. Overall, the amount of supplementary capital included as part of total capital cannot exceed 100% of core capital. At June 30, 2012, the Bank met each of these capital requirements. For additional information, including the capital levels of the Bank, see Note 10 of the Notes to Consolidated Financial Statements included in Item 8 of this Form 10-K.

The OCC also has authority to establish individual minimum capital requirements in appropriate cases upon a determination that an institution's capital level is or may become inadequate in light of the particular circumstances.

New Proposed Capital Rules. In June 2012, the Federal Reserve, the OCC and the FDIC approved proposed rules that would substantially amend the regulatory risk-based capital rules applicable to the Bank. The proposed rules implement the "Basel III" regulatory capital reforms and changes required by the Dodd-Frank Act. "Basel III" refers to various documents released by the Basel Committee on Banking Supervision. The proposed rules are subject to a public comment period prior to adoption of final rules.

The proposed rules include new minimum risk-based capital and leverage ratios, which would be phased in during 2013 and 2014, and would refine the definitions of what constitutes "capital" for purposes of calculating those ratios. The proposed new minimum capital level requirements applicable to the Bank under the proposals would be: (i) a new common equity Tier 1 capital ratio of 4.5%; (ii) a Tier 1 capital ratio of 6% (increased from 4%); (iii) a total capital ratio of 8% (unchanged from current rules); and (iv) a Tier 1 leverage ratio of 4%. The proposed rules would also establish a "capital conservation buffer" of 2.5% above each of the new regulatory minimum capital ratios would result in the following minimum ratios: (i) a common equity Tier 1 capital ratio of 7.0%, (ii) a Tier 1 capital ratio of 8.5%, and (iii) a total capital ratio of 10.5%. The new capital conservation buffer requirement would be phased in beginning in January 2016 at 0.625% of risk-weighted assets and would increase each year until fully implemented in January 2019. An institution would be subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if its capital level falls below the buffer amount. These limitations would establish a maximum percentage of eligible retained income that could be utilized for such actions.

The proposed rules also implement other revisions to the current capital rules such as recognition of all unrealized gains and losses on available for sale debt and equity securities, and provide that instruments that will no longer qualify as capital would be phased out over time.

The federal bank regulatory agencies also proposed revisions to the prompt corrective action framework, which is designed to place restrictions on insured depository institutions, including the Bank, if their capital levels begin to show signs of weakness. These revisions would take effect January 1, 2015. Under the prompt corrective action requirements, insured depository institutions would be required to meet the following increased capital level requirements in order to qualify as "well capitalized:" (i) a new common equity Tier 1 risk-based capital ratio of 6.5%; (ii) a Tier 1 risk-based capital ratio of 8% (increased from 6%); (iii) a total risk-based capital ratio of 10% (unchanged from current rules); and (iv) a Tier 1 leverage ratio of 5% (unchanged from the current rules).

The proposed rules set forth certain changes for the calculation of risk-weighted assets, which we would be required to utilize beginning January 1, 2015. The proposed rule utilizes an increased number of credit risk and other exposure categories and risk weights, and also addresses: (i) a proposed alternative standard of creditworthiness consistent with Section 939A of the Dodd-Frank Act; (ii) revisions to recognition of credit risk mitigation; (iii) rules for risk weighting of equity exposures and past due loans; and (iv) revised capital treatment for derivatives and repo-style transactions.

In particular, the proposed rules would expand the risk-weighting categories from the current four categories (0%, 20%, 50% and 100%) to a much larger and more risk-sensitive number of categories, generally ranging from 0% for U.S. government and agency securities, to 600% for certain equity exposures. Higher risk weights would apply to a variety of exposure categories. Specifics include, among others:

- Applying a 150% risk weight instead of a 100% risk weight for certain high volatility commercial real estate acquisition, development and construction loans.
- For residential mortgage exposures, changing the current 50% risk weight for high-quality seasoned mortgages and 100% risk-weight for all other mortgages to a risk weight between 35% and 200% depending upon the mortgage's loan-to-value ratio and whether the mortgage is a "category 1" or "category 2" residential mortgage exposure (based on eight criteria that include, among others, the term, seniority of the lien, use of negative amortization, balloon payments and certain rate increases).
- Assigning a 150% risk weight to exposures (other than residential mortgage exposures) that are 90 days past due.
- Providing for a 20% credit conversion factor for the unused portion of a commitment with an original maturity of one year or less that is not unconditionally cancellable (currently set at 0%).
- Providing for a 100% risk weight for claims on securities firms.
- Eliminating the current 50% cap on the risk weight for OTC derivatives.

We cannot predict when new capital regulations will be adopted in final form.

Limitations on Capital Distributions. OCC regulations impose various restrictions on savings institutions with respect to their ability to make distributions of capital, which include dividends, stock redemptions or repurchases, cash-out mergers and other transactions charged to the capital account. Generally, savings institutions, such as the Bank, that before and after the proposed distribution are well-capitalized, may make capital distributions during any calendar year up to 100% of net income for the year-to-date plus retained net income for the two preceding years. However, an institution deemed to be in need of more than normal supervision or in troubled condition by the OCC may have its dividend authority restricted by the OCC. Savings institutions proposing to make any capital distribution need not submit written notice to the OCC prior to such distribution unless they are a subsidiary of a holding company or would not remain well-capitalized following the distribution. A savings association of a savings and loan holding company must also file a prior written notice of a dividend with the Federal Reserve Board. Savings institutions that do not, or would not meet their current minimum capital requirements following a proposed capital distribution or propose to exceed these net income limitations, must obtain OCC approval prior to making such distribution. The OCC may object to the distribution during that 30-day period based on safety and soundness concerns. Additional restrictions on Bank dividends may apply if the Bank fails the QTL test.

Dividends from the Corporation may depend, in part, upon its receipt of dividends from the Bank. No insured depository institution may make a capital distribution if, after making the distribution, the institution would be undercapitalized.

Activities of Associations and Their Subsidiaries. When a savings institution establishes or acquires a subsidiary or elects to conduct any new activity through a subsidiary that the association controls, the savings institution must notify the FDIC and the OCC 30 days in advance and provide the required information in connection with such notification. Savings institutions also must conduct the activities of subsidiaries in accordance with existing regulations and orders.

The OCC may determine that the continuation by a savings institution of its ownership, control of, or its relationship to, the subsidiary constitutes a serious risk to the safety, soundness or stability of the savings institution or is inconsistent with sound banking practices or with the purposes of the Federal Deposit Insurance Act. Based upon that determination, the FDIC or the OCC has the authority to order the savings institution to divest itself of control of the subsidiary. The FDIC also may determine by regulation or order that any specific activity poses a serious threat to the

DIF. If so, it may require that no DIF member engage in that activity directly.

Transactions with Affiliates and Insiders. The Bank's authority to engage in transactions with "affiliates" is limited by Sections 23A and 23B of the Federal Reserve Act as implemented by the Federal Reserve Board's Regulation W. The term "affiliates" for these purposes generally means any company that controls or is under common control with an institution. The Corporation and its non-savings institution subsidiaries are affiliates of the

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

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

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

Regulatory and Criminal Enforcement Provisions. The OCC has primary enforcement responsibility over federally chartered savings institutions and has the authority to bring action against all "institution-affiliated parties," including stockholders, attorneys, appraisers and accountants who knowingly or recklessly participate in wrongful action likely to have an adverse effect on an insured institution. Formal enforcement action may range from the issuance of a capital directive or cease-and-desist order to removal of officers or directors, receivership, conservatorship or termination of deposit insurance. Civil penalties cover a wide range of violations and can amount to $25,000 per day, or $1.1 million per day in especially egregious cases. The FDIC has the authority to recommend to the OCC that an enforcement action be taken with respect to a particular savings institution. If the OCC does not take action, the FDIC has authority to take such action under certain circumstances. Federal law also establishes criminal penalties for certain violations.

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

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

Savings and Loan Holding Company Regulations

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

The proposed new capital regulations provide that the Corporation as a savings and loan holding company will be subject to the same leverage and risk-based capital requirements as will apply to FDIC-insured institutions and their holding companies when the new capital regulations are adopted in final form. For a description of the proposed new capital regulations, see "Federal Regulation of Savings Institutions - New Proposed Capital Rules" on this Form 10-K.

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

If the Bank fails the QTL test, the Corporation must, within one year of that failure, register as, and will become subject to the restrictions applicable to bank holding companies. See "Federal Regulation of Savings Institutions – Qualified Thrift Lender Test" on this Form 10-K.

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

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

Sarbanes-Oxley Act. The Sarbanes-Oxley Act was signed into law on July 30, 2002 in response to public concerns regarding corporate accountability in connection with certain accounting scandals. The stated goals of the Sarbanes-

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

The Sarbanes-Oxley Act includes very specific additional disclosure requirements and corporate governance rules, requires the SEC and securities exchanges to adopt extensive additional disclosures, corporate governance and related rules and mandates. The Sarbanes-Oxley Act represents significant federal involvement in matters traditionally left to state regulatory systems, such as the regulation of the accounting profession, and to state corporate law, such as the relationship between a board of directors and management and between a board of directors and its committees. As noted above, the Dodd-Frank Act imposes additional disclosure and corporate government requirements and represents further federal involvement in matters historically addressed by state corporate law.

TAXATION

Federal Taxation

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

Tax Bad Debt Reserves. As a result of legislation enacted in 1996, the reserve method of accounting for bad debt reserves was repealed for tax years beginning after December 31, 1995. Due to such repeal, the Bank is no longer able to calculate its deduction for bad debts using the percentage-of-taxable-income or the experience method. Instead, the Bank is permitted to deduct as bad debt expense its specific charge-offs during the taxable year. In addition, the legislation required savings institutions to recapture into taxable income, over a six-year period, their post 1987 additions to their bad debt tax reserves. As of the effective date of the legislation, the Bank had no post 1987 additions to its bad debt tax reserves. As of June 30, 2012, the Bank's total pre-1988 bad debt reserve for tax purposes was approximately $9.0 million. Under current law, a savings institution will not be required to recapture its pre-1988 bad debt reserve unless the Bank makes a "non-dividend distribution" as defined below. Currently, the Corporation uses the specific charge-off method to account for bad debt deductions for income tax purposes.

Distributions. In the event that the Bank makes "non-dividend distributions" to the Corporation that are considered as made from the reserve for losses on qualifying real property loans, to the extent the reserve for such losses exceeds the amount that would have been allowed under the experience method or from the supplemental reserve for losses on loans ("Excess Distributions"), then an amount based on the amount distributed will be included in the Bank's taxable income. Non-dividend distributions include distributions in excess of the Bank's current and accumulated earnings and profits, distributions in redemption of stock, and distributions in partial or complete liquidation. However, dividends paid out of the Bank's current or accumulated earnings and profits, as calculated for federal income tax purposes, will not be considered to result in a distribution from the Bank's bad debt reserve. Thus, any dividends to the Corporation that would reduce amounts appropriated to the Bank's bad debt reserve and deducted for federal income tax purposes would create a tax liability for the Bank. The amount of additional taxable income attributable to an Excess Distribution is an amount that, when reduced by the tax attributable to the income, is equal to the amount of the distribution. Thus, if the Bank makes a "non-dividend distribution," then approximately one and one-half times the amount distributed will be included in taxable income for federal income tax purposes, assuming a 35% corporate income tax rate (exclusive of state and local taxes). See “Limitation on Capital Distributions” on this Form 10-K for limits on the payment of dividends by the Bank. The Bank does not intend to pay dividends that would result in a recapture of any portion of its tax bad debt reserve. During fiscal 2012, the Bank declared and paid $8.0 million of cash dividends to the Corporation while the Corporation declared and paid $1.6 million of cash dividends to shareholders.

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

Non-Qualified Compensation Tax Benefits. During fiscal 2012, there were no shares of restricted common stock distributed to non-employee members of the Corporation's Board of Directors. There were no options to purchase shares of the Corporation's common stock exercised as non-qualified stock options during fiscal 2012. As a result, there were no federal tax benefits from non-qualified compensation realized in fiscal 2012.

Other Matters. The Internal Revenue Service has audited the Bank's income tax returns through 1996 and the California Franchise Tax Board has audited the Bank through 1990. Also, the Internal Revenue Service completed a review of the Corporation's income tax returns for fiscal 2006 and 2007; and the California Franchise Tax Board completed a review of the Corporation's income tax returns for fiscal 2007 and 2008. Tax years subsequent to 2009 remain subject to federal examination, while the California state tax returns for years subsequent to 2008 are subject to examination by state taxing authorities.

In the quarter ended June 30, 2012, the Corporation recorded an $825,000 tax liability as a result of a prior period adjustment for fiscal 2009 and an $825,000 charge against retained earnings in stockholders' equity, pursuant to ASC 740-10: "Income Taxes." The liability was established as a result of certain income items for tax reporting purposes from 2006 through 2007 resulting in an overpayment of taxes and an understatement of the deferred tax liability. The understatement was the result of the early recognition of taxable income in closed tax years that should have been recognized in open tax years. The liability has been established against the deferred tax asset created (or understated deferred tax liability) by the early recognition of taxable income, since the early recognition could be argued by the Internal Revenue Service to not relieve the Corporation of once again recognizing that same taxable income in the appropriate subsequent open tax years. The prior period adjustment was presented as a reduction in other assets and retained earnings. The Corporation is pursuing several remedies including filing a request for accounting method change with federal tax authorities to effectively recover the overpayment of taxes or eliminate any potential duplicate recognition. In August 2012, the Corporation received a notification from the tax authorities indicating the acceptance of the accounting method change. As a result, the Corporation will reverse the $825,000 tax liability in the quarter ending September 30, 2012, the same quarter in which the tax authorities granted the Corporation's request.

State Taxation

California. The California franchise tax rate applicable to the Bank, equals the franchise tax rate applicable to corporations generally, plus an "in lieu" rate of 2%, which is approximately equal to personal property taxes and business license taxes paid by such corporations (but not generally paid by banks or financial corporations such as the Bank). At June 30, 2012 and 2011, the Corporation's net state tax rate was 6.9% and 7.0%, respectively. Bad debt deductions are available in computing California franchise taxes using the specific charge-off method. The Bank and its California subsidiaries file California franchise tax returns on a combined basis. The Corporation will be treated as a general corporation subject to the general corporate tax rate. The Corporation received a notice from the California Franchise Tax Board in June 2012 that they will be conducting an audit for fiscal years 2010 and 2009. There were no state tax benefits from non-qualified compensation realized in fiscal 2012, as previously described under the Federal Taxation section.

Delaware. As a Delaware holding company not earning income in Delaware, the Corporation is exempted from Delaware corporate income tax, but is required to file an annual report with and pay an annual franchise tax to the State of Delaware. In fiscal 2012, 2011 and 2010, the Corporation paid the annual franchise tax of $180,000, $180,000 and $135,000, respectively.

EXECUTIVE OFFICERS

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

		Position	
Name	Age (1)	Corporation	Bank
Craig G. Blunden	64	Chairman and Chief Executive Officer	Chairman and Chief Executive Officer
Richard L. Gale	61	-	Senior Vice President Provident Bank Mortgage
Kathryn R. Gonzales	54	-	Senior Vice President Retail Banking
Donavon P. Ternes	52	President Chief Operating Officer Chief Financial Officer Corporate Secretary	President Chief Operating Officer Chief Financial Officer Corporate Secretary
David S. Weiant	53	-	Senior Vice President Chief Lending Officer

(1) As of June 30, 2012.

Biographical Information

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

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

Richard L. Gale, who joined the Bank in 1988, has served as President of the Provident Bank Mortgage division since 1989. Mr. Gale has held his current position with the Bank since 1993.

Kathryn R. Gonzales joined the Bank as Senior Vice President of Retail Banking on August 7, 2006. Prior to joining the Bank, Ms. Gonzales was with Bank of America where she was responsible for working with under-performing branches and re-energizing their business development capabilities. Prior to that she was with Arrowhead Central Credit Union where she was responsible for 25 retail branches and oversaw their significant deposit growth. Her experience includes retail branch sales development, branch operations, development of business related products and services, and commercial lending.

Donavon P. Ternes joined the Bank and the Corporation as Senior Vice President and Chief Financial Officer on November 1, 2000 and was appointed Secretary of the Corporation and the Bank in April 2003. Effective January 1, 2008, Mr. Ternes was appointed Executive Vice President and Chief Operating Officer, while continuing to serve as the Chief Financial Officer and Corporate Secretary of the Bank and the Corporation. Effective June 27, 2011, the Board of Directors of the Bank and the Corporation promoted Mr. Ternes to serve as President of the Bank and the Corporation, while continuing to serve as Chief Operating Officer, Chief Financial Officer and Corporate Secretary. Prior to joining the Bank, Mr. Ternes was the President, Chief Executive Officer, Chief Financial Officer and Director of Mission Savings and Loan Association, located in Riverside, California, holding those positions for over 11 years.

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

Item 1A. Risk Factors

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

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

As of June 30, 2012, approximately 85% of our real estate loans were secured by collateral and made to borrowers located in Southern California. Adverse economic conditions in Southern California has and may continue to reduce our rate of growth, affect our customers' ability to repay loans and adversely impact our financial condition and earnings. General economic conditions, including inflation, unemployment and money supply fluctuations, also may affect our profitability adversely. Weak economic conditions and ongoing strains in the financial and housing markets have resulted in higher levels of loan delinquencies, problem assets and foreclosures and a decline in the values of the collateral securing our loans.

A further deterioration in economic conditions in the market areas we serve could result in the following consequences, any of which could have a materially adverse impact on our business, financial condition and results of operations:

§ an increase in loan delinquencies, problem assets and foreclosures;
§ the slowing of sales of foreclosed assets;
§ a decline in demand for our products and services;
§ a continuing decline in the value of collateral for loans may in turn reduce customers' borrowing power, and the value of assets and collateral associated with existing loans; and
§ a decrease in the amount of our low cost or non interest-bearing deposits.

We cannot accurately predict the effect of the weakness in the national economy on our future operating results or the market price of our stock.

The national economy in general and the financial services sector in particular are currently facing challenges of a scope unprecedented in recent history. We cannot accurately predict the severity or duration of the current economic downturn, which has adversely impacted our market areas. Any further deterioration in national or local economic conditions would have an adverse effect, which could be material, on our business, financial condition, results of operations and prospects, and could also cause the market price of our stock to decline. While it is impossible to predict how long these conditions may exist, the current economic downturn could present substantial risks for some time for the banking industry and for us.

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

At June 30, 2012, $439.0 million, or 53.8% of our total loan portfolio, was secured by single-family residential real property. This type of lending is generally sensitive to regional and local economic conditions that may significantly impact the ability of borrowers to meet their loan payment obligations, making loss levels difficult to predict. The decline in residential real estate values as a result of the downturn in the California housing market has reduced the value of the real estate collateral securing the majority of our loans and increased the risk that we would incur losses if borrowers default on their loans. Continued declines in both the volume of real estate sales and the sales prices, coupled with the economic weakness and the associated increases in unemployment, may result in higher loan delinquencies or problem assets, a decline in demand for our products and services, a lack of growth and/or a decrease in our deposits. These potential negative events may cause us to incur losses, adversely affect our capital and liquidity and damage our financial condition and business operations. These declines may have a greater effect on our earnings and capital than on the earnings and capital of financial institutions whose loan portfolios are more diversified.

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

During the fiscal years ended June 30, 2012 and 2011, we originated $2.52 billion and $2.15 billion, respectively, in single-family residential loans. We historically sell the vast majority of the single-family residential loans we originate and retain the remaining loans in our single-family loan portfolio held for investment. As a result of our current focus on managing our problem assets, loans originated for investment were limited to $2.5 million and $2.1 million of single-family loans during these same time periods, virtually all of which conform to or satisfy the requirements for sale in the secondary market.

Prior to fiscal 2009, many of the loans we originated for investment consisted of non-traditional single-family residential loans that do not conform to Fannie Mae or Freddie Mac underwriting guidelines as a result of characteristics of the borrower or property, the loan terms, loan size or exceptions from agency underwriting guidelines. In exchange for the additional risk to us associated with these loans, these borrowers generally are required to pay a higher interest rate, and depending on the credit history, a lower loan-to-value ratio was generally required than for a conforming loan. Our non-traditional single-family residential loans include interest-only loans, loans to borrowers who provided limited or no documentation of their income or stated income loans, negative amortization loans (a loan in which accrued interest exceeding the required monthly loan payment is added to loan principal up to 115% of the original loan amount), more than 30-year amortization loans, and loans to borrowers with a FICO score below 660 (these loans are considered subprime by the OCC). Including these low FICO score loans, as of June 30, 2012, borrowers of our single-family residential loans held for investment had a weighted average FICO score of 733 at the time of origination.

As of June 30, 2012, these non-traditional loans totaled $334.7 million, comprising 77.2% of total single-family residential loans held for investment and 41.0% of total loans held for investment. At that date, interest-only loans totaled $209.1 million, stated income loans totaled $226.2 million, negative amortization loans totaled $6.5 million, more than 30-year amortization loans totaled $16.9 million, and low FICO score loans totaled $13.4 million (the outstanding balances described may overlap more than one category). In the case of interest-only loans, a borrower's monthly payment is subject to change when the loan converts to fully-amortizing status. Of the $209.1 million of interest-only loans, $168.7 million begin to fully amortize within five years and $40.4 million begin to fully amortize after five years. Since the borrower's monthly payment may increase by a substantial amount even without an increase in prevailing market interest rates, there is no assurance that the borrower will be able to afford the increased monthly payment at the time of conversion. Additionally, lower prevailing prices for residential real estate may make it difficult for borrowers to sell their homes to pay off their mortgages and tightened underwriting standards may make it difficult for borrowers to refinance their loan prior to the time of conversion to fully-amortizing status. At June 30, 2012, $17.8 million of our interest-only single-family residential loans were non-performing and $339,000 were 30-89 days delinquent.

In the case of stated income loans, a borrower may misrepresent his income or source of income (which we have not verified) to obtain the loan. The borrower may not have sufficient income to qualify for the loan amount and may not be able to make the monthly loan payment. At June 30, 2012, $20.2 million of our stated income single-family residential loans were non-performing and $614,000 were 30-89 days delinquent.

In the case of more than 30-year amortization loans, the term of the loan requires many more monthly payments from the borrower (ultimately increasing the cost of the home) and subjects the loan to more interest rate cycles, economic cycles and employment cycles, which increases the possibility that the borrower is negatively impacted by one of these cycles and is no longer willing or able to meet his or her monthly payment obligations. At June 30, 2012, $547,000 of our more than 30-year amortization single-family residential loans were non-performing and none were 30-89 days delinquent.

Negative amortization involves a greater risk to us because credit risk exposure increases when the loan incurs negative amortization and the value of the home serving as collateral for the loan does not increase proportionally. Negative amortization is only permitted up to a specified level and the payment on such loans is subject to increased payments when the level is reached, adjusting periodically as provided in the loan documents and potentially resulting in higher payments from the borrower. The adjustment of these loans to higher payment requirements can be a substantial factor in higher loan delinquency levels because the borrowers may not be able to make the higher payments. Also, real estate values may decline and credit standards may tighten in concert with the higher payment requirement, making it difficult for borrowers to sell their homes or refinance their mortgages to pay off their mortgage obligation. As of June 30, 2012, the Bank had $6.5 million of single-family loans which permitted negative amortization as compared to $7.6 million of single-family loans at June 30, 2011.

