BofI Holding, Inc.
Form 10-K
August 26, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

x ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended June 30, 2015
¨ TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission file number: 000-51201

BofI HOLDING, INC.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	33-0867444 (I.R.S. Employer Identification No.)
4350 La Jolla Village Drive, Suite 140, San Diego, CA (Address of principal executive offices)	92122 (Zip Code)

Registrant's telephone number, including area code: (858) 350-6200

Securities registered under Section 12(b) of the Exchange Act:

Title of each class	Name of each exchange on which registered
Common stock, $.01 par value	NASDAQ Global Select Market

Securities registered under Section 12(g) of the Exchange Act:
None

Indicated by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes x No ¨
Indicated 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 Exchange Act 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 every Interactive Data file required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 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 if 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 Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filed, or a non-accelerated filer. See definition of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.
Large accelerated file x Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company o
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ¨ No x

The aggregate market value of the voting and non-voting stock held by non-affiliates of the Registrant, based upon the closing sales price of the common stock on the NASDAQ Global Select Market of $77.81 on December 31, 2014 was $1,102,134,892.
The number of shares of the Registrant’s common stock outstanding as of August 20, 2015 was 15,640,845.

DOCUMENTS INCORPORATED BY REFERENCE
Portions of the Registrant’s definitive Proxy Statement for the period ended June 30, 2015 are incorporated by reference into Part III.

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FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K may contain various forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, Section 21E of the Securities Exchange Act of 1934, and the Private Securities Litigation Reform Act of 1995. Forward-looking statements include projections, statements of the plans, goals and objectives of management for future operations, statements of future economic performance, assumptions underlying these statements, and other statements that are not statements of historical facts. Words such as “anticipates,” “expects,” “intends,” “plans,” “predicts,” “potential,” “believes,” “seeks,” “estimates,” “should,” “may,” “will” and variations o or similar expressions are intended to identify forward-looking statements. Forward-looking statements also include the assumptions underlying or relating to any of the foregoing statements.

Forward-looking statements are subject to significant business, economic and competitive risks, uncertainties and contingencies, many of which are difficult to predict and beyond the control of BofI Holding, Inc. (“BofI”). Our actual results may differ materially from the results expressed or implied in any forward-looking statements for the reasons, among others, discussed in Part I, Item 1A, Risk Factors. Such factors include, but are not limited to, the following:

- Competitive practices in the financial services industries;
- Operational and systems risks;
- General economic and capital market conditions, including fluctuations in interest rates;
- Economic conditions in certain geographic areas; and
- The impact of current and future laws, governmental regulations, accounting and other rulings and guidelines affecting the financial services industry in general and BofI operations particularly.

The forward-looking statements contained in this Annual Report are made on the basis of the views and assumptions of management regarding future events and business performance as of the date this Annual Report is filed with the Securities and Exchange Commission. We do not undertake any obligation to update these statements to reflect events or circumstances occurring after the date this report is filed.

References in this report to the “Company,” “us,” “we,” “our,” “BofI Holding,” or “BofI” are all to BofI Holding, Inc. on a consolidated basis. References in this report to “Bank of Internet,” the “Bank,” or “our bank” are to BofI Federal Bank, our consolidated subsidiary.

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PART I

ITEM 1. BUSINESS
Overview
BofI Holding, Inc., is the holding company for BofI Federal Bank, a diversified financial services company with over $5.8 billion in assets that provides consumer and business banking products through its branchless, low-cost distribution channels and affinity partners. The Bank has deposit and loan customers nationwide including consumer and business checking, savings and time deposit accounts and financing for single family and multifamily residential properties, small-to-medium size businesses in target sectors, and selected specialty finance receivables. The Bank generates fee income from consumer and business products including fees from loans originated for sale and transaction fees earned from processing payment activity. BofI Holding, Inc.'s common stock is listed on the NASDAQ Global Select Market and is a component of the Russell 2000® Index and the S&P SmallCap 600® Index.
At June 30, 2015, we had total assets of $5,823.7 million, loans of $5,031.9 million, mortgage-backed and other investment securities of $396.7 million, total deposits of $4,451.9 million and borrowings of $793.2 million. Because we do not incur the significantly higher fixed operating costs inherent in a branch-based distribution system, we are able to rapidly grow our deposits and assets by providing a better value to our customers and by expanding our low-cost distribution channels.
We distribute our deposit products through a wide range of retail distribution channels, and our deposits consist of demand, savings and time deposits accounts. We distribute our loan products through our retail, correspondent and wholesale channels, and the loans we retain are primarily first mortgages secured by single family real property and by multifamily real property. Our mortgage-backed securities consist primarily of mortgage pass-through securities issued by government-sponsored entities and non-agency collateralized mortgage obligations and pass-through mortgage-backed securities issued by private sponsors. We believe our flexibility to adjust our asset generation channels has been a competitive advantage allowing us to avoid markets and products where credit fundamentals are poor or risks and rewards are not sufficient to support our required return on equity.

Our retail distribution channels for our deposit and lending products include:

- Multiple national online banking brands with tailored products targeted to specific consumer segments;
- Affinity groups where we gain access to the affinity group's members, and our exclusive relationships with financial advisory firms;
- A business banking division focused on providing deposit products and loans to specific nationwide industry verticals (e.g., Homeowners Associations) and small and medium size businesses;
- A commission-based lending sales force that operates from home offices focusing primarily on the origination of single family and multifamily mortgage loans;
- A commission-based lending sales force that operates from the corporate office focusing on commercial and industrial loans to businesses; and
- Inside sales teams that originate loans and deposits from self-generated internet leads, third-party purchase leads, and from our retention and cross-sell of our existing customer base.

Our business strategy is to grow our loan originations and our deposits to achieve increased economies of scale and reduce the cost of products and services to our customers by leveraging our distribution channels and technology. We have designed our branchless banking platform and our workflow processes to handle traditional banking functions with elimination of duplicate and unnecessary paperwork and human intervention. Our charter allows us to operate in all 50 states, and our online presence allows us increased flexibility to target a large number of loan and deposit customers based on demographics, geography and price. Our low-cost distribution channels provide opportunities to increase our core deposits and increase our loan originations by attracting new customers and developing new and innovative products and services.

Our current business plan includes the following principal objectives:

- Maintain an annualized return on average common stockholders' equity of 15.0% or better;
- Annually increase average interest-earning assets by 15% or more; and
- Maintain annualized efficiency ratio to a level 35% or lower.

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ASSET ORIGINATION AND FEE INCOME BUSINESSES

We have built diverse loan origination and fee income businesses that generate attractive financial returns through our branchless distribution channels. We believe the diversity of our businesses and our branchless distribution channels provide us with increased flexibility to manage through changing market and operating environments.

Single Family Mortgage Secured Lending

We generate earning assets and fee income from our mortgage lending activities, which consist of originating and servicing mortgages secured primarily by first liens on single family residential properties for consumers and for lender-finance businesses. We divide our single family mortgage originations between loans we retain and loans we sell. Our mortgage banking business generates fee income and gains from sales of those consumer single family mortgage loans we sell. Our loan portfolio generates interest income and fees from loans we retain. We also provide home equity loans for consumers secured by second liens on single family mortgages. Our lender-finance loans are secured by our first lien on single family mortgages and include warehouse lines for third-party mortgage companies.

We originate fixed and adjustable rate prime residential mortgage loans using a paperless loan origination system and centralized underwriting and closing process. We warehouse our mortgage banking loans and sell to investors prime conforming and jumbo residential mortgage loans. Our mortgage servicing business includes collecting loan payments, applying principal and interest payments to the loan balance, managing escrow funds for the payment of mortgage-related expenses, such as taxes and insurance, responding to customer inquiries, counseling delinquent mortgagors and supervising foreclosures.

We originate single family mortgage loans for consumers through multiple channels on a retail, wholesale and correspondent basis.

- Retail. We originate single family mortgage loans directly through i) our multiple national online banking brand websites, where our customers can view interest rates and loan terms, enter their loan applications and lock in interest rates directly over the internet, ii) our relationships with large affinity groups and iii) our call center which uses self-generated internet leads, third-party purchased leads, and cross-selling to existing customer base.
- Wholesale. We have developed relationships with independent mortgage companies, cooperatives and individual loan brokers and we manage these relationships and our wholesale loan pipeline through our originations systems and websites. Through our secure website, our approved brokers can compare programs, terms and pricing on a real time basis and communicate with our staff.
- Correspondent. We acquire closed loans from third-party mortgage companies that originate single family loans in accordance with our portfolio specifications or the specifications of our investors. We may purchase pools of seasoned, single-family loans originated by others during economic cycles when those loans have more attractive risk-adjusted returns than those we may originate.

We originate lender-finance loans to businesses secured by first liens on single family mortgage loans from cross selling, retail direct and through third-parties. Our warehouse customers are primarily generated through cross selling to our network of third-party mortgage companies approved to wholesale our consumer mortgage loans. Other lender-finance customers are generated by our commissions-based sales force dedicated to commercial & industrial lending who contact businesses directly or through individual loan brokers.

Multifamily Mortgage Secured Lending

We originate adjustable rate multifamily residential mortgage loans with interest rates that adjust based on U.S. Treasury security yields and LIBOR. Many of our loans have initial fixed rate periods (three, five or seven years) before starting a regular adjustment period (annually, semi-annually or monthly) as well as prepayment protection clauses, interest rate floors, ceilings and rate change caps.

We divide our multifamily residential mortgage originations between the loans we retain and the loans we sell. Our mortgage banking business generates gains from those multifamily mortgage loans we sell. Our loan portfolio generates interest income and fees from the loans we retain.

We originate multifamily mortgage loans using a commission-based commercial lending sales force that operates from home offices across the United States or from our headquarters location. Customers are targeted through origination techniques

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such as direct mail marketing, personal sales efforts, email marketing, online marketing and print advertising. Loan applications are submitted electronically to centralized employee teams who underwrite, process and close loans. The sales force team members operate regionally both as retail originators for apartment owners and wholesale representatives to other mortgage brokers.

Commercial Real Estate Secured and Commercial Lending

Our commercial lending is generally divided between mortgages secured by first liens on commercial real estate and commercial and industrial ("C&I") lending based upon business cash flow and asset-backed financing. Historically, we have limited our exposure to commercial real estate and have primarily purchased seasoned mortgages on small commercial properties when they were offered as a part of a residential mortgage loan pool. In fiscal 2015, we began to originate adjustable rate small balance commercial real estate loans with interest rates that adjust based on U.S. Treasury security yields and LIBOR. Many of our loans have initial fixed rate periods (three, five or seven years) before starting a regular adjustment period (annually, semi-annually or monthly) as well as prepayment protection clauses, interest rate floors, ceilings and rate change caps.

We began our C&I lending in 2010 with a focus on fixed and floating rate financing of businesses engaged in the origination of niche mortgage products secured by residential or commercial real estate. Our senior commercial lending group has expanded our corporate finance lending to include other select business types, including leverage lending for selected industries and other asset-backed financing.

Specialty Finance Factoring

Our Specialty Finance Division engages in the wholesale and retail purchase of state lottery prize and structured settlement annuity payments. These payments are high credit quality deferred payment receivables having a state lottery commission or investment grade (top two tiers) insurance company payor. Purchases of state lottery prize or structured settlement annuity payments are governed by specific state statutes requiring judicial approval of each transaction. No transaction is funded before an order approving such transaction has been entered by a court of competent jurisdiction, and a written acknowledgment of such order, or stipulation agreeing to entry thereof, has been received from the related state lottery commission or insurance company payor. Our commission-based sales force originates contracts for the retail purchase of such payments from leads generated by our dedicated research department through the use of proprietary research techniques. The Specialty Finance Division also utilizes direct mail and online marketing to generate leads. Since 2013, pools of structured settlement receivables have been originated for sale depending upon management's assessment of interest rate risk, liquidity, and offers containing favorable terms.

Prepaid Cards

Our Prepaid Cards Division provides card issuing and bank identification number ("BIN") sponsorship services to companies who have developed payroll, general purpose reloadable, incentive and gift card programs serving consumers. BIN Sponsorship includes issuing debit and prepaid cards from BINs licensed to the Bank by the various payment networks, managing risk for all programs, overseeing compliance with network and government regulations, and functioning as liaison between program managers and the payment networks. These programs generate recurring fee income and low cost deposits.

Auto and RV and Other Consumer Lending

Our consumer lending has consisted of prime loans to purchase new and used recreational vehicles ("RV") and automobiles, and deposit-related overdraft lines of credit. In 2008, we elected to significantly decrease RV loans. We hold all of the RV and auto loans that we originated and perform the loan servicing functions for these loans. We have added additional systems and personnel to increase auto lending in the future.

We currently provide overdraft lines of credit for our qualifying deposit customers with checking accounts.

Portfolio Management

Our investment analysis capabilities are a core competency of our organization. We decide whether to hold originated assets for investment or to sell them in the capital markets based on our assessment of the yield and risk characteristics of these assets as compared to other available opportunities to deploy our capital. Because risk-adjusted returns available on acquisitions may exceed returns available through retaining assets from our origination channels, we have elected to purchase loans and securities (see discussion below) from time to time. Some of our loans and security acquisitions were purchased at discounts to par value, which enhance our effective yield through accretion into income in subsequent periods. Our flexibility to increase risk-adjusted returns by retaining originated assets or acquiring assets differentiates us from our competitors with regional lending constraints.

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Loan Portfolio Composition. The following table sets forth the composition of our loan portfolio in amounts and percentages by type of loan at the end of each fiscal year-end for the last five years:

	At June 30, 2015		2014		2013		2012		2011	
(Dollars in thousands)	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	P
Single family real estate secured:										
Mortgage	$2,980,795	59.6 %	$1,918,626	53.4 %	$1,070,668	46.5 %	$808,710	46.5 %	$517,637	3
Home equity	3,604	0.1 %	12,690	0.4 %	22,537	1.0 %	29,167	1.7 %	36,424	2
Warehouse and other	385,413	7.7 %	370,717	10.3 %	204,878	8.9 %	61,106	3.5 %	3,015	0
Multifamily real estate secured	1,185,531	23.7 %	978,511	27.2 %	768,023	33.4 %	687,661	39.5 %	647,381	4
Commercial real estate secured	61,403	1.2 %	24,061	0.7 %	29,000	1.3 %	35,174	2.0 %	37,985	2
Auto and RV secured	13,140	0.3 %	14,740	0.4 %	18,530	0.8 %	24,324	1.4 %	30,406	2
Factoring	122,200	2.4 %	118,945	3.3 %	108,144	4.7 %	48,549	2.8 %	26,616	2
Commercial & Industrial	248,584	5.0 %	152,619	4.2 %	78,721	3.4 %	45,723	2.6 %	36,923	2
Other	601	— %	1,971	0.1 %	419	— %	85	— %	28	–
Total loans held for investment	5,001,271	100.0%	3,592,880	100.0%	2,300,920	100.0%	1,740,499	100.0%	1,336,415	1
Allowance for loan losses	(28,327)		(18,373)		(14,182)		(9,636)		(7,419)	
Unamortized premiums/discounts, net of deferred loan fees	(44,326)		(41,666)		(29,820)		(10,300)		(3,895)	
Net loans held for investment	$4,928,618		$3,532,841		$2,256,918		$1,720,563		$1,325,101	

	Term to Contractual Maturity				
(Dollars in thousands)	Less Than Three Months	Over Three Months Through One Year	Over One Year Through Five Years	Over Five Years	Total
June 30, 2015	$71,394	$105,917	$459,368	$4,364,592	$5,001,271

The following table sets forth the amount of our loans at June 30, 2015 that are due after June 30, 2016 and indicates whether they have fixed, floating or adjustable interest rates:

(Dollars in thousands)	Fixed	Floating or Adjustable	Total
Single family real estate secured:			
Mortgage	$54,879	$2,948,359	$3,003,238
Home equity	2,290	1,312	3,602
Warehouse and other	159,594	67,373	226,967
Multifamily real estate secured	63,788	1,109,096	1,172,884
Commercial real estate secured	1,505	59,898	61,403

Auto and RV secured	13,140	—	13,140
Factoring	150,396	—	150,396
Commercial & Industrial	94,642	97,667	192,309
Other	21	—	21
Total	$540,255	$4,283,705	$4,823,960