Non-conforming single-family residential loans are considered to have an increased risk of delinquency, default and foreclosure than conforming loans and may result in higher levels of realized loss. We have experienced such increased delinquencies, defaults and foreclosures, and cannot assure you that our single-family loans will not be further adversely affected in the event of a further downturn in regional or national economic conditions. Consequently, we could sustain loan losses greater than we currently estimate and potentially need to record a higher provision for loan losses. Furthermore, non-conforming loans are not as readily saleable as loans that conform to agency guidelines and often can be sold only after discounting the amortized value of the loan. As of June 30, 2012, 7.6% of such loans, totaling $25.6 million, were in non-performing status, compared to 7.6% of such loans, totaling $28.3 million, in non-performing status as of June 30, 2011.

High loan-to-value ratios on a significant portion of our residential mortgage loan portfolio exposes us to greater risk of loss.

Many of our residential mortgage loans are secured by liens on mortgage properties in which the borrowers have little or no equity because either we originated a first mortgage with an 80% loan-to-value ratio and a concurrent second mortgage for sale with a combined loan-to-value ratio of up to 100% or because of the decline in home values in our market areas. Residential loans with high loan-to-value ratios will be more sensitive to declining property values than those with lower combined loan-to-value ratios and therefore may experience a higher incidence of default and severity of losses. In addition, if the borrowers sell their homes, such borrowers may be unable to repay their loans in full from the sale. As a result, these loans may experience higher rates of delinquencies, defaults and losses.

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

We originate multi-family residential and commercial real estate loans for individuals and businesses for various purposes, which are secured by residential and non-residential properties. At June 30, 2012, we had $373.4 million or 45.7% of total loans held for investment in multi-family and commercial real estate mortgage loans. These loans typically involve higher principal amounts than other types of loans, and repayment is dependent upon income generated, or expected to be generated, by the property securing the loan in amounts sufficient to cover operating expenses and debt service, which may be adversely affected by changes in the economy or local market conditions. For example, if the cash flow from the borrower's project is reduced as a result of leases not being obtained or renewed, the borrower's ability to repay the loan may be impaired. Multi-family and commercial real estate loans also expose a lender to greater credit risk than loans secured by single-family residential real estate because the collateral securing these loans typically cannot be sold as easily as single-family residential real estate. In addition, many of our multi-family and commercial real estate loans are not fully amortizing and contain large balloon payments upon maturity. Such balloon payments may require the borrower to either sell or refinance the underlying property to make the payment, which may increase the risk of default or non-payment. In addition, as of June 30, 2012, the Bank had $33.7 million in negative amortization multi-family and commercial real estate mortgage loans (a loan in which accrued interest exceeding the required monthly loan payment may be added to the loan principal) as compared to $42.8 million at June 30, 2011. Negative amortization involves a greater risk to the Bank because the credit risk exposure increases when the loan incurs negative amortization and the value of the property serving as a collateral for the loan does not increase proportionally.

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

Our provision for loan losses increased substantially during recent years and we may be required to make further increases in our provision for loan losses and to charge-off additional loans in the future, which could adversely affect our results of operations.

For the fiscal years ended June 30, 2012 and 2011 we recorded a provision for loan losses of $5.8 million and $5.5 million, respectively. We also recorded net loan charge-offs of $14.8 million and $18.5 million for the fiscal years ended June 30, 2012 and 2011, respectively. Adverse conditions in the general economy and our markets have been a significant contributing factor to increased levels of loan delinquencies and non-performing assets during the past two fiscal years. General economic conditions, decreased home prices, slower sales and excess inventory in the housing market have caused delinquencies and foreclosures of our single-family residential loans to remain high during the past two fiscal years. Single-family residential loans and properties represented 85.0% of our non-performing assets at June 30, 2012. At June 30, 2012, our total non-performing assets had decreased to $40.0 million compared to $45.5 million at June 30, 2011 and $73.5 million at June 30, 2010. Our allowance for loan losses was 2.63% of gross loans held for investment and 52.45% of non-performing loans at June 30, 2012.

Further, our single-family residential loan portfolio, which comprised 53.8% of our total loan portfolio at June 30, 2012, is concentrated in non-traditional single-family loans, which include interest-only loans, negative amortization and more than 30-year amortization loans, stated income loans and low FICO score loans, all of which have a higher risk of default and loss than conforming residential mortgage loans. See “Our emphasis on non-traditional single-family residential loans exposes us to increased lending risk” above.

If current trends in the residential and commercial real estate markets continue, we expect that we will continue to experience increased delinquencies and credit losses. Moreover, until general economic conditions improve, we will likely continue to experience significant delinquencies and credit losses. As a result, we may be required to make further increases in our provision for loan losses and to charge-off additional loans in the future, which could materially adversely affect our financial condition and results of operations.

We may incur net losses and experience continuing variation in our operating results.

We reported net income of $10.8 million, $13.2 million and $1.1 million for the fiscal years ended June 30, 2012, 2011 and 2010, respectively. The meager net income in fiscal 2010 primarily resulted from our high level of non-performing assets and the resultant increased provision for loan losses. Although net income has improved in fiscal 2012 and 2011 and our non-performing assets have declined, we continue to monitor the levels of non-performing assets and provision for loan losses, as significant increases in our non-performing assets and provision for loan losses could cause us to incur net losses in future quarterly or annual periods. In addition, several factors affecting our business can cause significant variations in our quarterly and annual results of operations. In particular, variations in the volume of our loan originations and sales, the differences between our costs of funds and the average interest rates of originated or purchased loans, our inability to complete significant loan sale transactions in a particular quarter and problems generally affecting the mortgage loan industry can result in significant increases or decreases in our revenues from quarter to quarter. A delay in closing a particular loan sale transaction during a quarter or year could postpone recognition of the gain on sale of loans. If we were unable to sell a sufficient number of loans at a premium in a particular reporting period, our revenues for such period would decline, resulting in lower net income and possibly a net loss for such period, which could have a material adverse effect on our results of operations and financial condition.

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

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

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

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

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

The determination of the appropriate level of the allowance for loan losses inherently involves a high degree of subjectivity and requires us to make various assumptions and judgments about the collectability of our loan portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for the repayment of many of our loans. In determining the amount of the allowance for loan losses, we review our loans, losses, and delinquency experience, and evaluate economic conditions and make significant estimates of current credit risks and future trends, all of which may undergo material changes. If our estimates are incorrect, the allowance for loan losses may not be sufficient to cover losses inherent in our loan portfolio, resulting in the need for additions to our allowance through an increase in the provision for loan losses. Continuing deterioration in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside of our control, may require an increase in the allowance for loan losses. In addition, bank regulatory agencies periodically review our allowance for loan losses and may require an increase in the provision for possible loan losses or the recognition of further loan charge-offs, based on judgments different than those of management. In addition, if charge-offs in future periods exceed the allowance for loan losses, we will need additional provisions to increase the allowance for loan losses. Any increases in the provision for loan losses will result in a decrease in net income and may have a material adverse effect on our financial condition, results of operations and capital.

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

At June 30, 2012, June 30, 2011 and June 30, 2010, our non-performing assets (which consist of non-accruing loans and real estate owned ("REO") were $40.0 million, $45.5 million and $73.5 million, respectively, or 3.2%, 3.5% and 5.3% of total assets, respectively. Our non-performing assets adversely affect our net income in various ways:

- we record interest income only on a cash basis for non-accrual loans and any non-performing investment securities; and do not record interest income for REO;
- we must provide for probable loan losses through a current period charge to the provision for loan losses;
- non-interest expense increases when we write down the value of properties in our REO portfolio to reflect changing market values or recognize other-than-temporary impairment ("OTTI") on non-performing investment securities;
-

- there are legal fees associated with the resolution of problem assets, as well as carrying costs, such as taxes, insurance, and maintenance fees related to our REO; and
- the resolution of non-performing assets requires the active involvement of management, which can distract them from more profitable activity.

If additional borrowers become delinquent and do not pay their loans and we are unable to successfully manage our non-performing assets, our losses and troubled assets could increase significantly, which could have a material adverse effect on our financial condition and results of operations. We also had $9.4 million in performing restructured loans at June 30, 2012.

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

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

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

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

Our mortgage banking operations provide a significant portion of our non-interest income. We generate mortgage revenues primarily from gains on the sale of single-family residential loans pursuant to programs currently offered by Fannie Mae, Freddie Mac and other investors on a servicing released basis. These entities account for a substantial portion of the secondary market in residential mortgage loans. Any future changes in these programs, our eligibility to participate in such programs, the criteria for loans to be accepted or laws that significantly affect the activity of such entities could, in turn, materially adversely affect our results of operations. Further, in a rising or higher interest rate environment, our originations of mortgage loans may decrease, resulting in fewer loans that are available to be sold to investors. This would result in a decrease in mortgage revenues and a corresponding decrease in non-interest income. In addition, our results of operations are affected by the amount of non-interest expense associated with mortgage banking activities, such as salaries and employee benefits, occupancy, equipment and data processing expense and other operating costs. During periods of reduced loan demand, our results of operations may be adversely affected to the extent that we are unable to reduce expenses commensurate with the decline in loan originations.

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

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

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

We engage in bulk loan sales pursuant to agreements that generally require us to repurchase or substitute loans in the event of a breach of a representation or warranty made by us to the loan purchaser. Any misrepresentation during the mortgage loan origination process or, in some cases, upon any fraud or early payment default on such mortgage loans, may require us to repurchase or substitute loans. Any claims asserted against us in the future by one of our loan purchasers may result in liabilities or legal expenses that could have a material adverse effect on our results of operations and financial condition. During fiscal 2012, 2011 and 2010, the Bank repurchased $1.6 million, $0 and $368,000 of single-family loans, respectively. However, many additional repurchase requests were settled, an aggregate of $439,000, $2.0 million and $3.4 million in fiscal 2012, 2011 and 2010, respectively, that did not result in the repurchase of the loan itself.

Hedging against interest rate exposure may adversely affect our earnings.

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

§ available interest rate hedging may not correspond directly with the interest rate risk for which protection is sought;

§ the duration of the hedge may not match the duration of the related liability;

§ the party owing money in the hedging transaction may default on its obligation to pay;

§ the credit quality of the party owing money on the hedge may be downgraded to such an extent that it impairs our ability to sell or assign our side of the hedging transaction;

§ the value of derivatives used for hedging may be adjusted from time to time in accordance with accounting rules to reflect changes in fair value; and

§ downward adjustments, or "mark-to-market losses," would reduce our stockholders' equity.

Fluctuating interest rates can adversely affect our profitability.

Our earnings and cash flows are largely dependent upon our net interest income. Interest rates are highly sensitive to many factors that are beyond our control, including general economic conditions and policies of various governmental and regulatory agencies and, in particular, the Federal Reserve Board. Changes in monetary policy, including changes in interest rates, could influence not only the interest we receive on loans and investments and the amount of interest we pay on deposits and borrowings, but these changes could also affect (i) our ability to originate loans and obtain deposits, (ii) the fair value of our financial assets and liabilities and (iii) the average duration of our mortgage-backed securities portfolio and other interest-earning assets. If the interest rates paid on deposits and other borrowings increase at a faster rate than the interest rates received on loans and other investments, our net interest income, and therefore earnings, could be adversely affected. As a result of the relatively low interest rate environment, an increasing percentage of our deposits have been comprised of short-term time deposits and other deposits yielding no or a relatively low rate of interest. At June 30, 2012, we had $223.7 million in time deposits that mature within one year and $460.0 million in interest-bearing checking, savings and money market accounts. We would incur a higher cost of funds to retain these deposits in a rising interest rate environment. Earnings could also be adversely affected if the interest rates received on loans and other investments fall more quickly than the interest rates paid on deposits and other borrowings. In addition, a substantial majority of our single family residential mortgage loans have adjustable interest rates. As a result, these loans may experience a higher rate of default in a rising interest rate environment.

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

Liquidity is essential to our business. An inability to raise funds through deposits, borrowings, the sale of loans or other sources could have a substantial negative effect on our liquidity. Our access to funding sources in amounts adequate to finance our activities or the terms of which are acceptable to us could be impaired by factors that affect us specifically or the financial services industry or economy in general. Factors that could detrimentally impact our access to liquidity sources include a decrease in the level of our business activity as a result of a downturn in the California markets in which our loans are concentrated or adverse regulatory action against us. Our ability to borrow could also be impaired by factors that are not specific to us, such as a disruption in the financial markets or negative views and expectations about the prospects for the financial services industry in light of the recent turmoil faced by banking organizations and the continued deterioration in credit markets. Deposit flows, calls of investment securities and wholesale borrowings, and the prepayment of loans and mortgage-related securities are also strongly influenced by such external factors as the direction of interest rates, whether actual or perceived, and competition for deposits and loans in the markets we serve. Furthermore, changes to the FHLB's underwriting guidelines for wholesale borrowings or lending policies may limit or restrict our ability to borrow, and could therefore have a significant adverse impact on our liquidity. In addition, the need to replace funds in the event of large-scale withdrawals of brokered deposits could require us to pay significantly higher interest rates on retail deposits or other wholesale funding sources, which would have an adverse impact on our net interest income and net income. A decline in available funding could adversely impact our ability to originate loans, invest in securities, meet our expenses, or to fulfill such obligations as repaying our borrowings or meeting deposit withdrawal demands.

We operate in a highly competitive industry and market areas.

We face substantial competition in all phases of our operations from a variety of different competitors. Our future growth and success will depend on our ability to compete effectively in this highly competitive environment. To date, we have been competitive by focusing on our business lines in our market areas and emphasizing the high level of service and responsiveness desired by our customers. We compete for loans, deposits and other financial services with other commercial banks, thrifts, credit unions, brokerage houses, mutual funds, insurance companies and specialized finance companies. Many of our competitors offer products and services which we do not offer, and many have substantially greater resources and lending limits, name recognition and market presence that benefit them in attracting business. In addition, larger competitors may be able to price loans and deposits more aggressively than we do, and newer competitors may also be more aggressive in terms of pricing loan and deposit products than we are in order to obtain a share of the market. Some of the financial institutions and financial services organizations with which we compete are not subject to the same degree of regulation as is imposed on bank holding companies, federally insured state-chartered banks and national banks and federal savings banks. As a result, these non-bank competitors have certain advantages over us in accessing funding and in providing various services.

Our ability to compete successfully depends on a number of factors including the following:

- the ability to develop, maintain and build upon long-term customer relationships based on top-quality service, high ethical standards and safe, sound assets;
- the ability to expand our market position;
- the scope, relevance and pricing of products and services offered to meet customer needs and demands;
- the rate at which we introduce new products and services relative to our competitors;
- customer satisfaction with our level of service; and
- industry and general economic trends.

Failure to perform in any of these areas could significantly weaken our competitive position, which could adversely affect our growth and profitability, which, in turn, could have a material adverse effect on our financial condition and results of operations.

We operate in a highly regulated environment and may be adversely affected by changes in federal and state laws and regulations that are expected to increase our costs of operations.

The Bank is currently subject to extensive examination, supervision and comprehensive regulation by the OCC and as a savings and loan holding company the Corporation is subject to examination, supervision and regulation by the Federal Reserve Board. These regulatory authorities have extensive discretion in connection with their supervisory and enforcement activities, including the ability to impose restrictions on an institution's operations, reclassify assets, determine the adequacy of an institution's allowance for loan losses and determine the level of deposit insurance premiums assessed.

Additionally, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") has significantly changed the bank regulatory structure and will affect the lending, deposit, investment, trading and operating activities of financial institutions and their holding companies. The Dodd-Frank Act requires various federal agencies to adopt a broad range of new implementing rules and regulations, and to prepare numerous studies and reports for Congress. The federal agencies are given significant discretion in drafting the implementing rules and regulations, and consequently, many of the details and much of the impact of the Dodd-Frank Act may not be known for many months or years.

Certain provisions of the Dodd-Frank Act are expected to have a near term impact on us. For example, a provision of the Dodd-Frank Act eliminates the federal prohibitions on paying interest on demand deposits, thus allowing businesses to have interest bearing checking accounts. Depending on competitive responses, this significant change to existing law could have an adverse impact on our interest expense.

The Dodd-Frank Act also broadens the base for FDIC insurance assessments. Assessments are now based on the average consolidated total assets less tangible equity capital of a financial institution. The Dodd-Frank Act also permanently increased the maximum amount of deposit insurance for banks, savings institutions and credit unions to $250,000 per depositor, and non-interest-bearing transaction accounts have unlimited deposit insurance through December 31, 2012.

The Dodd-Frank Act requires publicly traded companies to give stockholders a non-binding vote on executive compensation and so-called "golden parachute" payments and authorizes the SEC to promulgate rules that would allow stockholders to nominate their own candidate using a company's proxy materials. The legislation also directs the Federal Reserve Board to promulgate rules prohibiting excessive compensation paid to bank holding company executives, regardless of whether the company is publicly traded or not.

The Dodd-Frank Act creates a new Consumer Financial Protection Bureau with broad powers to supervise and enforce consumer protection laws. The Consumer Financial Protection Bureau has broad rule-making authority for a wide range of consumer protection laws that apply to all banks and savings institutions, including the authority to prohibit "unfair, deceptive or abusive" acts and practices. The Consumer Financial Protection Bureau has examination and enforcement authority over all banks and savings institutions with more than $10 billion in assets. Financial institutions such as the Bank with $10 billion or less in assets will continue to be examined for compliance with the consumer laws by their primary bank regulators.

In June 2012, the Federal Reserve and the OCC approved proposed rules that substantially amend the regulatory risk-based capital rules applicable to both the Bank and Corporation. The proposed rules implement the "Basel III" regulatory capital reforms and changes required by the Dodd-Frank Act.

The proposed rules include new higher minimum risk-based capital and leverage ratios, which would be phased in during 2013 and 2014, and would limit the definition of what constitutes "capital" for purposes of calculating those ratios. The proposed new minimum capital level requirements under the proposals would be: (i) a new common equity Tier 1 capital ratio of 4.5%; (ii) a Tier 1 capital ratio of 6%; (iii) a total capital ratio of 8%; and (iv) a Tier 1 leverage ratio of 4% for all institutions. The proposed rules would also establish a "capital conservation buffer" of 2.5% above the new regulatory minimum capital ratios.

While the proposed Basel III changes and other regulatory capital requirements will likely result in generally higher regulatory capital standards, it is difficult at this time to predict when or how any new standards will ultimately be applied to us or what specific impact the Dodd-Frank Act and the yet to be written implementing rules and regulations will have on community banks. However, it is expected that at minimum they will increase our operating and compliance costs and could increase our interest expense. The application of more stringent capital requirements could, among other things, result in lower returns on invested capital, over time require the raising of additional capital, and result in regulatory actions if we were to be unable to comply with such requirements. Furthermore, the imposition of liquidity requirements in connection with the implementation of Basel III could result in our having to lengthen the term of our funding, restructure our business models, and/or increase our holdings of liquid assets.

Implementation of changes to asset risk weightings for risk based capital calculations, items included or deducted in calculating regulatory capital and/or additional capital conservation buffers could result in management modifying its business strategy and could limit our ability to make distributions, including paying out dividends or buying back shares. Any additional changes in our regulation and oversight, in the form of new laws, rules and regulations, could make compliance more difficult or expensive or otherwise materially adversely affect our business, financial condition or prospects.

Increases in deposit insurance premiums and special FDIC assessments will hurt our earnings.

The Dodd-Frank Act established 1.35% as the minimum reserve ratio. The FDIC has adopted a plan under which it will meet this ratio by the statutory deadline of September 30, 2020. The Dodd-Frank Act requires the FDIC to offset the effect on institutions with assets less than $10 billion of the increase in the minimum reserve ratio to 1.35% from the former minimum of 1.15%. The FDIC has not announced how it will implement this offset. In addition to the statutory minimum ratio, the FDIC must set a designated reserve ratio or DRR, which may exceed the statutory minimum. The FDIC has set 2.0 as the DRR.

As required by the Dodd-Frank Act, the FDIC has adopted final regulations under which insurance premiums are based on an institution's total assets minus its tangible equity instead of its deposits. While our FDIC insurance premiums initially will be reduced by these regulations, it is possible that our future insurance premiums will increase under the final regulations.

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

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

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

New or changing tax, accounting, and regulatory rules and interpretations could significantly impact strategic initiatives, results of operations, cash flows, and financial condition.

The financial services industry is extensively regulated. Federal and state banking regulations are designed primarily to protect the deposit insurance funds and consumers, not to benefit our stockholders. These regulations may sometimes impose significant limitations on operations. Regulatory authorities have extensive discretion in connection with their supervisory and enforcement activities, including the imposition of restrictions on the operation of an institution, the classification of assets by the institution and the adequacy of an institution’s allowance for loan losses. Additionally, actions by regulatory agencies or significant litigation against us could require us to devote significant time and resources to defending our business and may lead to penalties that materially affect us. These regulations, along with the currently existing tax, accounting, securities, insurance, and monetary laws, regulations, rules, standards, policies, and interpretations control the methods by which financial institutions conduct business, implement strategic initiatives and tax compliance, and govern financial reporting and disclosures. These laws, regulations, rules, standards, policies, and interpretations are constantly evolving and may change significantly over time.

Some of these regulations may increase our costs and thus place other financial institutions in stronger, more favorable competitive positions. We cannot predict what restrictions may be imposed upon us with future legislation.

Our litigation related costs might continue to increase.

The Bank is subject to a variety of legal proceedings that have arisen in the ordinary course of the Bank’s business. In the current economic environment, the Bank’s involvement in litigation has increased significantly, primarily as a result of defaulted borrowers asserting claims to defeat or delay foreclosure proceedings. The Bank believes that it has meritorious defenses in legal actions where it has been named as a defendant and is vigorously defending these suits. Although management, based on discussion with litigation counsel, believes that such proceedings will not have a material adverse effect on the financial condition or operations of the Bank, there can be no assurance that a resolution of any such legal matters will not result in significant liability to the Bank nor have a material adverse impact on its financial condition and results of operations or the Bank's ability to meet applicable regulatory requirements. Moreover, the expenses of pending legal proceedings will adversely affect the Bank's results of operations until they are resolved. There can be no assurance that the Bank's loan workout and other activities will not expose the Bank to additional legal actions, including lender liability or environmental claims.

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

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

We rely on communications, information, operating and financial control systems technology from third-party service providers, and we may suffer an interruption in those systems.

We rely heavily on third-party service providers for much of our communications, information, operating and financial control systems technology, including our internet banking services and data processing systems. Any failure or interruption of these services or systems or breaches in security of these systems could result in failures or interruptions in our customer relationship management, general ledger, deposit, servicing and/or loan origination systems. The occurrence of any failures or interruptions may require us to identify alternative sources of such services, and we cannot assure you that we could negotiate terms that are as favorable to us, or could obtain services with similar functionality as found in our existing systems without the need to expend substantial resources, if at all.

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

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

Our assets as of June 30, 2012 include a deferred tax asset, the full value of which we may not be able to realize.

We recognize deferred tax assets and liabilities based on differences between the financial statement carrying amounts and the tax bases of assets and liabilities. At June 30, 2012, the net deferred tax asset was approximately $8.6 million, a decrease from a balance of approximately $9.9 million at June 30, 2011. The net deferred tax asset results primarily from our provisions for loan losses recorded for financial reporting purposes, which has been significantly larger than net loan charge-offs deducted for tax reporting proposes.