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Our mortgage loans are secured by properties primarily located in the western United States. The following table shows the largest states and regions ranked by location of these properties:

	At June 30, 2015				
	Percentage of Loan Principal Secured by Real Estate Located in State or Region				
		Single family			
State or Region	Total Real Estate Mortgage Loans	Mortgage	Home Equity	Multifamily real estate secured	Commercial real estate secured
California—south[1]	50.13 %	48.71 %	27.00 %	54.29 %	42.64 %
California—north[2]	16.23 %	16.44 %	16.04 %	15.06 %	28.47 %
New York	7.11 %	8.76 %	5.53 %	3.06 %	2.67 %
Florida	5.44 %	6.57 %	5.86 %	2.78 %	— %
Arizona	3.91 %	5.02 %	7.15 %	1.19 %	0.12 %
Washington	2.21 %	1.49 %	5.41 %	3.88 %	6.08 %
Texas	1.93 %	0.91 %	— %	4.51 %	3.66 %
Colorado	1.50 %	1.37 %	0.53 %	1.78 %	2.47 %
Illinois	1.87 %	0.86 %	1.69 %	4.57 %	— %
Hawaii	1.24 %	1.74 %	0.30 %	— %	— %
All other states	8.43 %	8.13 %	30.49 %	8.88 %	13.89 %
	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %

[1] Consists of mortgage loans secured by real property in California with ZIP Code ranges from 90000 to 92999.
[2] Consists of mortgage loans secured by real property in California with ZIP Code ranges from 93000 to 96999.
The ratio of the loan amount to the value of the property securing the loan is called the loan-to-value ratio ("LTV"). The following table shows the LTVs of our loan portfolio on weighted-average and median bases at June 30, 2015. The LTVs were calculated by dividing (a) the loan principal balance less principal repayments by (b) the appraisal value of the property securing the loan.

		Single family			
	Total Real Estate Mortgage Loans	Mortgage	Home Equity[1]	Multifamily real estate secured	Commercial real estate secured
Weighted Average LTV	56.15 %	57.76 %	54.08 %	52.20 %	51.51 %
Median LTV	56.62 %	58.87 %	62.24 %	50.00 %	47.50 %

[1] Amounts represent combined LTV calculated by adding the current balances of both the first and second liens of the borrower and dividing that sum by an independent estimated value of the property at the time of origination.

We believe our effective weighted-average LTV of 60.39% for loans originated during the fiscal year ended June 30, 2015, has resulted and will continue to result in relatively low average loan defaults and favorable write-off experience.

Loan Underwriting Process and Criteria. We individually underwrite the loans that we originate and all loans that we purchase. Our loan underwriting policies and procedures are written and adopted by our board of directors and our loan committee. Credit extensions generated by the Bank conform to the spirit and technical requirements of our lending policies and the applicable lending regulations of our federal regulators.

In the underwriting process we consider all relevant factors including the borrower's credit score, credit history, documented income, existing and new debt obligations, the value of the collateral, and other internal and external factors. For all multifamily and commercial loans, we rely primarily on the cash flow from the underlying property as the expected source of repayment, but we also endeavor to obtain personal guarantees from all material owners or partners of the borrower. In evaluating a multifamily or commercial credit, we consider all relevant factors including the outside financial assets of the material owners or partners, payment history at the Bank or other financial institutions, and the management / ownership experience with similar properties or businesses. In evaluating the borrower's qualifications, we consider primarily the borrower's other financial resources, experience in owning or managing similar properties and payment history with us or other financial institutions. In evaluating the underlying property, we consider primarily the recurring net operating income of the property before debt service and depreciation, the ratio of net operating income to debt service and the ratio of the loan amount to the appraised value.

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Lending Limits. As a savings association, we are generally subject to the same lending limit rules applicable to national banks. With limited exceptions, the maximum amount that we may lend to any borrower, including related entities of the borrower, at any one time may not exceed 15% of our unimpaired capital and surplus, plus an additional 10% of unimpaired capital and surplus for loans fully secured by readily marketable collateral. We are additionally authorized to make loans to one borrower in an amount not to exceed the lesser of $30.0 million or 30% of our unimpaired capital and surplus for the purpose of developing residential housing, if certain specified conditions are met. See "Regulation of BofI Federal Bank."

At June 30, 2015, the Bank's loans-to-one-borrower limit was $82.7 million, based upon the 15% of unimpaired capital and surplus measurement. At June 30, 2015, our largest loan and single lending relationship was $40.0 million.

Loan Quality and Credit Risk. Historically, our level of non-performing mortgage loans as a percentage of our loan portfolio has been relatively low compared to the overall residential lending market. The economy and the mortgage and consumer credit markets have stabilized, but unemployment remains above average. Additionally, we have recently increased our efforts to make loans to businesses through lending programs that are not as seasoned as our mortgage lending. Therefore, we anticipate that our rate of non-performing loans may increase in the future, and we have provided an allowance for estimated loan losses.

Non-performing assets are defined as non-performing loans and real estate acquired by foreclosure or deed-in-lieu thereof. Generally, non-performing loans are defined as nonaccrual loans and loans 90 days or more overdue. Troubled debt restructurings ("TDRs") are defined as loans that we have agreed to modify by accepting below market terms either by granting interest rate concessions or by deferring principal or interest payments due to financial difficulty of the customer. Our policy with respect to non-performing assets is to place such assets on nonaccrual status when, in the judgment of management, the probability of collection of interest is deemed to be insufficient to warrant further accrual. When a loan is placed on nonaccrual status, previously accrued but unpaid interest will be deducted from interest income. Our general policy is to not accrue interest on loans past due 90 days or more, unless the individual borrower circumstances dictate otherwise.

See Management's Discussion and Analysis — "Asset Quality and Allowance for Loan Loss" for a history of non-performing assets and allowance for loan loss.

Investment Securities Portfolio. We classify each investment security according to our intent to hold the security to maturity, trade the security at fair value or make the security available-for-sale. We invest available funds in government and high-grade non-agency securities. Our investment policy, as established by our board of directors, is designed to maintain liquidity and generate a favorable return on investment without incurring undue interest rate risk, credit risk or portfolio asset concentration risk. Under our investment policy, we are currently authorized to invest in agency mortgage-backed obligations issued or fully guaranteed by the United States government, non-agency mortgage-backed obligations, specific federal agency obligations, municipal obligations, specific time deposits, negotiable certificates of deposit issued by commercial banks and other insured financial institutions, investment grade corporate debt securities and other specified investments. We also buy and sell securities to facilitate liquidity and to help manage our interest rate risk.

The following table sets forth the dollar amount of our securities portfolio by intent at the end of each of the last five fiscal years:

(Dollars in thousands)	Available-for-Sale Fair Value	Held-to-maturity Carrying Amount	Trading Fair Value	Total
Fiscal year end				
June 30, 2015	$ 163,361	$225,555	$7,832	$396,748
June 30, 2014	214,778	247,729	8,066	470,573

June 30, 2013	185,607	275,691	7,111	468,409
June 30, 2012	164,159	313,032	5,838	483,029
June 30, 2011	145,671	370,626	5,053	521,350

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The following table sets forth the expected maturity distribution of our mortgage-backed securities and the contractual maturity distribution of our other debt securities and the weighted-average yield for each range of maturities:

	For the Fiscal Year Ended June 30, 2015									
	Total Amount		Due Within One Year		Due After One but within Five Years		Due After Five but within Ten Years		Due After Ten Years	
(Dollars in thousands)	Amount	Yield[1]	Amount	Yield[1]	Amount	Yield[1]	Amount	Yield[1]	Amount	Yield[1]
Available-for-sale										
Mortgage-backed securities:										
U.S. Agency[2]	$43,738	2.45%	$4,338	2.56%	$13,270	2.53%	$10,508	2.47%	$15,622	2.32%
Non-Agency[3]	23,799	5.79%	5,119	6.56%	10,729	5.98%	3,338	5.23%	4,613	4.92%
Total Mortgage-Backed Securities	$67,537	3.63%	$9,457	4.73%	$23,999	4.07%	$13,846	3.13%	$20,235	2.92%
Other Debt Securities										
Municipal	21,731	3.42%	6,763	2.13%	2,952	4.07%	4,444	4.07%	7,572	3.95%
Non-agency	70,216	4.42%	4,506	4.23%	59,108	4.48%	6,602	4.00%	—	— %
Total Other Debt Securities	$91,947	4.18%	$11,269	2.97%	$62,060	4.46%	$11,046	4.03%	$7,572	3.95%
Available-for-sale—Amortized Cost	$159,484	3.95%	$20,726	3.77%	$86,059	4.35%	$24,892	3.53%	$27,807	3.20%
Available-for-sale—Fair Value	$163,361	3.95%	$21,110	3.77%	$87,877	4.35%	$25,445	3.53%	$28,929	3.20%
Held-to-maturity										
Mortgage-backed securities:										
U.S. Agency[2]	$41,993	3.44%	$1,371	3.13%	$5,299	3.13%	$6,123	3.15%	$29,200	3.57%
Non-Agency[3]	147,586	4.12%	23,553	5.11%	44,775	4.44%	38,110	3.81%	41,148	3.51%
Total Mortgage-Backed Securities	$189,579	3.97%	$24,924	5.00%	$50,074	4.30%	$44,233	3.72%	$70,348	3.53%
Other Debt Securities:										
Municipal	35,976	5.83%	971	5.57%	4,507	5.58%	7,075	5.61%	23,423	5.95%
Total Other Debt Securities	$35,976	5.83%	$971	5.57%	$4,507	5.58%	$7,075	5.61%	$23,423	5.95%
Held-to-Maturity—Carrying Value	$225,555	4.27%	$25,895	5.02%	$54,581	4.41%	$51,308	3.98%	$93,771	4.14%
Held-to-Maturity—Fair Value	$228,323	4.27%	$25,848	5.02%	$54,846	4.41%	$51,287	3.98%	$96,342	4.14%
Trading										
Non-Agency—Fair Value[4]	$7,832	4.44%	$—	— %	$—	— %	$—	— %	$7,832	4.44%
Total securities	$396,748	4.14%	$47,005	4.46%	$142,458	4.37%	$76,753	3.83%	$130,532	3.95%

[1] Weighted-average yield is based on amortized cost of the securities. Residential mortgage-backed security yields and maturities include impact of expected prepayments and other timing factors such as interest rate forward curve. Yields presented in this table are adjusted for OTTI, which is non-accretable.
[2] U.S. government-backed or government-sponsored enterprises including Fannie Mae, Freddie Mac and Ginnie Mae.
[3] Private sponsors of securities collateralized primarily by pools of 1-4 family residential first mortgages. Primarily super senior securities and secured by prime, Alt-A or pay-option ARM mortgages.
[4] Collateralized debt obligations secured by pools of bank trust preferred securities.

Our securities portfolio of $396.7 million at June 30, 2015 is composed of approximately 21.5% U.S. agency residential mortgage-backed securities ("RMBS") and other debt securities issued by the government-sponsored enterprises Fannie Mae and Freddie Mac (each, a "GSE" and, together, the "GSEs"), primarily Freddie Mac and Fannie Mae; 1.1% Prime private-issue super senior, first-lien RMBS; 6.4% Alt-A, private-issue super senior, first-lien RMBS; 32.9% Pay-Option ARM, private-issue super senior first-lien RMBS; 14.6% Municipal securities and 23.5% other residential mortgage-backed, asset-backed and bank pooled trust preferred securities. We had no commercial mortgage-backed securities ("CMBS") or sub-prime RMBS at June 30, 2015.

We manage the credit risk of our non-agency RMBS by purchasing those securities which we believe have the most favorable blend of historic credit performance and remaining credit enhancements including subordination, over collateralization, excess spread and purchase discounts. Substantially all of our non-agency RMBS are super senior tranches protected against realized loss by subordinated tranches. The amount of structural subordination available to protect each of our securities (expressed as a percentage of the current face value) is known as credit enhancement. At June 30, 2015, the weighted-average credit enhancement

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in our entire non-agency RMBS portfolio was 23.5%. The credit enhancement percentage and the ratings agency grade (e.g. "AA") do not consider additional credit protection available to the Bank, if needed, from its purchase discount. All of the Bank's non-agency RMBS purchases were at a discount to par and we do not solely rely upon nationally recognized statistical rating organizations ("NRSRO") ratings when determining classification. This change in Bank policy was brought about by changes in regulatory stance regarding classification of securities as mandated by Congress under section 939A of the Dodd-Frank Act, which required any reference to, or reliance on, NRSROs to be removed when determining the creditworthiness of securities. We have experienced personnel monitor the performance and measure the security for impairment in accordance with regulatory guidance. As of June 30, 2015, 8.3% of our non-agency RMBS securities that have been downgraded from investment grade at acquisition to below investment grade. See Management's Discussion and Analysis—"Critical Accounting Policies—Securities."

DEPOSIT GENERATION

We offer a full line of deposit products we source through our branchless distribution channels using an operating platform and marketing strategies that emphasize low operating costs and are flexible and scalable for our business. Our full featured products, customer service and our affinity relationships result in customer accounts with strong retention characteristics. We continuously collect customer feedback and improve our processes to satisfy customer needs.

At June 30, 2015, we had $4,451.9 million in deposits of which $3,660.4 million, or 82.2% were demand and savings accounts and $791.5 million, or 17.8% were time deposits. We generate deposit customer relationships through our retail distribution channels including websites, sales teams, online advertising, print and digital advertising, financial advisory firms, affinity partnerships and lending businesses which generate escrow deposits and other operating funds. Our retail distribution channels include:

- Multiple national online banking brands with tailored products targeted to specific consumer segments. For example, our Bank of Internet brand, America's Oldest and Most Trusted Internet Bank is designed for customers who are looking for full-featured demand accounts and very competitive fees and interest rates. Bank X brand targets primarily tech-savvy, Generation X and Generation Y customers that are seeking a low-fee cost structure and a high-yield Savings account;
- A concierge banking offer that serves the needs of high net worth individuals with premium products and dedicated service;
- Financial advisory firms who introduce their clients to our deposit products;
- Relationship with affinity groups where we gain access to the affinity group's members;
- A business banking division, which focuses on providing deposit products nationwide to industry verticals (e.g., Homeowners Associations and CPAs) and cash management products to a variety of businesses through a dedicated sales team;
- A call center that opens accounts through self-generated internet leads, third-party purchased leads, affinity relationships, and our retention and cross-sell efforts to our existing customer base.

Our online consumer accounts are full-featured requiring only one sign-in with quick and secure access to activity, statements and other features including:

Purchase Rewards. Customers can earn cash back by using their VISA® Debit Card at select merchants.

Mobile Banking. Customers can review account balances, transfer funds, deposit checks and pay bills from the convenience of their mobile phone.

Mobile Deposit. Customers can instantly deposit checks from their smart phones using our Mobile App.

FinanceWorks™. Customers can easily manage their finances and create budgets using this secure financial management solution.

Online Bill Payment Service. Customers can automatically pay their bills online from their account.

Popmoney. Customers can securely send money via email or text messaging through this service.

My Deposit. Customers can scan checks with this remote deposit solution from their home computers. Scanned images will be electronically transmitted for deposit directly to their account.
Text Message Banking. Customers can view their account balances, transaction history, and transfer funds between their accounts via these text message commands from their mobile phones.
Unlimited ATM reimbursements. With certain checking accounts, Customers are reimbursed for any fees incurred using an ATM (excludes international ATM transactions). This gives them access to any ATM in the nation, for free.

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Secure Email. Customers can send and receive secure emails from our customer service department without concern for the security of their information.
InterBank Transfer. Customers can transfer money to their accounts at other financial institutions from their online banking platform.
VISA® Debit Cards or ATM Cards. Customers may choose to receive either a free VISA® Debit or an ATM card upon account opening. Customers can access their accounts worldwide at ATMs and any other locations that accept VISA® Debit cards.
Overdraft Protection. Eligible Customers can enroll in one of our overdraft protection programs.

Our business deposit accounts feature a full suite of treasury and cash management products for our business customers including online and mobile banking, remote deposit capture, analyzed business checking and money market accounts. We service our business customers by providing them with a dedicated relationship manager and an experienced business banking operations team.