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

We regularly review our deferred tax assets for recoverability based on our history of earnings, expectations for future earnings and expected timing of reversals of temporary differences. Realization of deferred tax assets ultimately depends on the existence of sufficient taxable income, including taxable income in prior carryback years, as well as future taxable income. We believe the recorded net deferred tax asset at June 30, 2012 is fully realizable based on our expected future earnings; however, we will not know the impact of the recent ownership change until we complete our fiscal 2012 tax return. Based on our preliminary analysis of the actual impact of the "ownership change" on our deferred tax assets, we believe that the impact on our deferred tax asset is unlikely to be material. This is a preliminary and complex analysis and requires us to make certain judgments in determining the annual limitation. As a result, it is possible that we could ultimately lose a significant portion of our deferred tax assets, which could have a material adverse effect on our results of operations and financial condition.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

At June 30, 2012, the net book value of the Bank's property (including land and buildings) and its furniture, fixtures and equipment was $6.6 million. The Bank's home office is located in Riverside, California. Including the home office, the Bank has 15 retail banking offices, 14 of which are located in Riverside County in the cities of Riverside (5), Moreno Valley (2), Hemet, Sun City, Rancho Mirage, Corona, Temecula, La Quinta and Blythe. One office is located in Redlands, San Bernardino County, California. The Bank owns seven of the retail banking offices and has eight leased retail banking offices. The leases expire from 2013 to 2020. The Bank also leases 15 stand-alone loan production offices, which are located in City of Industry, Escondido, Fairfield, Glendora, Hermosa Beach, Pleasanton (2), Rancho Cucamonga (3), Riverside (4), Roseville and San Rafael, California. The leases expire from 2012 to 2015.

Item 3. Legal Proceedings

Periodically, there have been various claims and lawsuits involving the Bank, such as claims to enforce liens, condemnation proceedings on properties in which the Bank holds security interests, claims involving the making and servicing of real property loans and other issues in the ordinary course of and incident to the Bank's business. The Bank is not a party to any pending legal proceedings that it believes would have a material adverse effect on the financial condition, operations and cash flows of the Bank.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

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

The common stock of Provident Financial Holdings, Inc. is listed on the NASDAQ Global Select Market under the symbol PROV. The following table provides the high and low sales prices for Provident Financial Holdings, Inc. common stock during the last two fiscal years by quarter. As of June 30, 2012, there were approximately 336 stockholders of record.

	First (Ended September 30)	Second (Ended December 31)	Third (Ended March 31)	Fourth (Ended June 30)
2012 Quarters:				
High	$ 8.75	$ 9.47	$ 11.00	$ 11.81
Low	$ 7.92	$ 8.38	$ 9.21	$ 10.28
2011 Quarters:				
High	$ 6.47	$ 7.47	$ 8.70	$ 8.47
Low	$ 4.57	$ 5.71	$ 6.90	$ 6.90

The Corporation adopted a quarterly cash dividend policy on July 24, 2002. Quarterly dividends paid for the quarters ended September 30, 2011, December 31, 2011, March 31, 2012 and June 30, 2012 were $0.03 per share for the first two quarters and $0.04 per share for the last two quarters. By comparison, quarterly dividends paid for the quarters ended September 30, 2010, December 31, 2010, March 31, 2011 and June 30, 2011 were $0.01 per share for each of the quarters. Future declarations or payments of dividends will be subject to the approval of the Corporation's Board of Directors, which will take into account the Corporation's financial condition, results of operations, tax considerations, capital requirements, industry standards, economic conditions and other factors, including the regulatory restrictions which affect the payment of dividends by the Bank to the Corporation. In addition, the Corporation's wholly-owned operating subsidiary, the Bank, is required to file a notice and receive the non-objection of the OCC prior to paying any dividends or making any capital distributions to the Corporation. See "Item 1. Business – Regulation - Federal Regulation of Savings Institutions - Limitations on Capital Distributions" on this Form 10-K. Under Delaware law, dividends may be paid either out of surplus or, if there is no surplus, out of net profits for the current fiscal year and/or the preceding fiscal year in which the dividend is declared.

The Corporation repurchases its common stock consistent with Board-approved stock repurchase plans. During fiscal 2012, the Corporation repurchased 670,348 shares under the July 2011 and April 2012 stock repurchase programs with an average cost of $9.83 per share. The July 2011 program was completed in May 2012. During fiscal 2012, the Corporation also repurchased 12,779 shares of restricted stock in lieu of distribution to employees (to satisfy the minimum income tax required to be withheld from employees) at an average cost of $8.26 per share. As of June 30, 2012, a total of 99,416 shares have been purchased (at an average cost of $11.04 per share), or 18% of the shares authorized in the April 2012 stock repurchase program, leaving 448,356 shares available for future purchases. The Corporation did not repurchase any shares of its common stock in fiscal 2011.

The table below sets forth information regarding the Corporation's purchases of its common stock during the fourth quarter of fiscal 2012.

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plan	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plan (1)
April 1, 2012 – April 30, 2012	49,800	$ 10.89	49,800	8,729
May 1, 2012 – May 31, 2012	106,931	$ 11.03	106,931	449,570
June 1, 2012 – June 30, 2012	1,214	$ 10.94	1,214	448,356
Total	157,945	$ 10.98	157,945	448,356

(1) The July 2011 stock repurchase program which authorized 570,932 shares was completed in May 2012. On April 19, 2012, the Corporation announced a new stock repurchase plan to repurchase up to 547,772 shares, which expires on April 19, 2013.

Performance Graph

The following graph compares the cumulative total shareholder return on the Corporation's common stock with the cumulative total return on the Nasdaq Stock Index (U.S. Stock) and Nasdaq Bank Index. Total return assumes the reinvestment of all dividends.

	6/30/07	6/30/08	6/30/09	6/30/10	6/30/11	6/30/12
PROV	$100.00	$39.21	$23.65	$20.66	$34.68	$50.68
NASDAQ Stock Index	$100.00	$87.47	$71.60	$83.11	$110.80	$120.72
NASDAQ Bank Index	$100.00	$62.31	$46.35	$53.67	$57.94	$61.02

* Assumes that the value of the investment in the Corporation's common stock and each index was $100 on June 30, 2007 and that all dividends were reinvested.

See Part III, Item 12 of this Form 10-K for information regarding the Corporation's Equity Compensation Plans, which is incorporated into this Item 5 by reference.

Item 6. Selected Financial Data

The information contained under the heading "Financial Highlights" in the Corporation's Annual Report to Shareholders filed as Exhibit 13 to this report on Form 10-K is incorporated herein by reference.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with the Corporation's Consolidated Financial Statements and Notes to the Consolidated Financial Statements included in Item 8 of this Form 10-K.

General

Management's discussion and analysis of financial condition and results of operations are 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 Consolidated Financial Statements and Notes to the Consolidated Financial Statements included in Item 8 of this Form 10-K. Provident Savings Bank, F.S.B., is a wholly owned subsidiary of Provident Financial Holdings, Inc. and as such, comprises substantially all of the activity for Provident Financial Holdings, Inc.

Certain matters in this Form 10-K constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. This Form 10-K 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. You should not place undue reliance on these statements, as they are subject to risks and uncertainties. When considering these forward-looking statements, you should keep these risks and uncertainties in mind, 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; 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 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 Federal Reserve Board and of our bank subsidiary by the Office of Comptroller of the Currency 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, which could adversely affect our liquidity and earnings; legislative or regulatory changes, such as the Dodd-Frank Act and its implementing regulations, that adversely affect our business, as well as changes in regulatory policies and principles or the interpretation of regulatory capital or other rules including as a result of Basel III; 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; war or terrorist activities; 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. Any forward-looking statements are based upon management's beliefs and assumptions at the time they are made. We do not undertake and specifically disclaim any obligation to update any forward-looking statements included in this report or the reasons why actual results could differ from those contained in such statements, whether as a result of new information, future events or otherwise. These risks could cause our actual results to differ materially from those expressed in any forward-looking statements by, or on behalf of, us. In light of these risks, uncertainties and assumptions, the forward-looking statements discussed in this report 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 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 financial statements. Actual results may differ from these estimates under different assumptions or conditions.

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

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

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

In compliance with the OCC's regulatory reporting requirements which do not recognize specific valuation allowances, the Bank modified its charge-off policy on non-performing loans during the quarter ended March 31, 2012 and, subsequent to the OCC's review, the Bank further revised its charge-off policy in the quarter ended June 30, 2012. Historically, the Bank established a specific valuation allowance for non-performing loans under ASC 310 based upon the estimated fair value of the underlying collateral, less disposition costs, in comparison to the loan balance or used a discounted cash flow method for non-performing restructured loans. The specific valuation allowance was not charged-off until the foreclosure process was complete. Under the modified policy, 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 restructured loans, the charge-off occurs when the loans becomes 90 days delinquent; and where borrowers file bankruptcy, the charge-off occurs when the loan becomes 60 days delinquent. The amount of the charge-off is determined by comparing the loan balance to the estimated fair value of the underlying collateral, less disposition costs, with the loan balance in excess of the estimated fair value charged-off against the allowance for loan losses. Both methods are acceptable under GAAP. The modification to the charge-off policy resulted in $3.01 million of additional charge-offs in the fourth quarter of fiscal 2012 and a total of $4.00 million of additional charge-offs for fiscal 2012, but had no impact to the allowance for loans losses or the provision for loan losses because these charge-offs were timely identified in previous periods as specific valuation allowances and were included in the Corporation's loss experience as part of the evaluation of the allowance for loan losses in those prior periods. The allowance for loan losses for non-performing loans is determined based on ASC 310 as discussed previously. For restructured loans that are less than 90 days delinquent, the allowance for loan losses are segregated into (a) individually evaluated allowances for those loans with applicable discounted cash flow calculations or (b) collectively evaluated allowances based on the aggregated pooling method. For non-performing loans less than 60 days delinquent where the borrower has filed bankruptcy, the collectively evaluated allowances are assigned based on the aggregated pooling method.

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

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

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

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

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

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

Interest is not accrued on any loan when its contractual payments are more than 90 days delinquent or if the loan is deemed impaired. In addition, interest is not recognized on any loan where management has determined that collection is not reasonably assured. A non-accrual 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.

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

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

Executive Summary and Operating Strategy

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

Community banking operations primarily consist of accepting deposits from customers within the communities surrounding the Bank's full service offices and investing those funds in single-family, multi-family, commercial real estate, construction, commercial business, consumer and other 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. As a result of a federal rule which took effect July 6, 2010, the Bank may no longer collect overdraft protection fees unless the consumer consents, or opts in, to the overdraft service; this is expected to reduce significantly the amount the Bank collects on overdraft protection fees. During the next three years, although not immediately given the uncertain environment, the Bank 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 multi-family, commercial real estate, construction and commercial business loans (which are sometimes referred to in this report as "preferred loans"). In addition, over time, the Bank 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 Bank, an increase in net interest income. While the Bank's long-term strategy is for moderate growth, management recognizes that the current general economic environment has resulted in less opportunity for profitable growth in the short term. Therefore, management has allocated the Bank's resources on improving asset quality, strengthening regulatory capital ratios, mitigating liquidity risk and growing the mortgage banking business.

Mortgage banking operations primarily consist of the origination 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 Bank will continue to modify its operations in response to the rapidly changing mortgage banking environment. Most recently, the Bank has been increasing the number of mortgage banking personnel to capitalize on the increasing loan demand, the result of significantly lower mortgage interest rates. Changes may also 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.

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 establishing prudent banking practices at the Bank such as interest rate risk, credit risk, operational risk and liquidity risk management. The current economic environment presents heightened risk for the Corporation primarily with respect to falling real estate values and higher loan delinquencies. Declining real estate values may lead to higher loan losses since the majority of the Bank's loans are secured by real estate located within California. Significant declines in the value of California real estate may inhibit the Bank's ability to recover on defaulted loans by selling the underlying real estate. The Corporation's and Bank'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 us. For further details on risk factors, see "Forward-Looking Statement" and "Item 1A – Risk Factors" on this Form 10-K.

Commitments and Derivative Financial Instruments

The Corporation conducts a portion of its operations in leased facilities under non-cancelable agreements classified as operating leases (see Note 14 of the Notes to Consolidated Financial Statements included in Item 8 of this Form 10-K for a schedule of minimum rental payments and lease expenses under such operating leases). For information regarding the Corporation's commitments and derivative financial instruments, see Note 15 of the Notes to Consolidated Financial Statements included in Item 8 of this Form 10-K.

Off-Balance Sheet Financing Arrangements and Contractual Obligations

The following table summarizes the Corporation's contractual obligations at June 30, 2012 and the effect such 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	$ 1,917	$ 1,699	$ 882	$ 729	$ 5,227
Pension benefits	-	209	419	7,182	7,810
Time deposits	227,735	204,207	21,640	1,737	455,319
FHLB – San Francisco advances	24,166	68,153	2,647	45,093	140,059
FHLB – San Francisco letter of credit	10,000	-	-	-	10,000
FHLB – San Francisco MPF credit enhancement	3,012	-	-	-	3,012
Total	$ 266,830	$ 274,268	$ 25,588	$ 54,741	$ 621,427

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

The Bank 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 investors, TBA-MBS trades 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 Consolidated Statements of Financial Condition included in Item 8 of this Form 10-K. The Bank's exposure to credit loss, in the event of non-performance by the counter party to these financial instruments, is represented by the contractual amount of these instruments. The Bank uses the same credit policies in making commitments to extend credit as it does for on-balance sheet instruments. As of June 30, 2012 and 2011, these commitments were $222.1 million and $107.7 million, respectively.

Comparison of Financial Condition at June 30, 2012 and June 30, 2011

Total assets decreased $52.8 million, or 4%, to $1.26 billion at June 30, 2012 from $1.31 billion at June 30, 2011. The decrease was primarily a result of a decrease of $84.8 million in loans held for investment, partly offset by an increase of $39.9 million in loans held for sale. The decline in total assets was consistent with the Corporation's strategy of managing credit and liquidity risk.

Total cash and cash equivalents increased $2.5 million, or 2%, to $145.1 million at June 30, 2012 from $142.6 million at June 30, 2011. The relatively high level of liquidity is consistent with the Corporation's strategy to mitigate liquidity risk during the current economic uncertainty and to provide sufficient funds for its mortgage banking operations.

Total investment securities decreased $3.3 million, or 13%, to $22.9 million at June 30, 2012 from $26.2 million at June 30, 2011. A total of $3.3 million of principal payments were received on mortgage-backed securities. No investment securities were called by the issuer or purchased during fiscal 2012. The principal reduction of mortgage-backed securities was primarily attributable to mortgage prepayments and the scheduled principal payments of the underlying mortgage loans. The Bank evaluates individual investment securities quarterly for other-than-temporary ("OTTI") declines in market value. The Bank does not believe that there are any other-than-temporary impairments at June 30, 2012; therefore, no impairment losses have been recorded for fiscal 2012. See details of the OTTI discussion in Note 1 on Investment Securities of the Notes to Consolidated Financial Statements contained in Item 8 of this Form 10-K.

Loans held for investment decreased $84.8 million, or 10%, to $796.8 million at June 30, 2012 from $881.6 million at June 30, 2011. This decrease was primarily a result of $131.0 million of loan prepayments and $24.1 million of real estate acquired in the settlement of loans, which was partly offset by $49.5 million of loans originated for investment and $8.2 million of loans purchased for investment. The decrease in loans held for investment was consistent with the Corporation's strategy of managing credit and liquidity risk.

The following tables describe the geographic distribution of real estate secured loans held for investment at June 30, 2012 and 2011, as a percentage of the total dollar amount outstanding (dollars in thousands):

As of June 30, 2012

	Inland Empire		Southern California (1)		Other California		Other States		Total	
Loan Category	Balance	%	Balance	%	Balance	%	Balance	%	Balance	%
Single-family	$ 133,874	31%	$ 237,715	54%	$ 63,432	14%	$ 4,003	1%	$ 439,024	100%
Multi-family	37,303	13%	188,229	68%	49,012	18%	3,513	1%	278,057	100%
Commercial real estate	46,291	49%	47,175	49%	1,836	2%	-	- %	95,302	100%
Other	755	100%	-	- %	-	- %	-	- %	755	100%
Total	$ 218,223	27%	$ 473,119	58%	$ 114,280	14%	$ 7,516	1%	$ 813,138	100%

(1) Other than the Inland Empire.

As of June 30, 2011

	Inland Empire		Southern California (1)		Other California		Other States		Total	
Loan Category	Balance	%	Balance	%	Balance	%	Balance	%	Balance	%
Single-family	$ 150,803	31%	$ 268,510	54%	$ 70,556	14%	$ 4,323	1%	$ 494,192	100%
Multi-family	31,911	10%	215,618	71%	53,705	18%	3,574	1%	304,808	100%
Commercial real estate	50,485	49%	49,674	48%	1,877	2%	1,601	1%	103,637	100%
Other	1,530	100%	-	- %	-	- %	-	- %	1,530	100%
Total	$ 234,729	26%	$ 533,802	59%	$ 126,138	14%	$ 9,498	1%	$ 904,167	100%

(1) Other than the Inland Empire.

During fiscal 2012, the Bank originated $2.57 billion in new loans, primarily through PBM, and purchased $8.2 million of loans for investment, primarily multi-family loans, from other financial institutions. A total of $2.47 billion of loans were sold during fiscal 2012. PBM loan production was sold primarily on a servicing released basis. The total loan origination volume was higher than last year, due primarily to relatively low mortgage interest rates, a less competitive mortgage banking environment and more stable, though still weakened, real estate market.

The outstanding balance of loans held for sale increased $39.9 million, or 21%, to $231.6 million at June 30, 2012 from $191.7 million at June 30, 2011. The increase was due primarily to higher loan origination volume and the timing difference between loan originations and loan sale settlements. The increase in loan originations was primarily attributable to relatively low mortgage interest rates and less competition. Actions by the Department of Treasury and Federal Reserve in response to the credit crisis resulted in the ancillary benefit of lower mortgage interest rates, and the slow pace of the economic recovery has led the Federal Reserve to refrain from taking action to cause interest rates to increase.

Total real estate owned was $5.5 million at June 30, 2012, down $2.8 million, or 34%, from $8.3 million at June 30, 2011. As of June 30, 2012, real estate owned was comprised of 24 properties, primarily single-family residences located in Southern California. This compares to 54 real estate owned properties at June 30, 2011, primarily single-family residences and single-family undeveloped lots located in Southern California. The decrease in real estate owned was due primarily to better execution on the sale and disposition of real estate owned properties, which was partly offset by new foreclosures of delinquent loans. During fiscal 2012, the Bank acquired 68 real estate owned properties in the settlement of loans and sold 98 properties.

FHLB – San Francisco stock decreased $4.7 million, or 17%, to $22.3 million at June 30, 2012 from $27.0 million at June 30, 2011, due to partial stock redemptions in fiscal 2012. The FHLB – San Francisco has a stated desire to strengthen its capital ratios and has been doing so by redeeming fewer shares from those members, including the

Bank, with excess stock holdings. As of June 30, 2012, the required FHLB – San Francisco stock holding was $9.4 million resulting in an excess stock holding of $12.9 million.

Total deposits increased $15.6 million, or 2%, to $961.4 million at June 30, 2012 from $945.8 million at June 30, 2011. The increase was primarily attributable to an increase in transaction accounts, which was partly offset by a decrease in time deposits. Transaction accounts increased $43.3 million, or 9%, to $515.6 million at June 30, 2012 from $472.3 million at June 30, 2011; while time deposits decreased $27.7 million, or 6%, to $445.8 million at June 30, 2012 from $473.5 million at June 30, 2011. The total time deposits include brokered deposits of $7.1 million at June 30, 2012, down from $12.2 million at June 30, 2011 due to the maturity of $5.1 million in fiscal 2012. The increase in transaction accounts was primarily attributable to the Bank's marketing strategy to promote transaction accounts and the strategic decision to compete less aggressively on time deposit interest rates.

Borrowings, consisting of FHLB – San Francisco advances, decreased $80.1 million, or 39%, to $126.5 million at June 30, 2012 from $206.6 million at June 30, 2011. FHLB – San Francisco advances were primarily used to supplement the funding needs of the Bank. The decrease was due to scheduled maturities of $90.0 million, partly offset by new long-term advances of $10.0 million, consistent with the Corporation's fiscal 2012 strategy of managing liquidity risk. The weighted-average maturity of the Bank's FHLB – San Francisco advances was approximately 39 months at June 30, 2012, as compared to the weighted-average maturity of 29 months at June 30, 2011.

Total stockholders' equity increased $3.9 million, or 3%, to $144.8 million at June 30, 2012, from $140.9 million at June 30, 2011, primarily as a result of net income, partly offset by common stock repurchases and the quarterly cash dividends paid during fiscal 2012. The Corporation repurchased 683,127 shares of its common stock, or approximately 6% of the outstanding stock, for $6.7 million and paid $1.6 million of cash dividends to the Corporation's shareholders during fiscal 2012.

Comparison of Operating Results for the Years Ended June 30, 2012 and 2011

General. The Corporation recorded net income of $10.8 million, or $0.96 per diluted share, for the fiscal year ended June 30, 2012, as compared to a net income of $13.2 million, or $1.16 per diluted share, for the fiscal year ended June 30, 2011. The $2.4 million decline in net income in fiscal 2012 was primarily attributable to a $10.0 million increase in non-interest expense and $1.0 million decrease in net interest income before provision for loan losses, partly offset by a $6.8 million increase in non-interest income and a $2.1 million decrease in the provision for income taxes. The increase in both non-interest income and non-interest expense are both attributable to an increase in mortgage banking production. The Corporation's efficiency ratio, defined as non-interest expense divided by the sum of net interest income, before provision for loan losses, and non-interest income, increased to 69% in fiscal 2012 from 61% in fiscal 2011. Return on average assets in fiscal 2012 decreased to 0.84% from 0.97% in fiscal 2011 and return on average equity in fiscal 2012 decreased to 7.58% from 9.80% in fiscal 2011.

Net Interest Income. Net interest income before the provision for loan losses decreased $1.0 million, or 3%, to $36.7 million in fiscal 2012 from $37.7 million in fiscal 2011. This decrease resulted principally from a decrease in average earning assets, partly offset by an increase in the net interest margin. The average balance of earning assets decreased $59.1 million, or 5%, to $1.24 billion in fiscal 2012 from $1.30 billion in fiscal 2011. The net interest margin increased five basis points to 2.95% in fiscal 2012 from 2.90% in fiscal 2011.

Interest Income. Interest income decreased $7.3 million, or 12%, to $51.4 million for fiscal 2012 from $58.7 million for fiscal 2011. The decrease in interest income was primarily a result of decreases in the average balance and the average yield of earning assets. The decrease in average earning assets was primarily attributable to the decrease in loans receivable and interest-earning deposits and to a lesser extent, investment securities and FHLB – San Francisco stock. The average yield on earning assets decreased 36 basis points to 4.14% in fiscal 2012 from 4.50% in fiscal

2011. The decrease in the average yield on earning assets was the result of a decrease in the average yield on loans receivable and investment securities during fiscal 2012 due to the downward repricing of loans and investment securities to lower current market interest rates. The decline in the average earning assets was consistent with the Corporation's strategy of managing credit and liquidity risk.

Loan interest income decreased $6.9 million, or 12%, to $50.5 million in fiscal 2012 from $57.4 million in fiscal 2011. This decrease was attributable to a lower average loan balance and a lower average loan yield. The average balance of loans receivable, consisting of loans held for investment and loans held for sale, decreased $33.6 million, or 3%, to $1.07 billion during fiscal 2012 from $1.11 billion during fiscal 2011. The average loan yield during fiscal 2012 decreased 48 basis points to 4.70% from 5.18% during fiscal 2011. The decrease in the average loan yield was primarily attributable to payoffs of loans which had a higher yield than the average yield of loans held for investment, adjustable-rate loans repricing to lower interest rates and a higher average balance of loans held for sale at a lower average yield. The average balance of loans held for sale, increased $63.4 million, or 38 percent, to $230.8 million for fiscal 2012 as compared to $167.4 million in fiscal 2011 and their average loan yield decreased 35 basis points to 3.92% in fiscal 2012 from 4.27% in fiscal 2011.

Interest income from investment securities decreased $270,000, or 34%, to $528,000 in fiscal 2012 from $798,000 in fiscal 2011. This decrease was primarily a result of a decrease in the average balance and a decrease in the average yield. The average balance of investment securities decreased $6.0 million, or 20%, to $24.4 million in fiscal 2012 from $30.4 million in fiscal 2011. During fiscal 2012, the Bank did not purchase any investment securities, while $3.3 million of principal payments were received on mortgage-backed securities. The average yield on the investment securities decreased 47 basis points to 2.16% during fiscal 2012 from 2.63% during fiscal 2011. The decrease in the average yield of investment securities was primarily attributable to the repricing of adjustable rate mortgage-backed securities to lower interest rates.

Interest Expense. Total interest expense for fiscal 2012 was $14.7 million as compared to $20.9 million for fiscal 2011, a decrease of $6.2 million, or 30%. This decrease was primarily attributable to a lower average balance of interest-bearing liabilities, and to a lesser extent, a decrease in the average cost. The average cost of interest-bearing liabilities was 1.31% during fiscal 2012, down 43 basis points from 1.74% during fiscal 2011. The decline in the average cost of liabilities was primarily due to the downward repricing of deposits. The average balance of interest-bearing liabilities, principally deposits and borrowings, decreased $77.7 million, or 6%, to $1.13 billion during fiscal 2012 from $1.20 billion during fiscal 2011. The decrease was primarily attributable to a decline in borrowings due to scheduled maturities, partly offset by an increase in the deposit average balance.

Interest expense on deposits for fiscal 2012 was $8.4 million as compared to $10.3 million for the same period of fiscal 2011, a decrease of $1.9 million, or 18%. The decrease in interest expense on deposits was primarily attributable to a lower average cost, partly offset by an increase in the average balance of deposits. The average cost of deposits decreased to 0.88% in fiscal 2012 from 1.09% during fiscal 2011, a decrease of 21 basis points. The average cost of time deposits in fiscal 2012 was 1.52%, down 20 basis points, from 1.72% in fiscal 2011, while the average cost of transaction accounts in fiscal 2012 was 0.28%, down 18 basis points, from 0.46% in fiscal 2011. The average balance of deposits increased $18.8 million, or 2%, to $958.0 million during fiscal 2012 from $939.2 million during fiscal 2011. The average balance of time deposits decreased by $9.3 million, or 2%, to $462.1 million in fiscal 2012 from $471.4 million in fiscal 2011. The decrease in the average balance of time deposits was partly offset by an increase in the average balance of transaction accounts, consistent with the Bank’s marketing strategy to promote transaction accounts and the strategic decision to compete less aggressively on time deposit interest rates. The average balance of transaction accounts increased $28.1 million, or 6%, to $495.9 million in fiscal 2012 from $467.8 million in fiscal 2011.

Interest expense on borrowings, solely FHLB – San Francisco advances, for fiscal 2012 decreased $4.4 million, or 41%, to $6.3 million from $10.7 million for fiscal 2011. The decrease in interest expense on borrowings was due primarily to a lower average balance, and to a lesser extent, a lower average cost. The average balance of borrowings decreased $96.5 million, or 37%, to $167.3 million during fiscal 2012 from $263.8 million during fiscal 2011. The average cost of borrowings decreased to 3.76% in fiscal 2012 from 4.05% in fiscal 2011, a decrease of 29 basis points, resulting primarily from scheduled maturities with higher average costs.

Provision for Loan Losses. During fiscal 2012, the Corporation recorded a provision for loan losses of $5.8 million, slightly higher than $5.5 million during fiscal 2011. The provision for loan losses in fiscal 2012 was primarily attributable to loan classification downgrades, partly offset by a decline in loans held for investment which resulted in a recovery of associated loan loss provision. The allowance for loan losses was adjusted to reflect an improved quality of loans held for investment as described below, despite persistently weak general economic conditions in the U.S. and Southern California, in particular, high unemployment rates, low gross domestic product, weak real estate markets and lower retail sales.

Non-performing assets (net of the collectively evaluated allowance and individually evaluated allowance), with underlying collateral primarily located in Southern California, decreased to $40.0 million, or 3.17% of total assets, at June 30, 2012, compared to $45.5 million, or 3.46% of total assets, at June 30, 2011. The non-performing assets at June 30, 2012 were primarily comprised of 87 single-family loans ($29.1 million); six commercial real estate loans ($3.2 million); four multi-family loans ($1.5 million); one other mortgage loan ($522,000); six commercial business loans ($172,000); and real estate owned comprised of 18 single-family properties ($4.7 million), four undeveloped lots ($385,000), one multi-family property ($366,000) and one commercial real estate property ($0, fully reserved) acquired in the settlement of loans. As of June 30, 2012, 49%, or $17.1 million of non-performing loans have a current payment status. Net charge-offs in fiscal 2012 were $14.8 million or 1.38% of average loans receivable, compared to $18.5 million or 1.67% of average loans receivable in fiscal 2011.

Classified assets at June 30, 2012 were $58.5 million, comprised of $4.9 million in the special mention category, $48.1 million in the substandard category and $5.5 million in real estate owned. Classified assets at June 30, 2011 were $66.6 million, comprised of $12.9 million in the special mention category, $45.4 million in the substandard category and $8.3 million in real estate owned. Classified assets decreased at June 30, 2012 from the June 30, 2011 level primarily as a result of slight improvements in credit quality and stabilization of the real estate market. See details on “Delinquencies and Classified Assets” on this Form 10-K.

In fiscal 2012, 24 loans for $10.1 million were modified from their original terms, were re-underwritten and were identified in the Corporation’s asset quality reports as restructured loans. As of June 30, 2012, the outstanding balance of restructured loans was $25.1 million: 12 loans were classified as pass, were not included in the classified asset totals described earlier and remained on accrual status ($5.5 million); three loans were classified as special mention and remained on accrual status ($4.0 million); and 41 loans were classified as substandard ($15.6 million, all are on non-accrual status). As of June 30, 2012, 74%, or $18.5 million of the restructured loans have a current payment status.

The allowance for loan losses was $21.5 million at June 30, 2012, or 2.63% of gross loans held for investment, compared to $30.5 million, or 3.34% of gross loans held for investment at June 30, 2011. The allowance for loan losses at June 30, 2012 includes $771,000 of individually evaluated allowances, compared to $14.1 million of individually evaluated allowances at June 30, 2011. The decline in the individually evaluated allowance was primarily attributable to the change in the Bank’s charge-off policy. Management believes that, based on currently available information, the allowance for loan losses is sufficient to absorb potential losses inherent in loans held for investment. See details on “Allowance for Loan Losses” on this Form 10-K.

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 portfolio 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 collectibility may not be assured, and determination of the realizable value of the collateral securing the loans. Provisions for loan losses are charged against operations on a monthly basis, as necessary, to maintain the allowance at appropriate levels. Management believes that the amount maintained in the allowance will be adequate to absorb probable losses inherent in the loans held for investment. Although management believes it uses the best information available to make such determinations, there can be no assurance that regulators, in reviewing the Bank’s loans held for investment, will not request the Bank to significantly increase 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 control of the Bank.

Non-Interest Income. Total non-interest income increased $6.8 million, or 19%, to $43.2 million in fiscal 2012 from $36.4 million in fiscal 2011. The increase was primarily attributable to an increase in the gain on sale of loans and a smaller net loss on the sale and operations of real estate owned acquired in the settlement of loans, partly offset by a $1.1 million net gain on sale of the retail banking facility in Temecula, California in fiscal 2011, not replicated in fiscal 2012.

The gain on sale of loans increased $6.8 million, or 22%, to $38.0 million for fiscal 2012 from $31.2 million in fiscal 2011. The increase was a result of a higher volume of loans originated for sale. Total loan sale volume, which includes the net change in commitments to extend credit on loans to be held for sale, was $2.63 billion in fiscal 2012 as compared to $2.11 billion in fiscal 2011, up $524.2 million or 25%. The increase in the loan sale volume in fiscal 2012 was attributable to relatively low mortgage interest rates, more stable real estate markets and less competition. The average loan sale margin for PBM during fiscal 2012 was 1.49%, unchanged from fiscal 2011. 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, TBA-MBS trades and option contracts) that amounted to a net gain of $5.7 million in fiscal 2012, as compared to a favorable fair-value adjustment that amounted to a net gain of $590,000 in fiscal 2011. The gain on sale of loans in fiscal 2012 also includes a $2.8 million recourse reserve provision on loans sold that are subject to repurchase, compared to a $125,000 recourse reserve recovery in fiscal 2011. The higher recourse reserve provision on loans sold was due primarily to an increase in investor claims and a higher recourse reserve on loans sold to the FHLB – San Francisco under the MFP program. The mortgage banking environment has shown improvement as a result of relatively low mortgage interest rates but remains volatile.

The sale and operations of real estate owned acquired in the settlement of loans reflected a net loss of $120,000 in fiscal 2012, as compared to a net loss of $1.4 million in fiscal 2011. The net loss in fiscal 2012 was comprised of a $715,000 net gain on the sale of 98 real estate owned properties and net operating expenses of $835,000. The net loss in fiscal 2011 was comprised of a $351,000 net gain on the sale of 136 real estate owned properties and net operating expenses of $1.7 million.

Non-Interest Expense. Total non-interest expense in fiscal 2012 was $55.4 million, an increase of $10.0 million, or 22%, as compared to $45.4 million in fiscal 2011. The increase in non-interest expense was primarily the result of increases in incentive compensation expense and other operating expenses.

Compensation expense increased $9.3 million, or 31%, to $39.3 million in fiscal 2012 from $30.0 million in fiscal 2011. The increase in compensation expense was primarily due to higher PBM incentive compensation resulting primarily from higher loan originations in fiscal 2012. PBM loan originations were $2.52 billion in fiscal 2012 as compared to $2.15 billion in fiscal 2011, up $373.9 million, or 17%. See Note 17 of the Notes to Consolidated Financial Statements contained in Item 8 of this Form 10-K, for further details on PBM salary and compensation benefits.

Deposit insurance premiums and regulatory assessments decreased $1.3 million, or 50%, to $1.3 million in fiscal 2012 from $2.6 million in fiscal 2011. The decrease was primarily attributable to lower deposit insurance premiums resulting from an improvement in the Bank's risk category rating and the change in the FDIC's methodology for calculating the premium.

Other operating expenses increased $785,000, or 14%, to $6.4 million in fiscal 2012 from $5.7 million in fiscal 2011. The increase in other operating expenses was due primarily to higher PBM loan production related costs.

Income Taxes. The provision for income taxes was $7.9 million for fiscal 2012, representing an effective tax rate of 42.3%, as compared to $10.0 million in fiscal 2011, representing an effective tax rate of 43.2%. The Corporation determined that the above tax rates meet its estimated income tax obligations (See Note 9 of the Notes to Consolidated Financial Statements, "Income Taxes" contained in Item 8 of this Form 10-K).

Comparison of Operating Results for the Years Ended June 30, 2011 and 2010

General. The Corporation recorded net income of $13.2 million, or $1.16 per diluted share, for the fiscal year ended June 30, 2011, as compared to a net income of $1.1 million, or $0.13 per diluted share, for the fiscal year ended June

30, 2010. The $12.1 million improvement in net income in fiscal 2011 was attributable to a $16.4 million decrease in the provision for loan losses and a $14.1 million increase in non-interest income, partly offset by a $7.2 million increase in non-interest expense, a $1.9 million decrease in net interest income before provision for loan losses and a $9.3 million increase in the provision for income taxes. The Corporation's efficiency ratio improved slightly to 61% in fiscal 2011 from 62% in fiscal 2010. Return on average assets in fiscal 2011 increased to 0.97% from 0.08% in fiscal 2010. Return on average equity in fiscal 2011 increased to 9.80% from 0.94% in fiscal 2010.

Net Interest Income. Net interest income before the provision for loan losses decreased $1.9 million, or 5%, to $37.7 million in fiscal 2011 from $39.6 million in fiscal 2010. This decrease resulted principally from a decrease in average earning assets, partly offset by an increase in the net interest margin. The average balance of earning assets decreased $95.1 million, or 7%, to $1.30 billion in fiscal 2011 from $1.40 billion in fiscal 2010. The net interest margin increased seven basis points to 2.90% in fiscal 2011 from 2.83% in fiscal 2010.

Interest Income. Interest income decreased $11.5 million, or 16%, to $58.7 million for fiscal 2011 from $70.2 million for fiscal 2010. The decrease in interest income was primarily a result of decreases in the average balance and the average yield of earning assets. The decrease in average earning assets was primarily attributable to the decrease in loans receivable and investment securities, partly offset by an increase in interest-earning deposits. The average yield on earning assets decreased 52 basis points to 4.50% in fiscal 2011 from 5.02% in fiscal 2010. The decrease in the average yield on earning assets was the result of a decrease in the average yield on loans receivable and investment securities during fiscal 2011. The declining yield of interest-earning assets was attributable to the downward repricing of loans and investment securities, a lower average balance of loans which generally have higher yields and a higher level of excess liquidity invested at a nominal yield. The decline in the average earning assets was consistent with the current short-term strategy of maintaining capital ratios, improving liquidity and reducing credit risk.

Loan interest income decreased $10.3 million, or 15%, to $57.4 million in fiscal 2011 from $67.7 million in fiscal 2010. This decrease was attributable to a lower average loan balance and a lower average loan yield. The average balance of loans receivable decreased $103.5 million, or 9%, to $1.11 billion during fiscal 2011 from $1.21 billion during fiscal 2010. The average loan yield during fiscal 2011 decreased 40 basis points to 5.18% from 5.58% during fiscal 2010. The decrease in the average loan yield was primarily attributable to payoffs of loans which had a higher yield than the average yield of loans held for investment, adjustable-rate loans repricing to lower interest rates and new non-performing loans, which required interest income reversals. The decrease in the average balance of loans receivable was attributable to loan repayments and the origination of fewer loans for investment. Total non-performing loans decreased to $37.1 million at June 30, 2011 from $58.8 million at June 30, 2010.

Interest income from investment securities decreased $1.3 million, or 63%, to $798,000 in fiscal 2011 from $2.1 million in fiscal 2010. This decrease was primarily a result of a decrease in the average balance and a decrease in the average yield. The average balance of investment securities decreased $26.7 million, or 47%, to $30.4 million in fiscal 2011 from $57.1 million in fiscal 2010. During fiscal 2011, the Bank did not purchase any investment securities, while $5.5 million of principal payments were received on mortgage-backed securities and $3.3 million of agency debt securities were called by the issuer. The average yield on the investment securities decreased 113 basis points to 2.63% during fiscal 2011 from 3.76% during fiscal 2010. The decrease in the average yield of investment securities was primarily attributable to the repricing of adjustable rate mortgage-backed securities to lower interest rates.

Interest Expense. Total interest expense for fiscal 2011 was $20.9 million as compared to $30.6 million for fiscal 2010, a decrease of $9.7 million, or 32%. This decrease was primarily attributable to a decrease in the average cost and a lower average balance of interest-bearing liabilities. The average cost of interest-bearing liabilities was 1.74% during fiscal 2011, down 57 basis points from 2.31% during fiscal 2010. The decline in the average cost of liabilities was primarily due to the downward repricing of deposits. The average balance of interest-bearing liabilities, principally deposits and borrowings, decreased $119.8 million, or 9%, to $1.20 billion during fiscal 2011 from $1.32 billion during fiscal 2010. The decrease was primarily attributable to a decline in borrowings due to scheduled maturities.

Interest expense on deposits for fiscal 2011 was $10.3 million as compared to $15.5 million for the same period of fiscal 2010, a decrease of $5.2 million, or 34%. The decrease in interest expense on deposits was primarily attributable to a decrease in the average balance of deposits coupled with a lower average cost. The average balance of deposits decreased $10.1 million, or 1%, to $939.2 million during fiscal 2011 from $949.3 million during fiscal 2010. The average balance of time deposits decreased by $64.2 million, or 12%, to $471.4 million in fiscal 2011 from $535.6 million in fiscal 2010. The decrease in the average balance of time deposits was partly offset by an increase in the average balance of transaction accounts. The average balance of transaction accounts increased $54.1 million, or 13%, to $467.8 million in fiscal 2011 from $413.7 million in fiscal 2010. The average cost of deposits decreased to 1.09% in fiscal 2011 from 1.63% during fiscal 2010, a decrease of 54 basis points. The average cost of time deposits in fiscal 2011 was 1.72%, down 56 basis points, from 2.28% in fiscal 2010, while the average cost of transaction accounts in fiscal 2011 was 0.46%, down 33 basis points, from 0.79% in fiscal 2010. The decrease in average deposit costs was consistent with the decline in market interest rates.

Interest expense on borrowings, primarily FHLB – San Francisco advances, for fiscal 2011 decreased $4.4 million, or 29%, to $10.7 million from $15.1 million for fiscal 2010. The decrease in interest expense on borrowings was almost entirely due to the lower average balance as the average cost was relatively unchanged. The average balance of borrowings decreased $109.7 million, or 29%, to $263.8 million during fiscal 2011 from $373.5 million during fiscal 2010, consistent with the Corporation's fiscal 2011 short-term deleveraging strategy. The average cost of borrowings increased to 4.05% in fiscal 2011 from 4.04% in fiscal 2010, an increase of one basis point.

Provision for Loan Losses. During fiscal 2011, the Corporation recorded a provision for loan losses of $5.5 million, compared to a provision for loan losses of $21.8 million during fiscal 2010. The decrease in the provision for loan losses reflects reductions in non-performing and classified assets and net charge-offs. The provision for loan losses in fiscal 2011 was primarily attributable to loan classification downgrades, including non-performing loans (which resulted in a $14.6 million loan loss provision), partly offset by the general loan loss allowance for loans held for investment (which resulted in a $7.1 million loan loss recovery) and a decline in loans held for investment (which resulted in a $2.0 million loan loss recovery). The general loan loss allowance was adjusted to reflect an improved quality of loans held for investment as described below, despite persistently weak general economic conditions in the U.S. and Southern California, in particular, high unemployment rates, low gross domestic product, weak real estate markets and lower retail sales.

Non-performing assets (net of specific loan loss allowance), with underlying collateral primarily located in Southern California, decreased to $45.5 million, or 3.46% of total assets, at June 30, 2011, compared to $73.5 million, or 5.25% of total assets, at June 30, 2010. The non-performing assets at June 30, 2011 were primarily comprised of 116 single-family loans ($31.8 million); three commercial real estate loans ($2.2 million); two multi-family loans ($2.0 million); one other mortgage loan ($972,000); four commercial business loans ($143,000); and real estate owned comprised of 26 single-family properties ($6.7 million), one multi-family property ($1.1 million); one developed lot ($399,000); one commercial real estate property ($102,000) and 25 undeveloped lots ($69,000) acquired in the settlement of loans. As of June 30, 2011, 38%, or $14.2 million of non-performing loans have a current payment status. Net charge-offs in fiscal 2011 were $18.5 million or 1.67% of average loans receivable, compared to $23.8 million or 1.96% of average loans receivable in fiscal 2010.

Classified assets at June 30, 2011 were $66.6 million, comprised of $12.9 million in the special mention category, $45.4 million in the substandard category and $8.3 million in real estate owned. Classified assets at June 30, 2010 were $95.6 million, consisting of $20.5 million in the special mention category, $60.4 million in the substandard category and $14.7 million in real estate owned. Classified assets decreased at June 30, 2011 from the June 30, 2010 level primarily as a result of slight improvements in credit quality and stabilization of the real estate market. See details on "Delinquencies and Classified Assets" on this Form 10-K.

In fiscal 2011, 43 loans for $20.7 million were modified from their original terms, were re-underwritten and were identified in the Corporation's asset quality reports as restructured loans. As of June 30, 2011, the outstanding balance of restructured loans was $39.2 million: 34 loans were classified as pass, were not included in the classified asset totals described earlier and remained on accrual status ($15.3 million); five loans were classified as special mention and remained on accrual status ($4.6 million); 53 loans were classified as substandard ($19.3 million, with 51 of the 53 loans or $18.4 million on non-accrual status); and one loan was classified as loss and fully reserved. As of June 30, 2011, 79%, or $31.0 million of the restructured loans have a current payment status.

The allowance for loan losses was $30.5 million at June 30, 2011, or 3.34% of gross loans held for investment, compared to $43.5 million, or 4.14% of gross loans held for investment at June 30, 2010. The allowance for loan losses at June 30, 2011 includes $14.1 million of specific loan loss allowances, compared to $17.8 million of specific loan loss allowances at June 30, 2010. Management believes that, based on currently available information, the allowance for loan losses is sufficient to absorb potential losses inherent in loans held for investment. See details on "Allowance for Loan Losses" on this Form 10-K.

Non-Interest Income. Total non-interest income increased $14.1 million, or 63%, to $36.4 million in fiscal 2011 from $22.3 million in fiscal 2010. The increase was primarily attributable to an increase in the gain on sale of loans and a $1.1 million net gain on sale of the retail banking facility in Temecula, California, partly offset by the net loss on the sale and operations of real estate owned acquired in the settlement of loans and the $2.3 million gain on sale of investment securities in fiscal 2010, not replicated in fiscal 2011.

The gain on sale of loans increased $16.9 million, or 118%, to $31.2 million for fiscal 2011 from $14.3 million in fiscal 2010. The increase was a result of a higher volume of loans originated for sale and a higher average loan sale margin. Total loans originated for sale in fiscal 2011 were $2.14 billion as compared to $1.80 billion in fiscal 2010, up $342.7 million or 19%. The increase in the loan sale volume in fiscal 2011 was attributable to relatively low mortgage interest rates, more stable real estate markets and less competition. The average loan sale margin for PBM during fiscal 2011 was 1.49%, up 72 basis points from 0.77% during fiscal 2010. The increase in the average loan sale margin was due primarily to adjustments on derivative financial instruments and a lower recourse provision on loans sold subject to repurchase. 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, TBA-MBS trades and option contracts) that amounted to a net gain of $590,000 in fiscal 2011, as compared to a favorable fair-value adjustment that amounted to a net gain of $3.0 million in fiscal 2010. The gain on sale of loans in fiscal 2011 also includes a $125,000 recourse reserve recovery on loans sold that are subject to repurchase, compared to a $6.3 million recourse reserve provision in fiscal 2010. The mortgage banking environment has shown improvement as a result of relatively low mortgage interest rates but remains volatile.