Our deposit operations are conducted through a centralized, scalable operating platform which supports all of our distribution channels. The integrated nature of our systems and our ability to efficiently scale our operations create competitive advantages that support our value proposition to customers. Additionally, the features described above such as online account opening and online bill-pay promote self-service and further reduce our operating expenses. We believe our deposit franchise will continue to provide lower all-in funding costs (interest expense plus operating costs) with greater scalability than branch-intensive banking models because the traditional branch model with high fixed operating costs will experience continued declines in consumer traffic due to the decline in paper check deposits and due to growing consumer preferences to bank online.

The number of deposit accounts at the end of each of the last five fiscal years is set forth below:

	At June 30,				
	2015	2014	2013	2012	2011
Checking and savings accounts	36,305	30,402	23,567	19,931	16,105
Time deposits	5,515	7,571	11,103	12,341	16,793
Total number of deposit accounts	41,820	37,973	34,670	32,272	32,898

Deposit Composition. The following table sets forth the dollar amount of deposits by type and weighted average interest rates at the end of each of the last five fiscal years:

	At June 30,									
	2015		2014		2013		2012		2011	
(Dollars in thousands)	Amount	Rate[1]	Amount	Rate[1]	Amount	Rate[1]	Amount	Rate[1]	Amount	Rate[1]
Non-interest-bearing	$309,339	—	$186,786	—	$81,524	—	$12,439	—	$7,369	—
Interest-bearing:										
Demand	1,224,308	0.48%	1,129,535	0.63%	311,539	0.50%	94,888	0.52%	76,793	0.75%
Savings	2,126,792	0.67%	935,973	0.73%	641,534	0.67%	583,955	0.72%	268,384	0.93%
Total demand and savings	3,351,100	0.60%	2,065,508	0.67%	953,073	0.61%	678,843	0.69%	345,177	0.89%
Time deposits:										
Under $100	70,369	1.26%	107,294	1.23%	183,754	1.36%	224,140	1.85%	337,937	2.24%
$100 or more	721,109	2.06%	681,948	1.67%	873,648	1.52%	699,666	1.75%	649,842	2.15%
Total time deposits	791,478	1.99%	789,242	1.61%	1,057,402	1.50%	923,806	1.78%	987,779	2.18%
Total interest-bearing	4,142,578	0.87%	2,854,750	0.93%	2,010,475	1.08%	1,602,649	1.32%	1,332,956	1.85%
Total deposits	$4,451,917	0.81%	$3,041,536	0.88%	$2,091,999	1.04%	$1,615,088	1.31%	$1,340,325	1.84%

[1] Based on weighted-average stated interest rates at the end of the period.

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The following tables set forth the average balance, the interest expense and the average rate paid on each type of deposit at the end of each of the last five fiscal years:

(Dollars in thousands)	At June 30, 2015 Average Balance	Interest Expense	Avg. Rate Paid	2014 Average Balance	Interest Expense	Avg. Rate Paid	2013 Average Balance	Interest Expense	Avg. Rate Paid
Demand	$1,549,207	$1,556	0.10%	$869,673	$1,173	0.13%	$286,549	$1,999	0.70%
Savings	1,313,088	19,153	1.46%	653,211	9,550	1.46%	540,248	4,400	0.81%
Time deposits	790,661	14,024	1.77%	876,621	14,094	1.61%	1,065,669	16,469	1.55%
Total interest-bearing deposits	$3,652,956	$34,733	0.95%	$2,399,505	$24,817	1.03%	$1,892,466	$22,868	1.21%
Total deposits	$3,908,277	$34,733	0.89%	$2,523,364	$24,817	0.98%	$1,937,765	$22,868	1.18%

(Dollars in thousands)	At June 30, 2012 Average Balance	Interest Expense	Avg. Rate Paid	2011 Average Balance	Interest Expense	Avg. Rate Paid
Demand	$74,044	$593	0.81%	$61,181	$488	0.80%
Savings	430,791	3,795	0.88%	283,783	2,527	0.92%
Time deposits	1,003,728	20,501	2.04%	776,638	19,261	2.48%
Total interest-bearing deposits	$1,508,563	$24,889	1.65%	$1,121,602	$22,276	2.01%
Total deposits	$1,522,359	$24,889	1.63%	$1,127,415	$22,276	2.00%

The following table shows the maturity dates of our certificates of deposit at the end of each of the last five fiscal years:

(Dollars in thousands)	At June 30, 2015	2014	2013	2012	2011
Within 12 months	$373,999	$363,879	$585,309	$482,615	$568,827
13 to 24 months	73,118	137,647	149,720	128,149	184,029
25 to 36 months	36,991	61,491	55,664	97,238	66,541
37 to 48 months	4,605	31,867	52,025	47,388	33,500
49 months and thereafter	302,765	194,358	214,684	168,416	134,882
Total	$791,478	$789,242	$1,057,402	$923,806	$987,779

The following table shows maturities of our time deposits having principal amounts of $100,000 or more at the end of each of the last five fiscal years:

(Dollars in thousands)	Term to Maturity Within Three Months	Over Three Months to Six Months	Over Six Months to One Year	Over One Year	Total
Fiscal year end					
June 30, 2015	$37,842	$189,604	$106,826	$386,837	$721,109
June 30, 2014	74,741	107,997	115,127	384,083	681,948
June 30, 2013	201,463	166,042	94,195	411,948	873,648
June 30, 2012	144,621	93,502	90,947	370,596	699,666
June 30, 2011	41,322	144,907	161,940	301,673	649,842

Borrowings. In addition to deposits, we have historically funded our asset growth through advances from the Federal Home Loan Bank of San Francisco (“FHLB”). Our bank can borrow up to 40% of its total assets from the FHLB, and borrowings are collateralized by mortgage loans and mortgage-backed securities pledged to the FHLB. At June 30, 2015, the Company had $1,584.7 million available immediately, which reflects a fully collateralized position, for advances from the FHLB for terms up to ten years.

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The Bank has federal funds lines of credit with two major banks totaling $35.0 million. At June 30, 2015, the Bank had no outstanding balance on either line.

The Bank can also borrow from the Federal Reserve Bank of San Francisco ("FRB"), and borrowings are collateralized by consumer loans and mortgage-backed securities pledged to the FRB. Based on loans and securities pledged at June 30, 2015, we had a total borrowing capacity of approximately $8.7 million, none of which was outstanding. The Bank has additional unencumbered collateral that could be pledged to the FRB Discount Window to increase borrowing liquidity.

The Company has sold securities under various agreements to repurchase for total proceeds of $35.0 million. The repurchase agreements have fixed interest rates between 3.75% and 4.75% and scheduled maturities between April 2017 and December 2017. Pursuant to these agreements, under certain conditions, the Company may be required to repay the $35.0 million and repurchase its securities before the scheduled maturity if the issuer requests repayment on scheduled quarterly call dates. As of June 30, 2015, the weighted-average remaining contractual maturity period was 2.11 years and the weighted average remaining period before such repurchase agreements could be called was 0.14 years.

On December 16, 2004, we completed a transaction in which we formed a trust and issued $5.0 million of trust-preferred securities. The net proceeds from the offering were used to purchase approximately $5.2 million of junior subordinated debentures of our company with a stated maturity date of February 23, 2035. The debentures are the sole assets of the trust. The trust preferred securities are mandatorily redeemable upon maturity, or upon earlier redemption as provided in the indenture. We have the right to redeem the debentures in whole (but not in part) on or after specific dates, at a redemption price specified in the indenture plus any accrued but unpaid interest through the redemption date. Interest accrues at the rate of three-month LIBOR plus 2.4%, which was 2.68% at June 30, 2015, and is paid quarterly.

The table below sets forth the amount of our borrowings, the maximum amount of borrowings in each category during any month-end during each reported period, the approximate average amounts outstanding during each reported period and the approximate weighted average interest rate thereon at or for the last five fiscal years:

	At or For The Fiscal Years Ended June 30,				
(Dollars in thousands)	2015	2014	2013	2012	2011
Advances from the FHLB[1]:					
Average balance outstanding	$700,805	$576,307	$436,383	$333,866	$226,005
Maximum amount outstanding at any month-end during the period	1,075,000	910,000	590,417	422,000	309,000
Balance outstanding at end of period	753,000	910,000	590,417	422,000	305,000
Average interest rate at end of period	1.36 %	0.97 %	0.92 %	1.42 %	2.07 %
Average interest rate during period	1.27 %	1.21 %	1.36 %	1.78 %	2.77 %
Securities sold under agreements to repurchase:					
Average balance outstanding	$36,562	$85,726	$114,247	$125,820	$130,000
Maximum amount outstanding at any month-end during the period	45,000	110,000	120,000	130,000	130,000
Balance outstanding at end of period	35,000	45,000	110,000	120,000	130,000
Average interest rate at end of period	4.38 %	4.46 %	4.40 %	4.34 %	4.35 %
Average interest rate during period	4.47 %	4.48 %	4.44 %	4.41 %	4.41 %
Junior subordinated debentures:					
Average balance outstanding	$5,155	$5,155	$5,155	$5,155	$5,155
Maximum amount outstanding at any month-end during the period	5,155	5,155	5,155	5,155	5,155
Balance outstanding at end of period	5,155	5,155	5,155	5,155	5,155
Average interest rate at end of period	2.68 %	2.63 %	2.67 %	2.87 %	2.66 %
Average interest rate during period	2.77 %	2.77 %	2.93 %	2.89 %	2.85 %

[1] Advances from the FHLB have been reduced by debt issue costs of $0, $0, $0, $1 and $15 for the fiscal years ended June 30, 2015, 2014, 2013, 2012 and 2011, respectively.

MERGERS AND ACQUISITIONS

From time to time we undertake acquisitions or similar transactions consistent with the Bank’s operating and growth strategies. During the fiscal year ended June 30, 2015 and 2014, there were transactions that are discussed further in Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations under the heading “Mergers and Acquisitions.”

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TECHNOLOGY

We have purchased, customized and developed software systems to provide products and services to our customers. Most of our key customer interfaces were designed by us specifically to address the needs of an Internet-only bank and its customers. Our website and deposit origination and servicing ("DOS") software drives our customer self-service model, reducing the need for human interaction while increasing our overall operating efficiencies. Our DOS software enables us to collect customer data over our websites, which is automatically uploaded into our databases. The DOS databases drive our workflow processes by automatically linking to third-party processors and storing all customer contract and correspondence data, including emails, hard copy images and telephone notes. We intend to continue to improve our systems and implement new systems, with the goal of providing for increased transaction capacity without materially increasing personnel costs.

SECURITY

BofI Federal Bank recognizes that information is a critical asset. How information is managed, controlled and protected has a significant impact on the delivery of services. Information assets, including those held in trust, must be protected from unauthorized use, disclosure, theft, loss, destruction and alteration.
BofI Federal Bank employs an information security program to achieve its security objectives. The program is designed to identify, measure, manage and control the risks to system and data availability, integrity, and confidentiality, and to ensure accountability for system actions.

INTELLECTUAL PROPERTY AND PROPRIETARY RIGHTS

We register our various Internet URL addresses with service companies, and work actively with bank regulators to identify potential naming conflicts with competing financial institutions. Policing unauthorized use of proprietary information is difficult and litigation may be necessary to enforce our intellectual property rights. We own certain Internet domain names. Domain names in the United States and in foreign countries are regulated, and the laws and regulations governing the Internet are continually evolving. Additionally, the relationship between regulations governing domain names and laws protecting intellectual property rights is not entirely clear. As a result, in the future, we may be unable to prevent third parties from acquiring domain names that infringe or otherwise decrease the value of our trademark and other intellectual property rights.

EMPLOYEES

At June 30, 2015, we had 467 full time employees. None of our employees are represented by a labor union or is subject to a collective bargaining agreement. We have not experienced any work stoppage and consider our relations with our employees to be satisfactory.

COMPETITION

The market for banking and financial services is intensely competitive, and we expect competition to continue to intensify in the future. The Bank attracts deposits through its branchless acquisition channels. Competition for those deposits comes from a wide variety of other banks, savings institutions, and credit unions. The Bank competes for these deposits by offering superior service and a variety of deposit accounts at competitive rates.
In real estate lending, we compete against traditional real estate lenders, including large and small savings banks, commercial banks, mortgage bankers and mortgage brokers. Many of our current and potential competitors have greater brand recognition, longer operating histories, larger customer bases and significantly greater financial, marketing and other resources and are capable of providing strong price and customer service competition. In order to compete profitably, we may need to reduce the rates we offer on loans and investments and increase the rates we offer

on deposits, which may adversely affect our overall financial condition and earnings. We may not be able to compete successfully against current and future competitors.

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REGULATION

GENERAL

BofI Holding, Inc. (the “Company”) is regulated as a savings and loan holding company by the Board of Governors of the Federal Reserve System (the “Federal Reserve”). The Company is required to file reports with, and otherwise comply with the rules and regulations of, the Federal Reserve. The Bank, as a federal savings bank, is subject to regulation, examination and supervision by the Office of the Comptroller of the Currency (“OCC”) as its primary regulator, and the Federal Deposit Insurance Corporation (“FDIC”) as its deposit insurer. The Bank must file reports with the OCC and the FDIC concerning its activities and financial condition. Pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”), enacted on July 21, 2010, the Office of Thrift Supervision (“OTS”) was abolished as of July 21, 2011 (the “Transfer Date”), and its rights and duties transferred to the Federal Reserve as to savings and loan holding companies, and to the OCC as to savings banks. Therefore, as of the Transfer Date the Company became subject to regulation by the Federal Reserve rather than the OTS, and the Bank became subject to regulation by the OCC rather than the OTS. The Dodd-Frank Act also created a new Consumer Financial Protection Bureau (“CFPB”) as an independent bureau of the Federal Reserve, to begin operations on the Transfer Date. The CFPB has broad authority to issue regulations implementing numerous consumer laws, to which we are subject.

The regulation of savings and loan holding companies and savings associations is intended primarily for the protection of depositors and not for the benefit of our stockholders. The following information describes aspects of the material laws and regulations applicable to the Company and the Bank. The information below does not purport to be complete and is qualified in its entirety by reference to all applicable laws and regulations. In addition, new and amended legislation, rules and regulations governing the Company and the Bank are introduced from time to time by the U.S. government and its various agencies. Any such legislation, regulatory changes or amendments could adversely affect the Company or the Bank, and no assurance can be given as to whether, or in what form, any such changes may occur.

REGULATION OF BOFI HOLDING, INC.

General. BofI Holding, Inc. (the “Company”) is a unitary savings and loan holding company within the meaning of the Home Owner’s Loan Act (“HOLA”). Accordingly, the Company is registered with the Federal Reserve and is subject to the Federal Reserve’s regulations, examinations, supervision and reporting requirements. In addition, the Federal Reserve has enforcement authority over the Company and its subsidiaries. Among other things, this authority permits the Federal Reserve to restrict or prohibit activities that are determined to be a serious risk to the subsidiary savings institution.

As noted above, pursuant to the Dodd-Frank Act, the Federal Reserve assumed responsibility for the primary supervision and regulation of all savings and loan holding companies, including the Company, on July 21, 2011. Given the extensive transfer of former OTS authority to multiple agencies, the Dodd-Frank Act requires the Federal Reserve to identify and publish in the Federal Register separate lists of the OTS regulations that the Federal Reserve will continue to enforce for savings and loan holding companies after the Transfer Date. In carrying out this mandate, and in connection with its assumption of responsibility for the ongoing examination, supervision, and regulation of savings and loan holding companies, the Federal Reserve has published an interim final rule, which became effective on September 13, 2011. The interim final rule provides for the corresponding transfer from the OTS to the Federal Reserve of the regulations necessary for the Federal Reserve to administer the statutes governing savings and loan holding companies, and implemented Regulation LL, which includes comprehensive new regulations governing the activities and operations of savings and loan holding companies and acquisitions of savings associations. The Federal Reserve’s regulations supersede OTS regulations for purposes of Federal Reserve supervision and regulation of savings and loan holding companies.

Capital. Savings and loan holding companies, such as the Company, were historically not subject to specific regulatory capital requirements. However, pursuant to the Dodd-Frank Act, savings and loan holding companies are subject to the same capital and activity requirements as those applicable to bank holding companies. Moreover, the Dodd-Frank Act required that the Federal Reserve promulgate consolidated capital requirements for depository institution holding companies that are not less stringent, both quantitatively and in terms of components of capital, than those applicable to institutions themselves.