The sale and operations of real estate owned acquired in the settlement of loans reflected a net loss of $1.4 million in fiscal 2011, as compared to a net gain of $16,000 in fiscal 2010. The net loss in fiscal 2011 was comprised of a $185,000 net gain on the sale of 136 real estate owned properties, operating expenses of $1.7 million and a $166,000 recovery for losses on real estate owned. The net gain in fiscal 2010 was comprised of a $2.7 million net gain on the sale of 155 real estate owned properties, operating expenses of $2.1 million and a $604,000 provision for losses on real estate owned.

In March 2011, the Corporation completed the sale of its retail branch facility located at 40325 Winchester Road, Temecula, California to an unaffiliated third party for a pre-tax gain of $1.1 million, which was recorded in the gain on sale of properties and equipment. The Corporation executed a short-term leaseback agreement with the new owner until the newly leased location at 40705 Winchester Road, Suites A106 and A107, Temecula, California opened in May 2011.

Non-Interest Expense. Total non-interest expense in fiscal 2011 was $45.4 million, an increase of $7.3 million, or 19%, as compared to $38.1 million in fiscal 2010. The increase in non-interest expense was primarily the result of increases in incentive compensation expense and other operating expenses.

Compensation expense increased $6.6 million, or 28%, to $30.0 million in fiscal 2011 from $23.4 million in fiscal 2010. The increase in compensation expense was primarily due to higher PBM incentive compensation resulting primarily from higher loan originations in fiscal 2011. PBM loan originations were $2.15 billion in fiscal 2011 as compared to $1.80 billion in fiscal 2010, up $343.7 million, or 19%. See Note 17 of the Notes to Consolidated Financial Statements contained in Item 8 of this Form 10-K, for further details on PBM salary and compensation benefits.

Other operating expenses increased $689,000, or 14%, to $5.7 million in fiscal 2011 from $5.0 million in fiscal 2010. The increase in other operating expenses was due primarily to higher PBM loan production related costs.

Income Taxes. The provision for income taxes was $10.0 million for fiscal 2011, representing an effective tax rate of 43.2%, as compared to $740,000 in fiscal 2010, representing an effective tax rate of 39.9%. The increase in the effective tax rate was primarily the result of a higher percentage of permanent tax differences relative to income before taxes. The Corporation determined that the above tax rates meet its estimated income tax obligations (See Note 9 of the Notes to Consolidated Financial Statements, "Income Taxes" in Item 8 of this Form 10-K).

Average Balances, Interest and Average Yields/Costs

The following table sets forth certain information for the periods regarding average balances of assets and liabilities as well as the total dollar amounts of interest income from average interest-earning assets and interest expense on average interest-bearing liabilities and average yields and costs thereof. Such yields and costs for the periods indicated are derived by dividing income or expense by the average monthly balance of assets or liabilities, respectively, for the periods presented.

	Year Ended June 30,								
	2012			2011			2010		
(Dollars In Thousands)	Average Balance	Interest	Average Yield/ Cost	Average Balance	Interest	Average Yield/ Cost	Average Balance	Interest	Average Yield/ Cost
Interest-earning assets:									
Loans receivable, net (1)	$ 1,074,487	$ 50,505	4.70 %	$ 1,108,087	$ 57,442	5.18 %	$ 1,211,600	$ 67,665	5.58 %
Investment securities	24,402	528	2.16 %	30,364	798	2.63 %	57,083	2,144	3.76 %
FHLB – San Francisco stock	24,683	99	0.39 %	29,480	110	0.37 %	32,861	112	0.34 %
Interest-earning deposits	120,187	303	0.25 %	134,953	339	0.25 %	96,421	242	0.25 %
Total interest-earning assets	1,243,759	51,435	4.14 %	1,302,884	58,689	4.50 %	1,397,965	70,163	5.02 %
Non interest-earning assets	46,479			59,002			63,489		
Total assets	$ 1,290,238			$ 1,361,886			$ 1,461,454		
Interest-bearing liabilities:									
Checking and money market accounts (2)	$ 278,930	637	0.23 %	$ 261,392	1,019	0.39 %	$ 228,671	1,396	0.61 %
Savings accounts	216,971	763	0.35 %	206,402	1,142	0.55 %	185,074	1,891	1.02 %
Time deposits	462,106	7,015	1.52 %	471,399	8,099	1.72 %	535,571	12,213	2.28 %
Total deposits	958,007	8,415	0.88 %	939,193	10,260	1.09 %	949,316	15,500	1.63 %
Borrowings	167,299	6,290	3.76 %	263,772	10,680	4.05 %	373,458	15,085	4.04 %
Total interest-bearing liabilities	1,125,306	14,705	1.31 %	1,202,965	20,940	1.74 %	1,322,774	30,585	2.31 %
Non interest-bearing liabilities	22,325			24,035			20,255		
Total liabilities	1,147,631			1,227,000			1,343,029		

Stockholders' equity	142,607	134,886	118,425
Total liabilities and stockholders' equity	$ 1,290,238	$ 1,361,886	$ 1,461,454
Net interest income	$ 36,730	$ 37,749	$ 39,578
Interest rate spread (3)	2.83 %	2.76 %	2.71 %
Net interest margin (4)	2.95 %	2.90 %	2.83 %
Ratio of average interest-earning assets to average interest-bearing liabilities	110.53	108.31	105.68

(1) Includes loans held for sale at fair value and non-performing loans, as well as net deferred loan cost amortization of $508, $543 and $400 for the years ended June 30, 2012, 2011 and 2010, respectively.

(2) Includes the average balance of non interest-bearing checking accounts of $49.4 million, $45.7 million and $45.5 million in fiscal 2012, 2011 and 2010, respectively.

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

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

Rate/Volume Analysis

The following table sets forth the effects of changing rates and volumes on interest income and expense of the Bank. Information is provided with respect to the effects attributable to changes in volume (changes in volume multiplied by prior rate), the effects attributable to changes in rate (changes in rate multiplied by prior volume) and the effects attributable to changes that cannot be allocated between rate and volume.

	Year Ended June 30, 2012 Compared to Year Ended June 30, 2011 Increase (Decrease) Due to				Year Ended June 30, 2011 Compared to Year Ended June 30, 2010 Increase (Decrease) Due to			
(In Thousands)	Rate	Volume	Rate/ Volume	Net	Rate	Volume	Rate/ Volume	Net
Interest-earnings assets:								
Loans receivable, net (1)	$ (5,358)	$ (1,740)	$ 161	$ (6,937)	$ (4,861)	$ (5,776)	$ 414	$ (10,223)
Investment securities	(141)	(157)	28	(270)	(643)	(1,005)	302	(1,346)
FHLB – San Francisco stock	8	(18)	(1)	(11)	10	(11)	(1)	(2)
Interest-earning deposits	-	(36)	-	(36)	-	97	-	97
Total net change in income on interest-earning assets	(5,491)	(1,951)	188	(7,254)	(5,494)	(6,695)	715	(11,474)
Interest-bearing liabilities:								
Checking and money market accounts	(422)	68	(28)	(382)	(505)	200	(72)	(377)
Savings accounts	(416)	58	(21)	(379)	(867)	218	(100)	(749)
Time deposits	(943)	(160)	19	(1,084)	(3,010)	(1,463)	359	(4,114)
Borrowings	(763)	(3,907)	280	(4,390)	37	(4,431)	(11)	(4,405)
Total net change in expense on interest-bearing liabilities	(2,544)	(3,941)	250	(6,235)	(4,345)	(5,476)	176	(9,645)
Net (decrease) increase in net interest income	$ (2,947)	$ 1,990	$ (62)	$ (1,019)	$ (1,149)	$ (1,219)	$ 539	$ (1,829)

(1) Includes loans held for sale at fair value and non-performing loans.

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, proceeds from FHLB – San Francisco advances, and access to the discount window facility at the Federal Reserve Bank of San Francisco. While maturities and scheduled amortization of loans and investment securities are a relatively predictable source of funds, deposit flows, mortgage prepayments and loan sales are greatly influenced by general interest rates, economic conditions and competition.

Historically, the primary investing activity of the Bank has been the origination and purchase of loans held for investment, though due to the decline in real estate values and deterioration of credit quality, particularly for single-family loans, and the Bank's short-term strategy to improve liquidity and preserve capital, the Bank has substantially reduced its origination of loans for investment during fiscal 2012 and 2011. During the fiscal years ended June 30, 2012, 2011 and 2010, the Bank originated loans in the amounts of $2.57 billion, $2.15 billion and $1.80 billion, respectively, the vast majority of which were sold, as noted below. In addition, the Bank purchased loans for investment from other financial institutions in fiscal 2012, 2011 and 2010 in the amounts of $8.2 million, $7.1 million and $0, respectively. Total loans sold in fiscal 2012, 2011 and 2010 were $2.47 billion, $2.12 billion and $1.78 billion, respectively. At June 30, 2012, 2011 and 2010, the Bank had loan origination commitments totaling $222.1 million, $107.7 million and $146.7 million, respectively, and no undisbursed loan funds. The Bank anticipates that it will have sufficient funds available to meet its current loan origination commitments.

The Bank's primary financing activity is gathering deposits. During the fiscal years ended June 30, 2012, 2011 and 2010, the net increase (decrease) in deposits was $15.6 million, $12.9 million and $(56.3) million, respectively. On

June 30, 2012, time deposits that are scheduled to mature in one year or less were $223.7 million. Historically, the Bank 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 Bank 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 Bank generally maintains sufficient cash and cash equivalents to meet short-term liquidity needs. At June 30, 2012, total cash and cash equivalents were $145.1 million, or 11.5% of total assets. Depending on market conditions and the pricing of deposit products and FHLB – San Francisco advances, the Bank may continue to rely on FHLB – San Francisco advances for part of its liquidity needs. As of June 30, 2012, the remaining financing availability at FHLB – San Francisco was $310.9 million and the remaining unused collateral was $409.0 million. In addition, the Bank has secured a $20.2 million discount window facility at the Federal Reserve Bank of San Francisco, collateralized by investment securities with a fair market value of $21.2 million. As of June 30, 2012, there was no outstanding borrowing under this facility.

The Bank’s average liquidity ratio (defined as the ratio of average qualifying liquid assets to average deposits and borrowings) for the quarter ended June 30, 2012 increased to 38.4% from 34.7% during the same quarter ended June 30, 2011. The increase in the liquidity ratio was due primarily to management’s decision to maintain relatively high liquidity as a result of recent market uncertainty and the timing difference between PBM loan originations and loan sale settlements. The increase in liquidity resulted in a lower net interest margin and lower net interest income because liquid assets generally yield lower rates of return than less liquid assets. The Bank augments its liquidity by maintaining sufficient borrowing capacity at the FHLB – San Francisco.

The Bank is required to maintain specific amounts of capital pursuant to OCC requirements. Under the OCC prompt corrective action provisions, minimum ratios of 5.0% for Tier 1 Leverage Capital, 10.0% for Total Risk-Based Capital and 6.0% for Tier 1 Risk-Based Capital is required to be deemed “well capitalized.” As of June 30, 2012, the Bank exceeded the well capitalized requirements with Tier 1 Leverage Capital, Total Risk-Based Capital and Tier 1 Risk-Based Capital ratios of 11.3%, 18.8% and 17.5%, respectively.

Impact of Inflation and Changing Prices

The Corporation’s consolidated financial statements are prepared in accordance with generally accepted accounting principles, which require the measurement of financial position and operating results in terms of historical dollars without considering the changes in the relative purchasing power of money over time as a result of inflation. The impact of inflation is reflected in the increasing cost of the Corporation’s operations. Unlike most industrial companies, nearly all assets and liabilities of the Corporation are monetary. As a result, interest rates have a greater impact on the Corporation’s performance than do the effects of general levels of inflation. In addition, interest rates do not necessarily move in the direction, or to the same extent, as the prices of goods and services.

Impact of New Accounting Pronouncements

Various elements of the Corporation’s accounting policies, by their nature, are inherently subject to estimation techniques, valuation assumptions and other subjective assessments. In particular, management has identified several accounting policies that, as a result of the judgments, estimates and assumptions inherent in those policies, are important to an understanding of the financial statements of the Corporation. These policies relate to the methodology for the recognition of interest income, determination of the provision and allowance for loan losses, the estimated fair value of derivative financial instruments and the valuation of mortgage servicing rights and real estate owned. These policies and judgments, estimates and assumptions are described in greater detail in the Management’s Discussion and

Analysis of Financial Condition and Results of Operations section and in the section entitled "Organization and Summary of Significant Accounting Policies" contained in Note 1 of the Notes to the Consolidated Financial Statements in Item 8 of this Form 10-K. Management believes that judgments, estimates and assumptions used in the preparation of the financial statements are appropriate based on the factual circumstances at the time. However, because of the sensitivity of the financial statements to these critical accounting policies, changes to the judgments, estimates and assumptions used could result in material differences in the results of operations or financial condition.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Quantitative Aspects of Market Risk. The Bank does not maintain a trading account for any class of financial instrument nor does it purchase high-risk derivative financial instruments. Furthermore, the Bank is not subject to foreign currency exchange rate risk or commodity price risk. The primary market risk that the Bank faces is interest rate risk. For information regarding the sensitivity to interest rate risk of the Bank's interest-earning assets and interest-bearing liabilities, see "Maturity of Loans Held for Investment," "Investment Securities Activities," "Time Deposits by Maturities" and "Interest Rate Risk" on this Form 10-K.

Qualitative Aspects of Market Risk. The Bank's principal financial objective is to achieve long-term profitability while reducing its exposure to fluctuating interest rates. The Bank 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 Bank'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 Bank maintains an investment portfolio, which is largely comprised of U.S. government agency MBS and U.S. government sponsored enterprise MBS with contractual maturities of up to 30 years that reprice frequently. The Bank 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, reduce 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 Bank promotes transaction accounts and time deposits with terms up to five years. For additional information, see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" on this Form 10-K.

Interest Rate Risk. The principal financial objective of the Corporation's interest rate risk management function is to achieve long-term profitability while limiting its exposure to the fluctuation of interest rates. The Corporation, through the Bank's Asset-Liability Committee, has sought to reduce the exposure of its earnings to changes in interest rates by managing the repricing mismatch between interest-earning assets and interest-bearing liabilities. The principal element in achieving this objective is to manage the interest-rate sensitivity of the Corporation's assets by retaining loans with interest rates subject to periodic market adjustments. In addition, the Bank maintains a liquid investment portfolio primarily comprised of U.S. government agency MBS and government sponsored enterprise MBS that reprice frequently. The Bank relies on retail deposits as its primary source of funding while utilizing FHLB – San Francisco advances as a secondary source of funding which can be structured with favorable interest rate risk characteristics. As part of its interest rate risk management strategy, the Bank promotes transaction accounts.

The Bank produces an internal interest rate risk model that measures interest rate risk by modeling 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 with no effect given to any steps that management might take to counter the effect of the interest rate change.

The following table sets forth as of June 30, 2012 the estimated changes in NPV based on the indicated interest rate environment. The Bank's balance sheet position as of June 30, 2012 can be summarized as follows: if interest rates increase or decrease, the NPV of the Bank is expected to increase since almost all of the Bank's loans held for investment are adjustable rate loans.

Basis Points (bp) Change in Rates (Dollars In Thousands)	Net Portfolio Value	NPV Change (1)	Portfolio Value Assets	NPV as Percentage of Portfolio Value Assets (2)	Sensitivity Measure (3)
+400 bp	$ 163,198	$ 8,339	$ 1,250,693	13.05%	+105 bp
+300 bp	$ 159,361	$ 4,502	$ 1,257,821	12.67%	+67 bp
+200 bp	$ 160,714	$ 5,855	$ 1,271,821	12.64%	+64 bp
+100 bp	$ 160,877	$ 6,018	$ 1,282,769	12.54%	+54 bp
0 bp	$ 154,859	$ -	$ 1,290,710	12.00%	- bp
-100 bp	$ 156,537	$ 1,678	$ 1,295,561	12.08%	+8 bp

(1) Represents the increase of the estimated NPV at the indicated change in interest rates compared to the NPV calculated at June 30, 2012 ("base case").
(2) Calculated as the estimated NPV divided by the portfolio value of total assets.
(3) Calculated as the change in the NPV ratio from the base case at the indicated change in interest rates.

The following table is based on the calculations contained in the previous table, and sets forth the change in the NPV at a -100 basis point rate shock at June 30, 2012 and at a -100 basis point rate shock at June 30, 2011 (by regulation the Bank must measure and manage its interest rate risk for an interest rate shock of +200 basis points and -100 basis points, whichever produces the largest decline in NPV).

Risk Measure: -100/-100 bp Rate Shock	At June 30, 2012 (-100 bp)	At June 30, 2011 (-100 bp)
Pre-Shock NPV Ratio	12.00%	12.38%
Post-Shock NPV Ratio	12.08%	12.18%
Sensitivity Measure	8 bp	20 bp

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 repricing characteristics, they may react in different degrees to changes in interest rates. Also, the interest rates on certain types of assets and liabilities may fluctuate in advance of changes in interest rates, while interest rates on other types of assets and liabilities may lag behind changes in interest rates. Additionally, certain assets, such as ARM loans, have features that restrict changes on a short-term basis and over the life of the loan. Further, in the event of a change in interest rates, expected rates of prepayments on loans and early withdrawals of time deposits could likely deviate significantly from those assumed in calculating the respective results. It is also possible that, as a result of an interest rate increase, the increased mortgage payments required of ARM borrowers could result in an increase in delinquencies and defaults. Changes in interest rates could also affect the volume and profitability of the Bank's mortgage banking operations. Accordingly, the data presented in the tables above 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 Bank, nor does it represent amounts that would be available for distribution to stockholders in the event of the liquidation of the Corporation.

The Bank 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 Bank'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 +/-100 and +200 basis points.

The following table describes the results of the analysis for June 30, 2012 and June 30, 2011.

June 30, 2012		June 30, 2011	
Basis Point (bp) Change in Rates	Change in Net Interest Income	Basis Point (bp) Change in Rates	Change in Net Interest Income
+200 bp	+23.10%	+200 bp	+32.23%
+100 bp	+18.09%	+100 bp	+21.70%
-100 bp	-4.69%	-100 bp	-12.00%

For the fiscal year ended June 30, 2012 the Bank is asset sensitive as its interest-earning assets are expected to reprice more quickly than its interest-bearing liabilities during the subsequent 12-month period. Therefore, in a rising interest rate environment, the model projects an increase in net interest income over the subsequent 12-month period. In a falling interest rate environment, the results project a decrease in net interest income over the subsequent 12-month period. For the fiscal year ended June 30, 2011, the Bank is also asset sensitive. Therefore, in a rising interest rate environment, the model projects an increase in net interest income over the subsequent 12-month period. In a falling interest rate environment, the results project a decrease in net interest income over the subsequent 12-month period.

Management believes that the assumptions used to complete the analysis described in the table above are reasonable. However, past experience has shown that immediate, permanent and parallel movements in interest rates will not necessarily occur. Additionally, while the analysis provides a tool to evaluate the projected net interest income to changes in interest rates, actual results may be substantially different if actual experience differs from the assumptions used to complete the analysis. Therefore the model results that we disclose 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 8. Financial Statements and Supplementary Data

Please refer to the Consolidated Financial Statements and Notes to Consolidated Financial Statements on this Form 10-K.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

None.

Item 9A. 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 and Chief Financial Officer as of the end of the period covered by this annual report. In designing and evaluating the Corporation's disclosure controls and procedures, management recognized 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 June 30, 2012 are effective in providing reasonable assurance 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 June 30, 2012, 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.

Management Report on Internal Control Over Financial Reporting

Management of Provident Financial Holdings, Inc. and subsidiary (the "Corporation") is responsible for establishing and maintaining adequate internal control over financial reporting. The Corporation's internal control over financial reporting was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

To comply with the requirements of Section 404 of the Sarbanes–Oxley Act of 2002, the Corporation designed and implemented a structured and comprehensive assessment process to evaluate its internal control over financial reporting across the enterprise. The assessment of the effectiveness of the Corporation's internal control over financial reporting was based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management's assessment of the Corporation's internal control over financial reporting was also conducted to meet the reporting requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA), which include controls over the preparation of the schedules equivalent to the basic financial statements in accordance with the Office of the Comptroller of the Currency Instructions for Call Reports for Balance Sheet (Schedule RC), Income Statement (Schedule RI) and Changes in Bank Equity Capital (Schedule RI-A).

Because of its inherent limitations, including the possibility of human error and the circumvention of overriding controls, a system of internal control over financial reporting can provide only reasonable assurance and may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Based on its assessment, management has concluded that the Corporation's internal control over financial reporting was effective as of June 30, 2012.

The effectiveness of internal control over financial reporting as of June 30, 2012, has been audited by Deloitte & Touche LLP, the independent registered public accounting firm who also audited the Corporation's consolidated financial statements. Deloitte & Touche LLP's attestation report on the Corporation's internal control over financial reporting follows.

The management of the Corporation has assessed the Corporation's compliance with the Federal laws and regulations pertaining to insider loans and the Federal and, if applicable, State laws and regulations pertaining to dividend restrictions during the fiscal year that ended on June 30, 2012. Management has concluded that the Corporation complied with the Federal laws and regulations pertaining to insider loans and the Federal and, if applicable, State laws and regulations pertaining to dividend restrictions during the fiscal year that ended on June 30, 2012.

Date: September 13, 2012

/s/ Craig G. Blunden
Craig G. Blunden
Chairman and Chief Executive Officer

/s/ Donavon P. Ternes
Donavon P. Ternes
President, Chief Operating Officer and
Chief Financial Officer

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of
Provident Financial Holdings, Inc.
Riverside, California

We have audited the internal control over financial reporting of Provident Financial Holdings, Inc. and subsidiary (the "Corporation") as of June 30, 2012, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Because management's assessment and our audit were conducted to meet the reporting requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA), management's assessment and our audit of the Corporation's internal control over financial reporting included controls over the preparation of the schedules equivalent to the basic financial statements in accordance with the instructions for the Office of the Comptroller of the Currency Instructions for Call Reports for Balance Sheet on schedule RC, Income Statement on schedule RI, and Changes in Bank Equity Capital on schedule RI-A. The Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Corporation's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Corporation maintained, in all material respects, effective internal control over financial reporting as of June 30, 2012, based on the criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have not examined and, accordingly, we do not express an opinion or any other form of assurance on management's statement referring to compliance with laws and regulations.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) the consolidated financial statements as of and for the year ended June 30, 2012 of the Corporation and our report dated September 13, 2012, expressed an unqualified opinion on those consolidated financial statements (which report expresses an unqualified opinion and includes an explanatory paragraph relating to the presentation of a new statement of comprehensive income for each of the three years in the period ended June 30, 2012, due to the adoption of Accounting Standards Update 2011-05, Comprehensive Income (Topic 220) – Presentation of Comprehensive Income).

/s/ DELOITTE & TOUCHE LLP

Los Angeles, California
September 13, 2012

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this item regarding the Corporation's Board of Directors is incorporated herein by reference from the section captioned "Proposal I – Election of Directors" in the Corporation's Proxy Statement, a copy of which will be filed with the Securities and Exchange Commission no later than 120 days after the Corporation's fiscal year end.