In July 2013, the Company’s primary federal regulator, the Federal Reserve, and the Bank’s primary federal regulator, the OCC, published final rules (the “New Capital Rules”) establishing a new comprehensive capital framework for U.S. banking organizations. The rules implement the Basel Committee’s December 2010 capital framework known as “Basel III” for strengthening international capital standards as well as certain provisions of the Dodd-Frank Act. The New Capital Rules substantially revise the capital requirements applicable to depository institutions and their holding companies, including the Company and the Bank.

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The New Capital Rules narrow the definition of regulatory capital and establish higher minimum risk-based capital ratios that, when fully phased in, will require banking organizations to maintain a minimum "common equity Tier 1" (or "CET1") ratio of 4.5%, a Tier 1 capital ratio of 6.0% (increased from 4.0%), a total risk-based capital ratio of 8.0%, and a minimum leverage ratio of 4.0% (calculated as Tier 1 capital to average consolidated assets). The effective date of these requirements for the Company and the Bank was January 1, 2015.
A capital conservation buffer of 2.5% above each of these levels (to be phased in over three years starting in 2016, beginning at 0.625% and increasing by that amount on each subsequent January 1, until it reaches 2.5% on January 1, 2019) will be required for banking institutions to avoid restrictions on their ability to make capital distributions, including the payment of dividends.
The final framework provides for a number of new deductions from and adjustments to CET1. These include, for example, the requirement that deferred tax assets dependent upon future taxable income and significant investments in non-consolidated financial entities be deducted from CET1 to the extent any one such category exceeds 10% of CET1 or all such categories in the aggregate exceed 15% of CET1. Implementation of the deductions and other adjustments to CET1 began January 1, 2015 and will be phased in over three years for the Company and the Bank.
The implementation of certain regulations and standards relating to regulatory capital could disproportionately affect our regulatory capital position relative to that of our competitors, including those that may not be subject to the same regulatory requirements as the Company. Various aspects of Basel III will be subject to multi-year transition periods ending December 31, 2018 and Basel III generally continues to be subject to further evaluation and interpretation by the U.S. banking regulators. As of June 30, 2015, the Company is well-capitalized under the currently enacted capital adequacy requirements of Basel III, and would remain well-capitalized when including implementation of the deductions and other adjustments to CET1 on a fully phased-in basis.

Source of Strength. The Dodd-Frank Act extends the Federal Reserve "source of strength" doctrine to savings and loan holding companies. Such policy requires holding companies to act as a source of financial strength to their subsidiary depository institutions by providing capital, liquidity and other support in times of an institution's financial distress. The regulatory agencies have yet to issue joint regulations implementing this policy.

Change in Control. The federal banking laws require that appropriate regulatory approvals must be obtained before an individual or company may take actions to "control" a bank or savings association. The definition of control found in the HOLA is similar to that found in the Bank Holding Company Act of 1956 ("BHCA") for bank holding companies. Both statutes apply a similar three-prong test for determining when a company controls a bank or savings association. Specifically, a company has control over either a bank or savings association if the company:

- directly or indirectly or acting in concert with one or more persons, owns, controls, or has the power to vote 25% or more of the voting securities of a company;
- controls in any manner the election of a majority of the directors (or any individual who performs similar functions in respect of any company, including a trustee under a trust) of the board; or
- directly or indirectly exercises a controlling influence over the management or policies of the bank.

Regulation LL includes a specific definition of "control" similar to the statutory definition, with certain additional provisions. Additionally, Regulation LL modifies the regulations previously used by the OTS for purposes of determining when a company or natural person acquires control of a savings association or savings and loan holding company under the HOLA or the Change in Bank Control Act ("CBCA"). In light of the similarity between the statutes governing bank holding companies and savings and loan holding companies, the Federal Reserve has indicated that it intends to use its established rules and processes with respect to control determinations under HOLA and the CBCA to ensure consistency between equivalent statutes administered by the same agency. Overall, the indication of control used by the Federal Reserve under the BHCA to determine whether a company has a controlling influence over the management or policies of a banking organization (which for Federal Reserve purposes, will now include savings associations and savings and loan holding companies) are similar to the control factors found in the former OTS regulations. However, the OTS rules weighed these factors somewhat differently and used a different review process designed to be more mechanical.

Furthermore, the Federal Reserve 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 state of the target savings institution specifically permit such acquisition. The states vary in the extent to which they permit interstate savings and loan holding company acquisitions.

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REGULATION OF BOFI FEDERAL BANK

General. As a federally-chartered savings and loan association whose deposit accounts are insured by FDIC, BofI Federal Bank is subject to extensive regulation by the FDIC and, as of the Transfer Date, the OCC. Under the Dodd-Frank Act, the examination, regulation and supervision of savings associations, such as BofI Federal Bank, were transferred from the OTS to the OCC, the federal regulator of national banks under the National Bank Act. The following discussion summarizes some of the principal areas of regulation applicable to the Bank and its operations.

Insurance of Deposit Accounts. The FDIC administers a deposit insurance fund (the "DIF") that insures depositors in certain types of accounts up to a prescribed amount for the loss of any such depositor's respective deposits due to the failure of an FDIC member depository institution. As the administrator of the DIF, the FDIC assesses its member depository institutions and determines the appropriate DIF premiums to be paid by each such institution. The FDIC is authorized to examine its member institutions and to require that they file periodic reports of their condition and operations. The FDIC may also prohibit any member institution from engaging in any activity the FDIC determines by regulation or order to pose a serious risk to the DIF. The FDIC also has the authority to initiate enforcement actions against savings associations, after giving the primary federal regulator, now the OCC, the opportunity to take such action. The FDIC may terminate an institution's access to the DIF if it determines that the institution has engaged in unsafe or unsound practices or is in an unsafe or unsound condition. We do not know of any practice, condition or violation that might lead to termination of our access to the DIF.

BofI Federal Bank is a member depository institution of the FDIC and its deposits are insured by the DIF up to the applicable limits, which are backed by the full faith and credit of the U. S. Government. Effective with the passing of the Dodd-Frank Act, the basic deposit insurance limit was permanently raised to $250,000, instead of the $100,000 limit previously in effect.

Beginning in late 2008, the economic environment caused higher levels of bank failures, which dramatically increased FDIC resolution costs and led to a significant reduction in the DIF. As a result, the FDIC has significantly increased the initial base assessment rates paid by member institutions for access to the DIF. The base assessment rate was increased by seven basis points (seven cents for every $100 of deposits) for the first quarter of 2009. Effective April 1, 2009, initial base assessment rates were changed to range from 12 basis points to 45 basis points across all risk categories with possible adjustments to these rates based on certain debt-related components. These increases in the base assessment rate have increased our deposit insurance costs and negatively impacted our earnings. In addition, in May 2009, the FDIC imposed a special assessment on all member institutions due to recent bank and savings association failures. The emergency assessment amounted to five basis points on each institution's assets minus Tier 1 capital as of June 30, 2009, subject to a maximum equal to 10 basis points times the institution's assessment base. Management cannot predict what insurance assessment rates will be in the future.

Regulatory Capital Requirements and Prompt Corrective Action. The prompt corrective action regulation of the OCC requires mandatory actions and authorizes other discretionary actions to be taken by the OCC against a savings association that falls within undercapitalized capital categories specified in OCC regulations.

The New Capital Rules narrow the definition of regulatory capital and establish higher minimum risk-based capital ratios that, when fully phased in, will require banking organizations to maintain a minimum "common equity Tier 1" (or "CET1") ratio of 4.5%, a Tier 1 capital ratio of 6.0% (increased from 4.0%), a total risk-based capital ratio of 8.0%, and a minimum leverage ratio of 4.0% (calculated as Tier 1 capital to average consolidated assets). The effective date of these requirements for the Company and the Bank was January 1, 2015.

A capital conservation buffer of 2.5% above each of these levels (to be phased in over three years starting in 2016, beginning at 0.625% and increasing by that amount on each subsequent January 1, until it reaches 2.5% on January 1, 2019) will be required for banking institutions to avoid restrictions on their ability to make capital distributions, including the payment of dividends.