The executive officers of the Corporation and the Bank are elected annually and hold office until their respective successors have been elected and qualified or until death, resignation or removal by the Board of Directors. For information regarding the Corporation's executive officers, see Item 1 - "Executive Officers" on this Form 10-K.

Compliance with Section 16(a) of the Exchange Act

The information required by this item is incorporated herein by reference from the section captioned "Compliance with Section 16(a) of the Exchange Act" in the Corporation's Proxy Statement, a copy of which will be filed with the Securities and Exchange Commission no later than 120 days after the Corporation's fiscal year end.

Code of Ethics for Senior Financial Officers

The Corporation has adopted a Code of Ethics, which applies to all directors, officers, and employees of the Corporation. The Code of Ethics is publicly available as Exhibit 14 to the Corporation's Annual Report on Form 10-K for the fiscal year June 30, 2007, and is available on the Corporation's website, www.myprovident.com. If the

Corporation makes any substantial amendments to the Code of Ethics or grants any waiver, including any implicit waiver, from a provision of the Code to the Corporation's Chief Executive Officer, Chief Financial Officer or Controller, the Corporation will disclose the nature of such amendment or waiver on the Corporation's website and in a report on Form 8-K.

Audit Committee Financial Expert

The Corporation has a separately-designated standing audit committee established in accordance with section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended. The audit committee consists of three independent directors of the Corporation: Joseph P. Barr, Bruce W. Bennett and Debbi H. Guthrie. The Corporation has designated Joseph P. Barr, Audit Committee Chairman, as its audit committee financial expert. Mr. Barr is independent, as independence for audit committee members is defined under the listing standards of the NASDAQ Stock Market, a Certified Public Accountant in California and Ohio and has been practicing public accounting for over 40 years.

Item 11. Executive Compensation

The information required by this item is incorporated herein by reference from the sections captioned “Executive Compensation” and “Directors’ Compensation” in the Proxy Statement, a copy of which will be filed with the Securities and Exchange Commission no later than 120 days after the Corporation’s fiscal year end.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

(a) Security Ownership of Certain Beneficial Owners.

The information required by this item is incorporated herein by reference from the section captioned “Security Ownership of Certain Beneficial Owners and Management” in the Corporation’s Proxy Statement, a copy of which will be filed with the Securities and Exchange Commission no later than 120 days after the Corporation’s fiscal year end.

(b) Security Ownership of Management.

The information required by this item is incorporated herein by reference from the sections captioned “Security Ownership of Certain Beneficial Owners and Management” and “Proposal I - Election of Directors” in the Corporation’s Proxy Statement, a copy of which will be filed with the Securities and Exchange Commission no later than 120 days after the Corporation’s fiscal year end.

(c) Changes In Control.

The Corporation is not aware of any arrangements, including any pledge by any person of securities of the Corporation, the operation of which may at a subsequent date result in a change in control of the Corporation.

(d) Equity Compensation Plan Information.

The information required by this item is incorporated herein by reference from the section captioned “Executive Compensation – Equity Compensation Plan Information” in the Corporation’s Proxy Statement, a copy of which will be filed with the Securities and Exchange Commission no later than 120 days after the Corporation’s fiscal year end.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this item is incorporated herein by reference from the section captioned “Transactions with Management” in the Corporation’s Proxy Statement, a copy of which will be filed with the Securities and Exchange Commission no later than 120 days after the Corporation’s fiscal year end.

Item 14. Principal Accountant Fees and Services

The information required by this item is incorporated herein by reference from the section captioned “Proposal II - Approval of Appointment of Independent Auditors” in the Corporation’s Proxy Statement, a copy of which will be filed with the Securities and Exchange Commission no later than 120 days after the Corporation’s fiscal year end.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) 1. Financial Statements
See Exhibit 13 to Consolidated Financial Statements beginning on this Form 10-K.

2. Financial Statement Schedules
Schedules to the Consolidated Financial Statements have been omitted as the required information is inapplicable.

(b) Exhibits
Exhibits are available from the Corporation by written request

3.1(a) Certificate of Incorporation of Provident Financial Holdings, Inc. (Incorporated by reference to Exhibit 3.1 to the Corporation's Registration Statement on Form S-1 (File No. 333-2230))

3.1(b) Certificate of Amendment to Certificate of Incorporation of Provident Financial Holdings, Inc. as filed with the Delaware Secretary of State on November 24, 2009

3.2 Bylaws of Provident Financial Holdings, Inc. (Incorporated by reference to Exhibit 3.2 to the Corporation's Current Report on Form 8-K filed on October 26, 2007)

10.1 Employment Agreement with Craig G. Blunden (Incorporated by reference to Exhibit 10.1 to the Corporation's Form 8-K dated December 19, 2005)

10.2 Post-Retirement Compensation Agreement with Craig G. Blunden (Incorporated by reference to Exhibit 10.2 to the Corporation's Form 8-K dated December 19, 2005)

10.3 1996 Stock Option Plan (incorporated by reference to Exhibit A to the Corporation's proxy statement dated December 12, 1996)

10.4 1996 Management Recognition Plan (incorporated by reference to Exhibit B to the Corporation's proxy statement dated December 12, 1996)

10.5 Form of Severance Agreement with Richard L. Gale, Kathryn R. Gonzales, Lilian Salter, Donavon P. Ternes and David S. Weiant (incorporated by reference to Exhibit 10.1 in the Corporation's Form 8-K dated February 24, 2012)

10.6 2003 Stock Option Plan (incorporated by reference to Exhibit A to the Corporation's proxy statement dated October 21, 2003)

10.7 Form of Incentive Stock Option Agreement for options granted under the 2003 Stock Option Plan (incorporated by reference to Exhibit 10.13 to the Corporation's Annual Report on Form 10-K for the fiscal year June 30, 2005).

10.8 Form of Non-Qualified Stock Option Agreement for options granted under the 2003 Stock Option Plan (incorporated by reference to Exhibit 10.14 to the Corporation's Annual Report on Form 10-K for the fiscal year June 30, 2005).

10.9 2006 Equity Incentive Plan (incorporated by reference to Exhibit A to the Corporation's proxy statement dated October 12, 2006)

10.10 Form of Incentive Stock Option Agreement for options granted under the 2006 Equity Incentive Plan (incorporated by reference to Exhibit 10.10 in the Corporation's Form 10-Q for the quarter ended December 31, 2006)

10.11 Form of Non-Qualified Stock Option Agreement for options granted under the 2006 Equity Incentive Plan (incorporated by reference to Exhibit 10.11 in the Corporation's Form 10-Q for the quarter ended December 31, 2006)

10.12 Form of Restricted Stock Agreement for restricted shares awarded under the 2006 Equity Incentive Plan (incorporated by reference to Exhibit 10.12 in the Corporation's Form 10-Q for the quarter ended December 31, 2006)

10.13 2010 Equity Incentive Plan (incorporated by reference to Exhibit A to the Corporation's proxy statement dated October 28, 2010)

10.14 Form of Incentive Stock Option Agreement for options granted under the 2010 Equity Incentive Plan (incorporated by reference to Exhibit 10.1 in the Corporation's Form 8-K dated November 30, 2010)

10.15 Form of Non-Qualified Stock Option Agreement for options granted under the 2010 Equity Incentive Plan (incorporated by reference to Exhibit 10.2 in the Corporation's Form 8-K dated November 30, 2010)

10.16 Form of Restricted Stock Agreement for restricted shares awarded under the 2010 Equity Incentive Plan (incorporated by reference to Exhibit 10.3 in the Corporation's Form 8-K dated November 30, 2010)

10.17 Post-Retirement Compensation Agreement with Donavon P. Ternes (Incorporated by reference to Exhibit 10.13 to the Corporation's Form 8-K dated July 7, 2009)

13 2012 Annual Report to Stockholders

14 Code of Ethics for the Corporation's directors, officers and employees (Incorporated by reference to Exhibit 14 to the Corporation's Form 10-K dated September 12, 2007)

21.1 Subsidiaries of Registrant (Incorporated by reference to Exhibit 21.1 to the Corporation's Form 10-K dated September 12, 2007)

23.1 Consent of Independent Registered Public Accounting Firm

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 Annual Report on Form 10-K for the fiscal year ended June 30, 2012, formatted in Extensible Business Reporting Language (XBRL): (1) Consolidated Statements of Financial Condition; (2) Consolidated Statements of Operations; (3) Consolidated Statements of Comprehensive Income; (4) Consolidated Statements of Stockholders' Equity; (5) Consolidated Statements of Cash Flows; and (6) Selected Notes to Consolidated Financial Statements.*

(*)

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

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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.

Date: September 13, 2012

Provident Financial Holdings, Inc.

/s/ Craig G. Blunden
Craig G. Blunden
Chairman and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

SIGNATURES	TITLE	DATE
/s/ Craig G. Blunden Craig G. Blunden	Chairman and Chief Executive Officer (Principal Executive Officer)	September 13, 2012
/s/ Donavon P. Ternes Donavon P. Ternes	President, Chief Operating Officer and Chief Financial Officer (Principal Financial and Accounting Officer)	September 13, 2012
/s/ Joseph P. Barr Joseph P. Barr	Director	September 13, 2012
/s/ Bruce W. Bennett Bruce W. Bennett	Director	September 13, 2012
/s/ Debbi H. Guthrie Debbi H. Guthrie	Director	September 13, 2012
/s/ Robert G. Schrader Robert G. Schrader	Director	September 13, 2012
/s/ Roy H. Taylor Roy H. Taylor	Director	September 13, 2012
/s/ William E. Thomas	Director	September 13, 2012

William E. Thomas

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Provident Financial Holdings, Inc.
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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of
Provident Financial Holdings, Inc.
Riverside, California

We have audited the accompanying consolidated statements of financial condition of Provident Financial Holdings, Inc. and subsidiary (the “Corporation”) as of June 30, 2012 and 2011, and the related consolidated statements of operations, comprehensive income, stockholders’ equity, and cash flows for each of the three years in the period ended June 30, 2012. These consolidated financial statements are the responsibility of the Corporation’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Provident Financial Holdings, Inc. and subsidiary as of June 30, 2012 and 2011, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2012, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, the Corporation has presented a new statment of comprehensive income for each of the three years in the period ended June 30, 2012, due to the adoption of Accounting Standards Update 2011-05, Comprehensive Income (Topic 220) - Presentation of Comprehensive Income.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Corporation’s internal control over financial reporting as of June 30, 2012, based on the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated September 13, 2012, expressed an unqualified opinion on the Corporation’s internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP

Los Angeles, California
September 13, 2012

Provident Financial Holdings, Inc.
Consolidated Statemetns of Financial Condition

(In Thousands, Except Share Information)

	June 30, 2012	2011
Assets		
Cash and cash equivalents	$ 145,136	$ 142,550
Investment securities – available for sale, at fair value	22,898	26,193
Loans held for investment, net of allowance for loan losses of $21,483 and $30,482, respectively	796,836	881,610
Loans held for sale, at fair value	231,639	191,678
Accrued interest receivable	3,277	3,778
Real estate owned, net	5,489	8,329
Federal Home Loan Bank ("FHLB") – San Francisco stock	22,255	26,976
Premises and equipment, net	6,600	4,805
Prepaid expenses and other assets	26,787	27,805
Total assets	$ 1,260,917	$ 1,313,724
Liabilities and Stockholders' Equity		
Liabilities:		
Non interest-bearing deposits	$ 55,688	$ 45,437
Interest-bearing deposits	905,723	900,330
Total deposits	961,411	945,767
Borrowings	126,546	206,598
Accounts payable, accrued interest and other liabilities	28,183	20,441
Total liabilities	1,116,140	1,172,806
Commitments and contingencies (Note 14)		
Stockholders' equity:		
Preferred stock, $0.01 par value (2,000,000 shares authorized; none issued and outstanding)	-	-
Common stock, $0.01 par value (40,000,000 shares authorized; 17,619,865 and 17,610,865 shares issued; 10,856,027 and 11,418,654 shares outstanding, respectively)	176	176
Additional paid-in capital	86,758	85,432
Retained earnings	156,560	147,322
Treasury stock, at cost (6,763,838 and 6,192,211 shares, respectively)	(99,343)	(92,650)
Accumulated other comprehensive income, net of tax	626	638
Total stockholders' equity	144,777	140,918

Total liabilities and stockholders' equity	$ 1,260,917	$ 1,313,724

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

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Provident Financial Holdings, Inc.
Consolidated Statements of Operations

(In Thousands, Except Share Information)

	Year Ended June 30, 2012	2011	2010
Interest income:			
Loans receivable, net	$ 50,505	$ 57,442	$ 67,665
Investment securities	528	798	2,144
FHLB – San Francisco stock	99	110	112
Interest-earning deposits	303	339	242
Total interest income	51,435	58,689	70,163
Interest expense:			
Deposits	8,415	10,260	15,500
Borrowings	6,290	10,680	15,085
Total interest expense	14,705	20,940	30,585
Net interest income, before provision for loan losses	36,730	37,749	39,578
Provision for loan losses	5,777	5,465	21,843
Net interest income, after provision for loan losses	30,953	32,284	17,735
Non-interest income:			
Loan servicing and other fees	733	892	797
Gain on sale of loans, net	38,017	31,194	14,338
Deposit account fees	2,438	2,504	2,823
Gain on sale of investment securities	-	-	2,290
(Loss) gain on sale and operations of real estate owned acquired in the settlement of loans, net	(120)	(1,351)	16
Gain on sale of premises and equipment	-	1,089	-
Card and processing fees	1,282	1,274	1,110
Other	800	755	885
Total non-interest income	43,150	36,357	22,259
Non-interest expense:			
Salaries and employee benefits	39,283	29,966	23,379
Premises and occupancy	3,763	3,270	3,048
Equipment expense	1,488	1,526	1,614
Professional expense	1,904	1,669	1,517
Sales and marketing expense	1,187	672	623
Deposit insurance premium and regulatory assessments	1,296	2,610	2,988
Other	6,444	5,659	4,970
Total non-interest expense	55,365	45,372	38,139
Income before income taxes	18,738	23,269	1,855
Provision for income taxes	7,928	10,049	740
Net income	$ 10,810	$ 13,220	$ 1,115
Basic earnings per share	$ 0.96	$ 1.16	$ 0.13
Diluted earnings per share	$ 0.96	$ 1.16	$ 0.13

Cash dividends per share	$	0.14	$	0.04	$	0.04

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

Provident Financial Holdings, Inc.
Consolidated Statements of Comprehensive Income

(In Thousands)

	Year Ended June 30,		
	2012	2011	2010
Net income	$ 10,810	$ 13,220	$ 1,115
Change in unrealized holding (losses) gains on securities available for sale	(21)	(50)	212
Reclassification of gains to net income	-	-	(2,290)
Other comprehensive loss, before tax	(21)	(50)	(2,078)
Income tax benefit	9	21	873
Other comprehensive loss	(12)	(29)	(1,205)
Total comprehensive income (loss)	$ 10,798	$ 13,191	$ (90)

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

Provident Financial Holdings, Inc.
Consolidated Statements of Stockholders' Equity

(In Thousands, Except Share Information)

	Common Stock		Additional Paid-in	Retained	Treasury	Unearned Stock	Accumulat-ed Other Comprehen-sive Income,	
	Shares	Amount	Capital	Earnings	Stock	Compensation	Net of Tax	Total
Balance at July 1, 2009	6,219,654	$ 124	$ 72,709	$ 134,620	$ (93,942)	$ (473)	$ 1,872	$ 114,910
Prior period adjustment on tax liability (see Note 1)				(825)				(825)
Balance at July 1, 2009 (as revised)	6,219,654	124	72,709	133,795	(93,942)	(473)	1,872	114,085
Net income				1,115				1,115
Other comprehensive loss							(1,205)	(1,205)
Common stock issuance, net of expenses	5,175,000	52	11,881					11,933
Distribution of restricted stock	12,000							-
Amortization of restricted stock			523					523
Stock options expense			493					493
Allocation of contributions to ESOP			57			270		327
Cash dividends				(352)				(352)
Balance at June 30, 2010	11,406,654	176	85,663	134,558	(93,942)	(203)	667	126,919
Net income				13,220				13,220
Other comprehensive loss							(29)	(29)
Distribution of restricted stock	12,000							-
Amortization of restricted stock			477					477
Awards of restricted stock			(1,292)		1,292			-
Stock options expense			481					481
Allocation of contributions to ESOP			103			203		306
Cash dividends				(456)				(456)

Balance at June 30, 2011	11,418,654	176	85,432	147,322	(92,650)	-	638	140,918
Net income				10,810				10,810
Other comprehensive loss							(12)	(12)
Purchase of treasury stock	(683,127)				(6,693)			(6,693)
Exercise of stock options	9,000		72					72
Distribution of restricted stock	111,500							-
Amortization of restricted stock			609					609
Stock options expense			645					645
Cash dividends				(1,572)				(1,572)
Balance at June 30, 2012	10,856,027	$ 176	$ 86,758	$ 156,560	$ (99,343)	$ -	$ 626	$ 144,777

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

Provident Financial Holdings, Inc.
Consolidated Statements of Cash Flow

(In Thousands)

	Year Ended June 30, 2012	2011	2010
Cash flows from operating activities:			
Net income	$ 10,810	$ 13,220	$ 1,115
Adjustments to reconcile net income to net cash (used for) provided by operating activities:			
Depreciation and amortization	1,357	1,417	1,534
Provision for loan losses	5,777	5,465	21,843
(Recovery) provision for losses on real estate owned	(1,002)	(166)	604
Net gain on sale of loans	(38,017)	(31,194)	(14,338)
Net realized loss (gain) on sale of real estate owned	287	(185)	(2,692)
Net realized gain on sale of investment securities	-	-	(2,290)
Net gain on sale of premises and equipment	-	(1,080)	-
Stock-based compensation expense	1,254	958	1,016
ESOP expense	-	304	323
Provision for deferred income taxes	1,282	3,922	2,496
Increase in cash surrender value of bank owned life insurance	(189)	(199)	(200)
Increase (decrease) in accounts payable, accrued interest and other liabilities	2,372	(1,731)	(5,600)
Decrease (increase) in prepaid expenses and other assets	2,877	1,670	(7,987)
Loans originated for sale	(2,516,637)	(2,143,543)	(1,800,831)
Proceeds from sale of loans	2,517,505	2,148,728	1,805,976
Net cash (used for) provided by operating activities	(12,324)	(2,414)	969
Cash flows from investing activities:			
Net decrease in loans held for investment	62,149	85,769	96,680
Maturities and calls of investment securities available for sale	-	3,250	2,000
Principal payments from investment securities	3,341	5,534	20,604
Proceeds from sales of investment securities available for sale	-	-	67,778
Proceeds from redemption of FHLB – San Francisco stock	4,721	4,819	1,228
Purchase of bank owned life insurance	-	-	(2,000)
Proceeds from sales of real estate owned	19,895	38,750	44,206
Proceeds from sales of premises and equipment	-	2,189	-
Purchases of premises and equipment	(2,595)	(879)	(395)

Net cash provided by investing activities	87,511	139,432	230,101

(continued)

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

Provident Financial Holdings, Inc.
Consolidated Statements of Cash Flow

(In Thousands)

	Year Ended June 30, 2012	Year Ended June 30, 2011	Year Ended June 30, 2010
Cash flows from financing activities:			
Net increase (decrease) in deposits	$ 15,644	$ 12,834	$ (56,312)
Proceeds from long-term borrowings	10,000	30,000	-
Repayments of long-term borrowings	(90,052)	(133,049)	(147,045)
ESOP loan payment	-	2	4
Treasury stock purchases	(6,693)	-	-
Exercise of stock options	72	-	-
Cash dividends paid	(1,572)	(456)	(352)
Proceeds from issuance of common stock	-	-	11,933
Net cash used for financing activities	(72,601)	(90,669)	(191,772)
Net increase in cash and cash equivalents	2,586	46,349	39,298
Cash and cash equivalents at beginning of year	142,550	96,201	56,903
Cash and cash equivalents at end of year	$ 145,136	$ 142,550	$ 96,201
Supplemental information:			
Cash paid for interest	$ 15,249	$ 21,582	$ 31,050
Cash paid for income taxes	$ 5,110	$ 8,380	$ 3,990
Transfer of loans held for sale to loans held for investment	$ 2,567	$ 283	$ -
Real estate owned acquired in the settlement of loans	$ 24,113	$ 47,316	$ 59,038

(concluded)

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

Provident Financial Holdings, Inc.
Notes to Consolidated Financial Statements
June 30, 2012

1. Organization and Summary of Significant Accounting Policies:

Basis of presentation
The consolidated financial statements include the accounts of Provident Financial Holdings, Inc., and its wholly owned subsidiary, Provident Savings Bank, F.S.B. (collectively, the "Corporation"). All inter-company balances and transactions have been eliminated.

Provident Savings Bank, F.S.B. (the "Bank") converted from a federally chartered mutual savings bank to a federally chartered stock savings bank effective June 27, 1996. Provident Financial Holdings, Inc., a Delaware corporation organized by the Bank, acquired all of the capital stock of the Bank issued in the conversion; the transaction was recorded on a book value basis.

The Corporation operates in two business segments: community banking ("Provident Bank") and mortgage banking ("Provident Bank Mortgage" ("PBM"), a division of Provident Bank). Provident Bank activities include attracting deposits, offering banking services and originating multi-family, commercial real estate, commercial business and, to a lesser extent, construction and consumer loans. Deposits are collected primarily from 15 banking locations located in Riverside and San Bernardino counties in California. PBM activities include originating single-family loans, primarily first mortgages for sale to investors and to a lesser extent, for investment by the Bank. Loans are primarily originated in Southern California and Northern California by loan agents employed by the Bank, from its banking locations and freestanding lending offices. PBM operates wholesale loan production offices in Pleasanton and Rancho Cucamonga, California and retail loan production offices in City of Industry, Escondido, Fairfield, Glendora, Hermosa Beach, Pleasanton, Rancho Cucamonga (2), Riverside (4), Roseville and San Rafael, California.

Use of estimates
The accounting and reporting policies of the Corporation conform to generally accepted accounting principles in the United States of America ("GAAP"). The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the valuation of deferred tax assets, the valuation of loan servicing assets, the valuation of real estate owned, the determination of the loan repurchase reserve, the valuation of derivative financial instruments and deferred compensation costs.

The following accounting policies, together with those disclosed elsewhere in the consolidated financial statements, represent the significant accounting policies of Provident Financial Holdings, Inc. and the Bank.

Cash and cash equivalents
Cash and cash equivalents include cash on hand and due from banks, as well as overnight deposits placed at correspondent banks.

Investment securities

The Corporation classifies its qualifying investments as available for sale or held to maturity. The Corporation's policy of classifying investments as held to maturity is based upon its ability and management's positive intent to hold such securities to maturity. Securities expected to be held to maturity are carried at amortized historical cost. All other securities are classified as available for sale and are carried at fair value. Fair value is determined based upon quoted market prices. Changes in net unrealized gains (losses) on securities available for sale are included in accumulated other comprehensive income (loss), net of tax. Gains and losses on dispositions of investment securities are included in non-interest income and are determined using the specific identification method. Purchase premiums and discounts are amortized over the expected average life of the securities using the effective interest method.

Investment securities are reviewed quarterly for possible other-than-temporary impairment ("OTTI"). For debt securities, an OTTI is evident if the Corporation intends to sell the debt security or will more likely than not be required to sell the debt security before full recovery of the entire amortized cost basis is realized. However, even if the Corporation does not intend to sell the debt security and will not likely be required to sell the debt security before recovery of its entire amortized cost basis, the Corporation must evaluate expected cash flows to be received and determine if a credit loss has occurred. In the event of a credit loss, the credit component of the impairment is recognized within non-interest income and the non-credit component is recognized through accumulated other comprehensive income (loss), net of tax. For equity securities, management evaluates the securities in an unrealized loss position in the available-for-sale portfolio for OTTI on the basis of the duration of the decline in value of the security and severity of that decline as well as the Corporation's intent and ability to hold these securities for a period of time sufficient to allow for any anticipated recovery in the market value. If it is determined that the impairment on an equity security is other than temporary, an impairment loss equal to the difference between the carrying value of the security and its fair value is recognized within non-interest income.

PBM activities

Mortgage loans are originated for both investment and sale to the secondary market. Since the Corporation is primarily a single-family adjustable-rate mortgage ("ARM") lender for its own portfolio, a high percentage of fixed-rate loans are originated for sale to institutional investors.

Accounting Standards Codification ("ASC") No. 825, "Financial Instruments," allows for the option to report certain financial assets and liabilities at fair value initially and at subsequent measurement dates with changes in fair value included in earnings. The option may be applied instrument by instrument, but it is irrevocable. The Corporation has elected the fair value option on PBM loans held for sale. Fair value is generally determined by measuring the value of outstanding loan sale commitments in comparison to investors' current yield requirements as calculated on the aggregate loan basis. Loans are generally sold without recourse, other than standard representations and warranties, except those loans sold to the FHLB – San Francisco under the Mortgage Partnership Finance ("MPF") program which has a specific recourse provision, which is described later. A high percentage of loans are sold on a servicing released basis. In some transactions, primarily loans sold under the MPF program, the Corporation may retain the servicing rights in order to generate servicing income. Where the Corporation continues to service loans after sale, investors are paid their share of the principal collections together with interest at an agreed-upon rate, which generally differs from the loan's contractual interest rate.

Loans sold to the FHLB – San Francisco under the MPF program have a recourse liability. The FHLB – San Francisco absorbs the first four basis points of loss by establishing a first loss account and a credit scoring process is used to calculate the maximum recourse amount for the Bank. All losses above the Bank's maximum recourse are the responsibility of the FHLB – San Francisco. The FHLB – San Francisco pays the Bank a credit enhancement fee on a monthly basis to compensate the Bank for accepting the recourse obligation. On October 6, 2006, the FHLB – San Francisco announced that it would no longer offer new commitments to purchase mortgage loans from its members, but it would retain its existing portfolio of mortgage loans. As of June 30, 2012, the Bank serviced $68.0 million of loans under this program and has established a recourse liability of $734,000 as compared to $87.0 million of loans serviced and a recourse liability of $96,000 at June 30, 2011. A net loss of $439,000, $9,000 and $19,000 was recognized in fiscal 2012, 2011 and 2010, respectively, under this program. The increases in the recourse liability and recognized losses were primarily due to the cumulative loan losses which have now extinguished first loss account established by the FHLB – San Francisco.

Occasionally, the Bank is required to repurchase loans sold to Freddie Mac, Fannie Mae or other investors if it is determined that such loans do not meet the credit requirements of the investor, or if one of the parties involved in the loan misrepresented pertinent facts, committed fraud, or if such loans were 90-days past due within 120 days of the loan funding date. During the years ended June 30, 2012, 2011 and 2010, the Bank repurchased $1.6 million, $0 and $368,000 of single-family loans, respectively. Other repurchase requests were settled which did not result in the repurchase of the loan itself. In addition to the specific recourse liability for the MPF program, the Bank has established a recourse liability of $5.4 million and $4.1 million for loans sold to other investors as of June 30, 2012 and 2011, respectively.

Activity in the recourse liability for the years ended June 30, 2012 and 2011 was as follows:

(In Thousands)	2012	2011
Balance, beginning of year	$ 4,216	$ 6,335
Reserve (recovery) provision	2,825	(125)
Net settlements in lieu of loan repurchases	(858)	(1,994)
Balance, end of the year	$ 6,183	$ 4,216

The Bank is obligated to refund loan sale premiums to investors when a loan pays off within a specific time period following the loan sale; the time period ranges from three to six months, depending upon the loan sale agreement. Total loan sale premium refunds in fiscal 2012, 2011 and 2010 were $131,000, $252,000 and $14,000, respectively. As of June 30, 2012 and 2011, the Bank's recourse liability was $88,000 and $86,000, respectively, for future loan sale premium refunds.

Gains or losses on the sale of loans, including fees received or paid, are recognized at the time of sale and are determined by the difference between the net sales proceeds and the allocated book value of the loans sold. When loans are sold with servicing retained, the carrying value of the loans is allocated between the portion sold and the portion retained (i.e., servicing assets and interest-only strips), based on estimates of their respective fair values.

Mortgage servicing assets ("MSA") are amortized in proportion to and over the period of the estimated net servicing income and are carried at the lower of cost or fair value. The fair value of MSA is based on the present value of estimated net future cash flows related to contractually specified servicing fees. The Bank periodically evaluates MSA for impairment, which is measured as the excess of cost over fair value. This review is performed on a disaggregated basis, based on loan type and interest rate. MSA at June 30, 2012 had a carrying value of $327,000 and a fair value of $398,000, compared to a carrying value of $354,000 and a fair value of $589,000 at June 30, 2011 (see Note 4 of the Notes to Consolidated Financial Statements, "Mortgage Loan Servicing and Loans Originated for Sale.").

Rights to future income from serviced loans that exceed contractually specified servicing fees are recorded as interest-only strips. Interest-only strips are carried at fair value, utilizing the same assumptions that are used to value the related servicing assets, with any unrealized gain or loss, net of tax, recorded as a component of accumulated other comprehensive income (loss). Interest-only strips are included in prepaid expenses and other assets in the accompanying Consolidated Statements of Financial Condition. As of June 30, 2012 and 2011, the fair value of the interest-only strips was $130,000 and $200,000, respectively, and the net unrealized gain after statutory taxes of the interest-only strips was $74,000 and $114,000, respectively.

Loans held for sale

Loans held for sale consist primarily of long-term fixed-rate loans secured by first trust deeds on single-family residences, the majority of which are Federal Housing Administration ("FHA"), United States Department of Veterans Affairs ("VA"), Fannie Mae and Freddie Mac loan products. The loans are generally offered to customers located in Southern California, primarily in Riverside and San Bernardino counties, commonly known as the Inland Empire, and to a lesser extent in Orange, Los Angeles, San Diego and other counties, including Alameda, Marin, Placer and Solano counties and surrounding counties in Northern California. The loans have been hedged with loan sale commitments, TBA-MBS trades and option contracts. The loan sale settlement period is generally between 20 to 30 days from the date of the loan funding. The Corporation adopted ASC 820, "Fair Value Measurements and Disclosures," and elected the fair value option (ASC 825, "Financial Instruments") on loans held for sale.

Loans held for investment

Loans held for investment consist primarily of long-term loans secured by first trust deeds on single-family residences, other residential property, commercial property and land. Also, loans held for investment are primarily comprised of adjustable rate mortgages. Additionally, multi-family and commercial real estate loans are becoming a substantial part of loans held for investment. These loans are generally offered to customers and businesses located in Southern California, primarily in the Inland Empire, and to a lesser extent in Orange, Los Angeles, San Diego and other counties, including Alameda County and surrounding counties in Northern California.

Loan origination fees and certain direct origination expenses are deferred and amortized to interest income over the contractual life of the loan using the effective interest method. Amortization is discontinued for non-performing loans. Interest receivable represents, for the most part, the current month's interest, which will be included as a part of the borrower's next monthly loan payment. Interest receivable is accrued only if deemed collectible. Loans are deemed to be on non-performing status when they become 90 days past due or if the loan is deemed impaired. When a loan is placed on non-performing status, interest accrued but not received is reversed against interest income. Interest income on non-performing loans is subsequently recognized only to the extent that cash is received and the loans' principal balance is deemed collectible. Non-performing loans that become current as to both principal and interest are returned to accrual status after demonstrating satisfactory payment history and when future payments are expected to be collected.

Allowance for loan losses

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

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

Allowance for unfunded loan commitments

The Corporation maintains the allowance for unfunded loan commitments at a level that is adequate to absorb estimated probable losses related to these unfunded credit facilities. The Corporation determines the adequacy of the allowance based on periodic evaluations of the unfunded credit facilities, including an assessment of the probability of commitment usage, credit risk factors for loans outstanding to these same customers, and the terms and expiration dates of the unfunded credit facilities. The allowance for unfunded loan commitments is recorded in other liabilities on the Consolidated Statements of Financial Condition. Net adjustments to the allowance for unfunded loan commitments are included in other non-interest expense on the Consolidated Statements of Operations.

Troubled debt restructuring (“restructured loans”)

A restructured loan is a loan which the Corporation, for reasons related to a borrower’s financial difficulties, grants a concession to the borrower that the Corporation would not otherwise consider.

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

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

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

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

To qualify for restructuring, a borrower must provide evidence of their creditworthiness such as, current financial statements, their most recent income tax returns, current paystubs, current W-2s, and most recent bank statements, among other documents, which are then verified by the Bank. The Bank re-underwrites the loan with the borrower's

Provident Financial Holdings, Inc.
Notes to Consolidated Financial Statements
June 30, 2012

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.

Non-performing loans
The Corporation assesses loans individually and classifies loans when the accrual of interest has been discontinued, loans have been restructured or management has serious doubts about the future collectibility of principal and interest, even though the loans may currently be performing. Factors considered in determining classification include, but are not limited to, expected future cash flows, the financial condition of the borrower and current economic conditions. The Corporation measures each non-performing loan based on ASC 310, establishes a collectively evaluated or individually evaluated allowance and charges off those loans or portions of loans deemed uncollectible.

Real estate owned
Real estate acquired through foreclosure is initially recorded at the lesser of the loan balance at the time of foreclosure or the fair value of the real estate acquired, less estimated selling costs. Subsequent to foreclosure, the Corporation charges current earnings for estimated losses if the carrying value of the property exceeds its fair value. Gains or losses on the sale of real estate are recognized upon disposition of the property. Costs relating to improvement, maintenance and repairs of the property are expensed as incurred.

Impairment of long-lived assets
The Corporation reviews its long-lived assets for impairment annually or when events or circumstances indicate that the carrying amount of these assets may not be recoverable. Long-lived assets include buildings, land, fixtures, furniture and equipment. An asset is considered impaired when the expected discounted cash flows over the remaining useful life are less than the net book value. When impairment is indicated for an asset, the amount of impairment loss is the excess of the net book value over its fair value.

Premises and equipment
Premises and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation is computed primarily on a straight-line basis over the estimated useful lives as follows:

Buildings	10 to 40 years
Furniture and fixtures	3 to 10 years
Automobiles	3 years
Computer equipment	3 to 5 years

Leasehold improvements are amortized over the lesser of their respective lease terms or the useful life of the improvement, which ranges from one to 10 years. Maintenance and repair costs are charged to operations as incurred.

Income taxes

The Corporation accounts for income taxes in accordance with ASC 740, "Income Taxes." ASC 740 requires the affirmative evaluation that it is more likely than not, based on the technical merits of a tax position, that an enterprise is entitled to economic benefits resulting from positions taken in income tax returns. If a tax position does not meet the more-likely-than-not recognition threshold, the benefit of that position is not recognized in the financial statements.

ASC 740 requires that when determining the need for a valuation allowance against a deferred tax asset, management must assess both positive and negative evidence with regard to the realizability of the tax losses represented by that asset. To the extent available sources of taxable income are insufficient to absorb tax losses, a valuation allowance is necessary. Sources of taxable income for this analysis include prior years' tax returns, the expected reversals of taxable temporary differences between book and tax income, prudent and feasible tax-planning strategies, and future taxable income. Based on projected taxable income for future periods, management believes it is more likely than not the Corporation will realize its deferred tax asset. The Corporation continues to monitor the deferred tax asset on a quarterly basis for a valuation allowance. The future realization of these tax benefits primarily hinges on adequate future earnings to utilize the tax benefit. Prospective earnings or losses, tax law changes or capital changes could prompt the Corporation to reevaluate the assumptions which may be used to establish a valuation allowance. As of June 30, 2012, the estimated deferred tax asset was $8.6 million, a $1.3 million or 13 percent decrease, from $9.9 million at June 30, 2011.

The Corporation files income tax returns for the United States and state of California jurisdictions. The Internal Revenue Service last completed a review of the Corporation's income tax returns for fiscal 2006 and 2007. Tax years subsequent to 2009 remain subject to federal examination, while the California state tax returns for years subsequent to 2008 are subject to examination by state taxing authorities. In addition, the Corporation received a notice from the California Franchise Tax Board in June 2012 that they will be conducting an audit for fiscal years 2010 and 2009. The California Franchise Tax Board completed a review of the Corporation's income tax returns for fiscal 2007 and 2008. It is the Corporation's policy to record any penalties or interest charges arising from federal or state taxes as a component of income tax expense. For fiscal 2012 and 2011, a total of $14,000 and $34,000 in interest charges were paid, respectively. For fiscal 2011, a total of $8,000 in penalties was paid and no penalties in fiscal 2012.

In the quarter ended June 30, 2012, the Corporation recorded an $825,000 tax liability as a result of a prior period adjustment for fiscal 2009 and an $825,000 charge against retained earnings in stockholders' equity, pursuant to ASC 740-10: "Income Taxes." The liability was established as a result of certain income items for tax reporting purposes from 2006 through 2007 resulting in an overpayment of taxes and an understatement of the deferred tax liability. The understatement was the result of the early recognition of taxable income in closed tax years that should have been recognized in open tax years. The liability has been established against the deferred tax asset created (or understated deferred tax liability) by the early recognition of taxable income, since the early recognition could be argued by the Internal Revenue Service to not relieve the Corporation of once again recognizing that same taxable income in the appropriate subsequent open tax years. The prior period adjustment was presented as a reduction in other assets and retained earnings. The Corporation is pursuing several remedies including filing a request for accounting method change with federal tax authorities to effectively recover the overpayment of taxes or eliminate any potential duplicate recognition. In August 2012, the Corporation received a notification from the tax authorities indicating the acceptance of the accounting method change. As a result, the Corporation will reverse the $825,000 tax liability in the quarter ending September 30, 2012, the same quarter in which the tax authorities granted the Corporation's request.

Bank owned life insurance ("BOLI")

The Bank purchases BOLI policies on the lives of certain executive officers while they are employed by the Bank and is the owner and beneficiary of the policies. The Bank invests in BOLI to provide an efficient form of funding for long-term retirement and other employee benefits costs. The Bank records these BOLI policies within prepaid expenses and other assets in the Consolidated Statements of Financial Condition at each policy's respective cash surrender value, with changes recorded in other non-interest income in the Consolidated Statements of Operations.

Cash dividend

A declaration or payment of dividends is at the discretion of the Corporation's Board of Directors, who take into account the Corporation's financial condition, results of operations, tax considerations, capital requirements, industry standards, economic conditions and other factors, including the regulatory restrictions which affect the payment of dividends by the Bank to the Corporation. 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. See Note 20 of the Notes to Consolidated Financial Statements regarding the subsequent event on the cash dividend.

Stock repurchases

The Corporation repurchases its common stock consistent with Board-approved stock repurchase plans. During fiscal 2012, the Corporation repurchased 670,348 shares under the July 2011 and April 2012 stock repurchase plans with an average cost of $9.83 per share. The July 2011 plan was completed in May 2012. During fiscal 2012, the Corporation also repurchased 12,779 shares of restricted stock in lieu of distribution to employees (to satisfy the minimum income tax required to be withheld from employees) at an average cost of $8.26 per share. As of June 30, 2012, a total of 99,416 shares, or 18%, of the shares authorized in the April 2012 stock repurchase plan have been repurchased (at an average cost of $11.04 per share), leaving 448,356 shares available for future purchases.

Earnings per common share ("EPS")

Basic EPS represents net income (loss) divided by the weighted average common shares outstanding during the period excluding any potential dilutive effects. Diluted EPS gives effect to any potential issuance of common stock that would have caused basic EPS to be lower as if the issuance had already occurred. Accordingly, diluted EPS reflects an increase in the weighted average shares outstanding as a result of the assumed exercise of stock options and the vesting of restricted stock. The computation of diluted EPS does not assume exercise of stock options and vesting of restricted stock that would have an anti-dilutive effect on EPS.

Stock-based compensation

ASC 718, "Compensation – Stock Compensation," requires companies to recognize in the statement of operations the grant-date fair value of stock options and other equity-based compensation issued to employees and directors. The adoption of ASC 718 resulted in stock-based compensation expense related to issued and unvested stock option grants. The stock-based compensation expense, inclusive of restricted stock expense, for years ended June 30, 2012, 2011 and 2010 was $1.3 million, $958,000 and $1.0 million, respectively. There was no cash provided by operating activities or financing activities, related to excess tax benefits from stock-based payment arrangements.

Employee Stock Ownership Plan ("ESOP")

Up to March 31, 2011, the Corporation recognized compensation expense when shares were committed to be released to employees in an amount equal to the fair value of the shares committed. The difference between the amount of compensation expense and the cost of the shares released was recorded as additional paid-in capital.

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Subsequent to March 31, 2011, the Corporation recognizes compensation expense when the Bank allocates funds to the ESOP for the purchase of the Corporation's common stock to be allocated to the ESOP participants. Since the contributions are discretionary, the benefits payable under the ESOP cannot be estimated.

Restricted stock
The Corporation recognizes compensation expense over the vesting period of the shares awarded, equal to the fair value of the shares at the award date.

Post retirement benefits
The estimated obligation for post retirement health care and life insurance benefits is determined based on an actuarial computation of the cost of current and future benefits for the eligible (grandfathered) retirees and employees. The post retirement benefit liability is included in accounts payable, accrued interest and other liabilities in the accompanying consolidated financial statements. Effective July 1, 2003, the Corporation discontinued the post retirement health care and life insurance benefits to any employee not previously qualified (grandfathered) for these benefits. At June 30, 2012 and 2011, the accrued liability for post retirement benefits was $292,000 and $261,000, respectively, which was fully funded consistent with actuarially determined estimates of the future obligation.

Comprehensive income (loss)
ASC 220, "Comprehensive Income," requires that realized revenue, expenses, gains and losses be included in net income (loss). While unrealized gains (losses) on available for sale securities, are reported as a separate component of the stockholders' equity section of the Consolidated Statements of Financial Condition and the change in the unrealized gains (losses) are reported on the Consolidated Statements of Comprehensive Income.

Accounting standard updates ("ASU")

ASU 2011-02:
In April 2011, the Financial Accounting Standards Board ("FASB") issued ASU 2011-02, "Receivables (Topic 310): A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring." This ASU provides additional guidance for creditors in determining whether a creditor has granted a concession and whether a debtor is experiencing financial difficulties for purposes of determining whether a restructuring constitutes a troubled debt restructuring. The provisions of this standard were effective for the first interim or annual period beginning on or after June 15, 2011. The Corporation's adoption of this ASU did not have a material effect on its consolidated financial statements.

ASU 2011-03:
In April 2011, the FASB issued ASU No. 2011-03, "Reconsideration of Effective Control for Repurchase Agreements." The ASU amends existing guidance to remove from the assessment of effective control, the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee and, as well, the collateral maintenance implementation guidance related to that criterion. ASU No. 2011-03 was effective for the Corporation's reporting period beginning on or after

December 15, 2011. The guidance applies prospectively to transactions or modification of existing transactions that occur on or after the effective date. The Corporation's adoption of this ASU did not have a material effect on its consolidated financial statements.

ASU 2011-04:
In May 2011, the FASB issued ASU 2011-04, "Fair Value Measurement (Topic 820) – Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in GAAP and International Financial Reporting Standards." ASU 2011-04 developed common requirements between GAAP and IFRSs for measuring fair value and for disclosing information about fair value measurements. The effective date of ASU 2011-04 commenced during interim or annual periods beginning after December 15, 2011 and this ASU is applied prospectively to transactions or modifications of existing transactions that occur on or after the effective date. The Corporation's adoption of this ASU did not have a material effect on its consolidated financial statements and the required disclosures are included in Note 16.

ASU 2011-05:
In June 2011, the FASB issued ASU 2011-05, "Comprehensive Income (Topic 220) – Presentation of Comprehensive Income." ASU 2011-05 attempts to improve the comparability, consistency, and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. The effective date of ASU 2011-05 was the first interim or fiscal period beginning after December 15, 2011 and this ASU is applied retrospectively to transactions or modifications of existing transactions that occur on or after the effective date. The Corporation's adoption of this ASU did not have a material effect on its consolidated financial statements and the required disclosures are added in the Statements of Comprehensive Income.

ASU 2011-10:
In December 2011, the FASB issued ASU 2011-10, "Property, Plant, and Equipment (Topic 360) - Derecognition of in Substance Real Estate." The amendments in this ASU clarify the scope of current GAAP. The amendments will resolve the diversity in practice about whether the guidance in Subtopic 360-20 applies to the derecognition of in substance real estate when the parent ceases to have a controlling financial interest (as described in Subtopic 810-10) in a subsidiary that is in substance real estate because of a default by the subsidiary on its nonrecourse debt. That guidance will improve current GAAP by eliminating the diversity in practice and emphasizing that the accounting for such transactions is based on their substance rather than their form. The amendments in this ASU should be applied on a prospective basis to deconsolidation events occurring after the effective date. Prior periods should not be adjusted even if the reporting entity has continuing involvement with previously derecognized in substance real estate entities. For public entities, the amendments in this ASU are effective for fiscal years, and interim periods within those years, beginning on or after June 15, 2012. The Corporation's adoption of this ASU did not have a material effect on its consolidated financial statements.

ASU 2011-11:
In December 2011, the FASB issued ASU 2011-11, "Balance Sheet (Topic 210) - Disclosures about Offsetting Assets and Liabilities." The amendments in this ASU will enhance disclosures required by GAAP by requiring improved information about financial instruments and derivative instruments that are either (1) offset in accordance with either Section 210-20-45 or Section 815-10-45 or (2) subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset in accordance with either Section 210-20-45 or Section 815-10-45. This information will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements on an entity's financial position, including the effect or potential effect of rights of setoff associated with certain financial instruments and derivative instruments in the scope of this ASU. An entity is required to apply the amendments for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. An entity should provide the disclosures required by those amendments

retrospectively for all comparative periods presented. The Corporation has not determined the impact of this ASU on the Corporation's consolidated financial statements.

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ASU 2011-12:
In December 2011, the FASB issued ASU 2011-12, "Comprehensive Income (Topic 220) – Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in ASU 2011-05." While the FASB is considering the operational concerns about the presentation requirements for reclassification adjustments and the needs of financial statement users for additional information about reclassification adjustments, entities should continue to report reclassification out of accumulated other comprehensive income consistent with the presentation requirements in effect before ASU 2011-05. The amendments in this ASU are effective at the same time as the amendments in ASU 2011-05 so that entities will not be required to comply with the presentation requirements in ASU 2011-05 that this ASU is deferring. For this reason, the transition guidance in paragraph 220-10-65-2 is consistent with that for ASU 2011-05. The amendments in this ASU were effective for public entities for fiscal years, and interim periods within those years, beginning after December 15, 2011. The Corporation's adoption of this ASU did not have a material effect on its consolidated financial statements.

2. Investment Securities:

The amortized cost and estimated fair value of investment securities as of June 30, 2012 and 2011 were as follows:

June 30, 2012 (In Thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value	Carrying Value
Available for sale					
U.S. government agency MBS (1)	$ 11,854	$ 460	$ -	$ 12,314	$ 12,314
U.S. government sponsored enterprise MBS	8,850	492	-	9,342	9,342
Private issue CMO (2)	1,243	4	(5)	1,242	1,242
Total investment securities	$ 21,947	$ 956	$ (5)	$ 22,898	$ 22,898

(1) Mortgage-Backed Securities ("MBS").
(2) Collateralized Mortgage Obligations ("CMO").

June 30, 2011 (In Thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value	Carrying Value
Available for sale					
U.S. government agency MBS	$ 13,935	$ 474	$ -	$ 14,409	$ 14,409
U.S. government sponsored enterprise MBS	9,960	457	-	10,417	10,417
Private issue CMO	1,396	-	(29)	1,367	1,367
Total investment securities	$ 25,291	$ 931	$ (29)	$ 26,193	$ 26,193

In fiscal 2012, the Bank received MBS principal payments of $3.3 million. In fiscal 2011, the Bank received MBS principal payments of $5.5 million, and a $3.3 million investment security was called by the issuer. In fiscal 2010,

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the Bank sold $65.5 million of investment securities for a net gain of $2.3 million, received MBS principal payments of $20.6 million, and a $2.0 million investment security was called by the issuer.

As of June 30, 2012 and 2011, the Corporation held investments with an unrealized loss position totaling $5,000 and $29,000, respectively, consisting of the following:

As of June 30, 2012	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
Private issue CMO	$ -	$ -	$ 183	$ 5	$ 183	$ 5
Total	$ -	$ -	$ 183	$ 5	$ 183	$ 5

As of June 30, 2011	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
Private issue CMO	$ -	$ -	$ 1,367	$ 29	$ 1,367	$ 29
Total	$ -	$ -	$ 1,367	$ 29	$ 1,367	$ 29

As of June 30, 2012, the unrealized holding losses relate to one adjustable rate private issue CMO which has been in an unrealized loss position for more than 12 months. This compares to the unrealized holding losses of two adjustable rate private issue CMO which have been in an unrealized loss position for more than 12 months at June 30, 2011. The unrealized holding losses are primarily the result of perceived credit and liquidity concerns of privately issued CMO investment securities. Based on the nature of the investments, management concluded that such unrealized losses were not other than temporary as of June 30, 2012 and 2011. The Corporation intends and has the ability to hold the debt securities until maturity and will not likely be required to sell the debt securities before realizing a full recovery.

Contractual maturities of investment securities as of June 30, 2012 and 2011 were as follows:

	June 30, 2012		June 30, 2011	
(In Thousands)	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
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	21,947	22,898	25,291	26,193
Total investment securities	$ 21,947	$ 22,898	$ 25,291	$ 26,193

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3. Loans Held for Investment:

Loans held for investment as of June 30, 2012 and 2011 consisted of the following:

(In Thousands)		June 30, 2012	2011
Mortgage loans:			
	Single-family	$ 439,024	$ 494,192
	Multi-family	278,057	304,808
	Commercial real estate	95,302	103,637
	Other	755	1,530
Commercial business loans		2,580	4,526
Consumer loans		506	750
	Total loans held for investment, gross	816,224	909,443
Deferred loan costs, net		2,095	2,649
Allowance for loan losses		(21,483)	(30,482)
	Total loans held for investment, net	$ 796,836	$ 881,610

Fixed-rate loans comprised 5% of loans held for investment at June 30, 2012 and 2011. As of June 30, 2012, the Bank had $40.2 million in mortgage loans that are subject to negative amortization, consisting of $26.7 million in multi-family loans, $7.0 million in commercial real estate loans and $6.5 million in single-family loans. This compares to $50.4 million of negative amortization mortgage loans at June 30, 2011, consisting of $31.3 million in multi-family loans, $11.5 million in commercial real estate loans and $7.6 million in single-family loans. The amount of negative amortization included in loan balances decreased to $137,000 at June 30, 2012 from $353,000 at June 30, 2011. During fiscal 2012, approximately $13,000, or 0.03%, of loan interest income was added to the negative amortization loan balance, down from $43,000, or 0.07% in fiscal 2011. Negative amortization involves a greater risk to the Bank because the loan principal balance may increase by a range of 110% to 115% of the original loan amount and because the loan payment may increase beyond the means of the borrower when loan principal amortization is required. Also, the Bank 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 June 30, 2012 and 2011, the interest-only ARM loans were $214.2 million and $247.8 million, or 26.2% and 27.2% of loans held for investment, respectively.

In compliance with the OCC's regulatory reporting requirements which do not recognize specific valuation allowances, the Bank modified its charge-off policy on non-performing loans during the quarter ended March 31, 2012 and, subsequent to the OCC's review, the Bank further revised its charge-off policy in the quarter ended June 30, 2012. Historically, the Bank established a specific valuation allowance for non-performing loans under ASC 310 based upon the estimated fair value of the underlying collateral, less disposition costs, in comparison to the loan balance or used a discounted cash flow method for non-performing restructured loans. The specific valuation allowance was not charged-off until the foreclosure process was complete. Under the modified policy, 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 restructured loans, the charge-off occurs when the loans becomes 90 days delinquent; and where borrowers file bankruptcy, the charge-off occurs when the loan becomes 60 days delinquent. The amount of the charge-off is determined by comparing the loan balance to the estimated fair value of the underlying collateral, less disposition costs, with the loan balance in

excess of the estimated fair value charged-off against the allowance for loan losses. Both methods are acceptable under GAAP. The modification to the charge-off policy resulted in $3.01 million of additional charge-offs in the fourth quarter of fiscal 2012 and a total of $4.00 million of additional charge-offs for fiscal 2012, but had no impact to the allowance for loans losses or the provision for loan losses because these charge-offs were timely identified in previous periods as specific valuation allowances and were included in the Corporation's loss experience as part of the evaluation of the allowance for loan losses in those prior periods. The allowance for loan losses for non-performing loans is determined by applying ASC 310. The change in method did not have a material impact to the allowance for loan losses. For restructured loans that are less than 90 days delinquent, the allowance for loan losses are segregated into (a) individually evaluated allowances for those loans with applicable discounted cash flow calculations or (b) collectively evaluated allowances based on the aggregated pooling method. For non-performing loans less than 60 days delinquent where the borrower has filed bankruptcy, the collectively evaluated allowances are assigned based on the aggregated pooling method.

The following tables summarize the Corporation's allowance for loan losses at June 30, 2012 and 2011:

	As of June 30, 2012	2011
Collectively evaluated allowance:		
Mortgage loans:		
Single-family	$ 15,189	$ 11,561
Multi-family	3,524	2,810
Commercial real estate	1,810	1,796
Other	7	5
Commercial business loans	169	178
Consumer loans	13	16
Total collectively evaluated allowance	20,712	16,366
Individually evaluated allowance:		
Mortgage loans:		
Single-family	744	12,654
Multi-family	27	581
Commercial real estate	-	231
Other	-	321
Commercial business loans	-	329
Total individually evaluated allowance	771	14,116
Total loan loss allowance	$ 21,483	$ 30,482

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The following table sets forth information at June 30, 2012 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. Adjustable rate loans having no stated repricing dates but 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 Bank's actual repricing experience to differ materially from that shown below.

	Adjustable Rate					
(In Thousands)	Within One Year	After One Year Through 3 Years	After 3 Years Through 5 Years	After 5 Years Through 10 Years	Fixed Rate	Total
Mortgage loans:						
Single-family	$ 408,777	$ 12,896	$ 7,796	$ 2,627	$ 6,928	$ 439,024
Multi-family	186,144	17,563	49,026	10,980	14,344	278,057
Commercial real estate	62,483	3,993	10,048	1,836	16,942	95,302
Other	522	-	-	-	233	755
Commercial business loans	1,170	-	-	-	1,410	2,580
Consumer loans	484	-	-	-	22	506
Total loans held for investment, gross	$ 659,580	$ 34,452	$ 66,870	$ 15,443	$ 39,879	$ 816,224

Non-performing loans, which includes non-performing restructured loans, were $34.5 million and $37.1 million at June 30, 2012 and 2011, respectively. The effect of the non-performing loans on interest income for the years ended June 30, 2012, 2011 and 2010 is presented below:

	Year Ended June 30,		
(In Thousands)	2012	2011	2010
Contractual interest due	$ 2,432	$ 3,605	$ 8,907
Interest recognized	(1,556)	(2,313)	(5,103)
Net foregone interest	$ 876	$ 1,292	$ 3,804

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The following tables identify the Corporation's total recorded investment in non-performing loans by type, net of allowances for loan losses at June 30, 2012 and 2011:

	June 30, 2012		
(In Thousands)	Recorded Investment	Allowance for Loan Losses (1)	Net Investment
Mortgage loans:			
Single-family:			
With a related allowance	$ 26,214	$ (5,476)	$ 20,738
Without a related allowance	8,352	-	8,352
Total single-family loans	34,566	(5,476)	29,090
Multi-family:			
With a related allowance	1,806	(349)	1,457
Total multi-family loans	1,806	(349)	1,457
Commercial real estate:			
With a related allowance	3,820	(573)	3,247
Total commercial real estate loans	3,820	(573)	3,247
Other:			
Without a related allowance	522	-	522
Total other loans	522	-	522
Commercial business loans:			
With a related allowance	246	(74)	172
Total commercial business loans	246	(74)	172
Total non-performing loans	$ 40,960	$ (6,472)	$ 34,488

(1) Consists of collectively and individually evaluated allowances.

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	June 30, 2011		
(In Thousands)	Recorded Investment	Allowance for Loan Losses (1)	Net Investment
Mortgage loans:			
Single-family:			
With a related allowance	$ 42,957	$ (12,654)	$ 30,303
Without a related allowance	1,535	-	1,535
Total single-family loans	44,492	(12,654)	31,838
Multi-family:			
With a related allowance	2,534	(581)	1,953
Total multi-family loans	2,534	(581)	1,953
Commercial real estate:			
With a related allowance	2,451	(231)	2,220
Total commercial real estate loans	2,451	(231)	2,220
Other:			
With a related allowance	1,293	(321)	972
Total other loans	1,293	(321)	972
Commercial business loans:			
With a related allowance	331	(329)	2
Without a related allowance	141	-	141
Total commercial business loans	472	(329)	143
Total non-performing loans	$ 51,242	$ (14,116)	$ 37,126

(1) Consists of specific valuation allowances.

At June 30, 2012 and 2011, there were no commitments to lend additional funds to those borrowers whose loans were classified as non-performing.

The following table describes the aging analysis (length of time on non-performing status) of non-performing loans, net of allowance for loan losses, as of June 30, 2012 and 2011:

As of June 30, 2012:

(In Thousands)	3 Months or Less	Over 3 to 6 Months	Over 6 to 12 Months	Over 12 Months	Total
Mortgage loans:					
Single-family	$ 8,291	$ 6,877	$ 3,141	$ 10,781	$ 29,090
Multi-family	967	-	-	490	1,457

Commercial real estate	1,002	1,735	-	510	3,247
Other	-	-	-	522	522
Commercial business loans	-	131	-	41	172
Total	$ 10,260	$ 8,743	$ 3,141	$ 12,344	$ 34,488

As of June 30, 2011:

(In Thousands)	3 Months or Less	Over 3 to 6 Months	Over 6 to 12 Months	Over 12 Months	Total
Mortgage loans:					
Single-family	$ 9,655	$ 8,156	$ 4,016	$ 10,011	$ 31,838
Multi-family	-	-	-	1,953	1,953
Commercial real estate	927	1,293	-	-	2,220
Other	-	972	-	-	972
Commercial business loans	-	-	2	141	143
Total	$ 10,582	$ 10,421	$ 4,018	$ 12,105	$ 37,126

During the years ended June 30, 2012, 2011 and 2010, the Corporation's average investment in non-performing loans was $34.4 million, $50.2 million and $78.0 million, respectively. Interest income of $1.5 million, $2.3 million and $5.1 million was recognized, based on cash receipts, on non-performing loans during the years ended June 30, 2012, 2011 and 2010, respectively. The Corporation records interest on non-performing loans utilizing the cash basis method of accounting during the periods when the loans are on non-performing status.

The following summarizes the components of the net change in the allowance for loan losses for the periods indicated:

	Year Ended June 30,		
(In Thousands)	2012	2011	2010
Balance, beginning of year	$ 30,482	$ 43,501	$ 45,445
Provision for loan losses	5,777	5,465	21,843
Recoveries	375	27	717
Charge-offs	(15,151)	(18,511)	(24,504)
Balance, end of year	$ 21,483	$ 30,482	$ 43,501

During the fiscal year ended June 30, 2012, 24 loans for $10.1 million were modified from their original terms, were re-underwritten at current market interest rates and were identified in the Corporation's asset quality reports as restructured loans. This compares to 43 loans for $20.7 million that were modified in the fiscal year ended June 30, 2011. During the fiscal year ended June 30, 2012, two restructured loans with a total loan balance of $771,000 were in default within a 12-month period subsequent to their original restructuring and required an additional allowance for loan losses of $200,000. This compares to three restructured loans with a total loan balance of $1.2 million that were in default within a 12-month period subsequent to their original restructuring and required an additional allowance for loan losses of $316,000 in the fiscal year ended June 30, 2011. As of June 30, 2012, the outstanding balance of restructured loans was $25.1 million, comprised of 56 loans. These restructured loans are classified as follows: 12 loans are classified as pass, are not included in the classified asset totals and remain on accrual status ($5.5 million); three loans are classified as special mention and remain on accrual status ($4.0 million); and 41 loans are classified as substandard ($15.6 million, all are on non-accrual status). As of June 30, 2012, 74 percent, or $18.5 million of the restructured loans have a current payment status.

The following table summarizes the restructured loans by loan type at June 30, 2012 and 2011:

	As of June 30,	
(In Thousands)	2012	2011
Restructured loans on non-accrual status:		
Mortgage loans:		
Single-family	$ 11,995	$ 15,133
Multi-family	490	490
Commercial real estate	2,483	1,660
Other	522	972
Commercial business loans	165	143
Total	15,655	18,398
Restructured loans on accrual status:		
Mortgage loans:		
Single-family	6,148	15,589
Multi-family	3,266	3,665
Commercial real estate	-	1,142
Other	-	237
Commercial business loans	33	125
Total	9,447	20,758
Total restructured loans	$ 25,102	$ 39,156

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The following tables show the restructured loans by type, net of allowance for loan losses, at June 30, 2012 and 2011:

	June 30, 2012		
(In Thousands)	Recorded Investment	Allowance for Loan Losses (1)	Net Investment
Mortgage loans:			
Single-family:			
With a related allowance	$ 9,465	$ (486)	$ 8,979
Without a related allowance	9,164	-	9,164
Total single-family loans	18,629	(486)	18,143
Multi-family:			
With a related allowance	517	(27)	490
Without a related allowance	3,266	-	3,266
Total multi-family loans	3,783	(27)	3,756
Commercial real estate:			
With a related allowance	2,921	(438)	2,483
Total commercial real estate loans	2,921	(438)	2,483
Other:			
Without a related allowance	522	-	522
Total other loans	522	-	522
Commercial business loans:			
With a related allowance	236	(71)	165
Without a related allowance	33	-	33
Total commercial business loans	269	(71)	198
Total restructured loans	$ 26,124	$ (1,022)	$ 25,102

(1) Consists of collectively and individually evaluated allowances.

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(In Thousands)	June 30, 2011 Recorded Investment	Allowance for Loan Losses (1)	Net Investment
Mortgage loans:			
Single-family:			
With a related allowance	$ 19,092	$ (3,959)	$ 15,133
Without a related allowance	15,589	-	15,589
Total single-family loans	34,681	(3,959)	30,722
Multi-family:			
With a related allowance	517	(27)	490
Without a related allowance	3,665	-	3,665
Total multi-family loans	4,182	(27)	4,155
Commercial real estate:			
With a related allowance	1,837	(177)	1,660
Without a related allowance	1,142	-	1,142
Total commercial real estate loans	2,979	(177)	2,802
Other:			
With a related allowance	1,293	(321)	972
Without a related allowance	237	-	237
Total other loans	1,530	(321)	1,209
Commercial business loans:			
With a related allowance	53	(51)	2
Without a related allowance	266	-	266
Total commercial business loans	319	(51)	268
Total restructured loans	$ 43,691	$ (4,535)	$ 39,156

(1) Consists of specific valuation allowances.

In the ordinary course of business, the Bank makes loans to its directors, officers and employees on substantially the same terms prevailing at the time of origination for comparable transactions with unaffiliated borrowers. The following is a summary of related-party loan activity:

(In Thousands)	Year Ended June 30, 2012	2011	2010
Balance, beginning of year	$ 2,036	$ 2,341	$ 2,300

Originations	2,807	2,742	1,307
Sales and payments	(2,813)	(3,047)	(1,266)
Balance, end of year	$ 2,030	$ 2,036	$ 2,341

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As of June 30, 2012, all of the related-party loans were performing in accordance with their original contractual terms.

4. Mortgage Loan Servicing and Loans Originated for Sale:

The following summarizes the unpaid principal balance of loans serviced for others by the Corporation at the dates indicated:

	As of June 30,		
(In Thousands)	2012	2011	2010
Loans serviced for Freddie Mac	$ 4,727	$ 3,269	$ 3,745
Loans serviced for Fannie Mae	24,063	16,791	18,032
Loans serviced for FHLB – San Francisco	68,013	87,022	110,513
Loans serviced for other investors	2,072	2,269	2,457
Total loans serviced for others	$ 98,875	$ 109,351	$ 134,747

MSA are recorded when loans are sold to investors and the servicing of those loans is retained by the Bank. MSA are subject to interest rate risk and may become impaired when interest rates fall and the borrowers refinance or prepay their mortgage loans. The MSA are derived primarily from single-family loans.

Servicing loans for others generally consists of collecting mortgage payments, maintaining escrow accounts, disbursing payments to investors and processing foreclosures. Income from servicing loans is reported as loan servicing and other fees in the Corporation's consolidated statements of operations, and the amortization of MSA is reported as a reduction to the loan servicing income. Loan servicing income includes servicing fees from investors and certain fees collected from borrowers, such as late payment fees. As of June 30, 2012 and 2011, the Corporation held borrowers' escrow balances related to loans serviced for others of $302,000 and $330,000, respectively.

In estimating fair values of the MSA at June 30, 2012 and 2011, the Bank used a weighted-average constant prepayment rate ("CPR") of 26.61% and 19.10%, respectively, and a weighted-average discount rate of 9.10% and 9.02%, respectively. The MSA, which is included in prepaid expenses and other assets in the Consolidated Statements of Financial Condition, had a carrying value of $327,000 and a fair value of $398,000 at June 30, 2012. This compares to the MSA at June 30, 2011 which had a carrying value of $354,000 and a fair value of $589,000. An allowance may be recorded to adjust the carrying value of each category of MSA to the lower of cost or market. As of June 30, 2012, a total allowance of $164,000 was required for four categories of MSA, compared to a total allowance of $76,000 from three categories of MSA as of June 30, 2011. Total additions to the MSA during the years ended June 30, 2012, 2011 and 2010 were $106,000, $16,000 and $18,000, respectively. Total amortization of the MSA during the years ended June 30, 2012, 2011 and 2010 was $45,000, $45,000 and $81,000, respectively.

Loans sold to the FHLB – San Francisco were completed under the MPF Program, which entitles the Bank to a credit enhancement fee collected from FHLB – San Francisco on a monthly basis as described in Note 1 under PBM activities.

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The following table summarizes the Corporation's MSA for years ended June 30, 2012 and 2011.

	Year Ended June 30,	
(Dollars In Thousands)	2012	2011
MSA balance, beginning of fiscal year	$ 430	$ 459
Additions	106	16
Amortization	(45)	(45)
MSA balance, end of fiscal year, before allowance	491	430
Allowance	(164)	(76)
MSA balance, end of fiscal year	$ 327	$ 354
Fair value, beginning of fiscal year	$ 589	$ 725
Fair value, end of fiscal year	$ 398	$ 589
Allowance, beginning of fiscal year	$ 76	$ 82
Impairment provision (recovery)	88	(6)
Allowance, end of fiscal year	$ 164	$ 76
Key Assumptions:		
Weighted-average discount rate	9.10%	9.02%
Weighted-average prepayment speed	26.61%	19.10%

The following table summarizes the estimated future amortization of MSA for the next five years and thereafter:

Year Ending June 30,	Amount (In Thousands)
2013	$ 136
2014	96
2015	66
2016	36
2017	18
Thereafter	139
Total estimated amortization expense	$ 491

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The following table represents the hypothetical effect on the fair value of the Corporation's MSA using an unfavorable shock analysis of certain key valuation assumptions as of June 30, 2012 and 2011. This analysis is presented for hypothetical purposes only. As the amounts indicate, changes in fair value based on changes in assumptions generally cannot be extrapolated because the relationship of the change in assumptions to the change in fair value may not be linear.

	Year Ended June 30,	
(Dollars In Thousands)	2012	2011
MSA net carrying value	$ 327	$ 354
CPR assumption (weighted-average)	26.61%	19.10%
Impact on fair value with 10% adverse change in prepayment speed	$ (18)	$ (19)
Impact on fair value with 20% adverse change in prepayment speed	$ (34)	$ (37)
Discount rate assumption (weighted-average)	9.10%	9.02%
Impact on fair value with 10% adverse change in discount rate	$ (11)	$ (20)
Impact on fair value with 20% adverse change in discount rate	$ (21)	$ (39)

The Corporation also has also recorded interest-only strips with a fair value of $130,000, comprised of gross unrealized gains of $127,000 and an unamortized cost of $3,000 at June 30, 2012. This compares to interest-only strips at June 30, 2011 with a fair value of $200,000, comprised of gross unrealized gains of $197,000 and an unamortized cost of $3,000. There were no additions to interest-only strips during fiscal 2012, 2011 or 2010. Total amortization of the interest-only strips during the years ended June 30, 2012, 2011 and 2010 were $1,000, $1,000 and $48,000, respectively.

Loans sold consisted of the following for the periods indicated:

	Year Ended June 30,		
(In Thousands)	2012	2011	2010
Loans sold:			
Servicing – released	$ 2,460,281	$ 2,115,845	$ 1,778,684
Servicing – retained	13,121	1,999	2,541
Total loans sold	$ 2,473,402	$ 2,117,844	$ 1,781,225

During the years ended June 30, 2012, 2011 and 2010, the Corporation sold 43%, 45% and 65%, respectively, of its loans originated for sale to a single investor, other than Freddie Mac or Fannie Mae. If the Corporation is unable to sell loans to its primary investor, find alternative investors, or change its loan programs to meet investor guidelines, it may have a significant negative impact on the Corporation's results of operations.

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Loans held for sale, at fair value, at June 30, 2012 and 2011 consisted of the following:

	June 30,
(In Thousands)	