The final framework provides for a number of new deductions from and adjustments to CET1. These include, for example, the requirement that deferred tax assets dependent upon future taxable income and significant investments in non-consolidated financial entities be deducted from CET1 to the extent any one such category exceeds 10% of CET1 or all such categories in the aggregate exceed 15% of CET1. Implementation of the deductions and other adjustments

to CET1 began on January 1, 2015 and will be phased in over three years for the Bank.
The implementation of certain regulations and standards relating to regulatory capital could disproportionately affect our regulatory capital position relative to that of our competitors, including those that may not be subject to the same regulatory requirements as the the Bank. Various aspects of Basel III will be subject to multi-year transition periods ending December 31, 2018 and Basel III generally continues to be subject to further evaluation and interpretation by the U.S. banking regulators. As of June 30, 2015, the Bank remains well-capitalized under the currently enacted capital adequacy requirements of Basel III, and would remain well-capitalized when including implementation of the deductions and other adjustments to CET1 on a fully phased-in basis.

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Prior to January 1, 2015 under OCC regulations, an institution is "well-capitalized" if it has a total risk-based capital ratio of at least 10.0%, a Tier 1 risk-based capital ratio of at least 6.0% and a leverage ratio of at least 5.0%, with no written agreement, order, capital directive, prompt corrective action directive or other individual requirement by the OCC to maintain a different, specific capital level. An institution is "adequately-capitalized" if it has a total risk-based capital ratio of at least 8.0%, a Tier 1 risk-based capital ratio of at least 4.0% and a leverage ratio of at least 4.0% (or 3.0% if it has a composite rating of "1" and is not experiencing or anticipating significant growth). OCC regulations also establish three categories for institutions with lower ratios: undercapitalized, significantly undercapitalized and critically undercapitalized.

In general, the prompt corrective action regulation prohibits an FDIC member institution from declaring any dividends, making any other capital distribution, or paying a management fee to a controlling person if, following the distribution or payment, the institution would be within any of the three undercapitalized categories. In addition, adequately capitalized institutions may accept brokered deposits only with a waiver from the FDIC, but are subject to restrictions on the interest rates that can be paid on such deposits. Undercapitalized institutions may not accept, renew or roll-over brokered deposits.

If the OCC determines that an institution is in an unsafe or unsound condition, or if the institution is deemed to be engaging in an unsafe and unsound practice, the OCC may, if the institution is well-capitalized, reclassify it as adequately capitalized. If the institution is adequately capitalized, but not well-capitalized, the OCC may require it to comply with restrictions applicable to undercapitalized institutions. If the institution is undercapitalized, the OCC may require it to comply with restrictions applicable to significantly undercapitalized institutions. Finally, pursuant to an interagency agreement, the FDIC can examine any institution that has a substandard regulatory examination score or is considered undercapitalized without the express permission of the institution's primary regulator.

Capital regulations applicable to savings associations such as the Bank also require savings associations of meeting the additional capital standard of tangible capital equal to at least 1.5% of total adjusted assets.

The Bank's capital requirements are viewed as minimum standards and most financial institutions are expected to maintain capital levels well above the minimum. In addition, OCC regulations provide that minimum capital levels greater than those provided in the regulations may be established by the OCC for individual savings associations upon a determination that the savings association's capital is or may become inadequate in view of its circumstances. BofI Federal Bank is not subject to any such individual minimum regulatory capital requirement and the Bank's regulatory capital exceeded all minimum regulatory capital requirements as of June 30, 2015. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources."

In July 2013, the OCC published the New Capital Rules, which establish a new comprehensive capital framework for U.S. banking organizations, including the Bank. The New Capital Rules require higher levels of certain types of capital compared to the existing capital standards, beginning on January 1, 2015, and are discussed in further detail above under "Regulation of BofI Holding, Inc. – Capital".

Standards for Safety and Soundness. The federal banking regulatory agencies have prescribed, by regulation, guidelines for all insured depository institutions relating to: (i) internal controls, information systems and internal audit systems; (ii) loan documentation; (iii) credit underwriting; (iv) interest rate risk exposure; (v) asset growth; (vi) asset quality; (vii) earnings; and (viii) compensation, fees and benefits. The guidelines set forth safety and soundness standards that the federal banking regulatory agencies use to identify and address problems at FDIC member institutions before capital becomes impaired. If the OCC determines that the Bank fails to meet any standard prescribed by the guidelines, the OCC may require us to submit to it an acceptable plan to achieve compliance with the standard. OCC regulations establish deadlines for the submission and review of such safety and soundness compliance plans in response to any such determination. We are not aware of any conditions relating to these safety and soundness standards that would require us to submit a plan of compliance to the OCC.

Loans-to-One-Borrower Limitations. Savings associations generally are subject to the lending limits applicable to national banks. With limited exceptions, the maximum amount that a savings association or a national bank may lend to any borrower, including related entities of the borrower, at one time may not exceed 15% of the unimpaired capital and surplus of the institution, plus an additional 10% of unimpaired capital and surplus for loans fully secured by readily marketable collateral. Savings associations are additionally authorized to make loans to one borrower by order of its regulator, in an amount not to exceed the lesser of $30.0 million or 30% of unimpaired capital and surplus for the purpose of developing residential housing, if the following specified conditions are met:

- The purchase price of each single family dwelling in the development does not exceed $500,000;
- The savings association is in compliance with its fully phased-in capital requirements;
- The loans comply with applicable loan-to-value requirements; and
- The aggregate amount of loans made under this authority does not exceed 150% of unimpaired capital and surplus.

Qualified Thrift Lender Test. Savings associations must meet a qualified thrift lender, or “QTL,” test. This test may be met either by maintaining a specified level of portfolio assets in qualified thrift investments as specified by the HOLA, or by

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meeting the definition of a “domestic building and loan association” under the Internal Revenue Code of 1986, as amended, or the “Code”. Qualified thrift investments are primarily residential mortgage loans and related investments, including mortgage related securities. Portfolio assets generally mean total assets less specified liquid assets, goodwill and other intangible assets and the value of property used in the conduct of the Bank’s business. The required percentage of qualified thrift investments under the HOLA is 65% of “portfolio assets” (defined as total assets less: (i) specified liquid assets up to 20% of total assets; (ii) intangibles, including goodwill; and (iii) the value of property used to conduct business). An association must be in compliance with the QTL test or the definition of domestic building and loan association on a monthly basis in nine out of every 12 months. Savings associations that fail to meet the QTL test will generally be prohibited from engaging in any activity not permitted for both a national bank and a savings association. At June 30, 2015, the Bank was in compliance with its QTL requirement and met the definition of a domestic building and loan association.

Liquidity Standard. Savings associations are required to maintain sufficient liquidity to ensure safe and sound operations. As of June 30, 2015, BofI Federal Bank was in compliance with the applicable liquidity standard.

Volcker Rule. Effective April 15, 2014, the federal banking agencies have adopted regulations with a conformance period for certain features lasting until July 21, 2017, to implement the provisions of the Dodd-Frank Act known as the Volcker Rule. Under the regulations, FDIC-insured depository institutions, their holding companies, subsidiaries and affiliates (collectively, “banking entities”), are generally prohibited, subject to certain exemptions, from proprietary trading of securities and other financial instruments and from acquiring or retaining an ownership interest in a “covered fund.” The term “covered fund” can include, in addition to many private equity and hedge funds and other entities, certain collateralized mortgage obligations, collateralized debt obligations and collateralized loan obligations, and other items, but does not include wholly owned subsidiaries, certain joint ventures, or loan securitizations generally if the underlying assets are solely loans.

Trading in certain government obligations is not prohibited by the Volcker Rule, including obligations of or guaranteed by the United States or an agency or government-sponsored entity of the United States, obligations of a State of the United States or a political subdivision thereof, and municipal securities. Proprietary trading generally does not include transactions under repurchase and reverse repurchase agreements, securities lending transactions and purchases and sales for the purpose of liquidity management if the liquidity management plan meets specified criteria; nor does it generally include transactions undertaken in a fiduciary capacity. In addition, activities eligible for exemption include, among others, certain brokerage, underwriting and marketing activities, and risk-mitigating hedging activities with respect to specific risks and subject to specified conditions.

Transactions with Related Parties. The authority of the Bank to engage in transactions with “affiliates” (i.e., any company that controls or is under common control with it, including the Company and any non-depository institution subsidiaries) is limited by federal law. The aggregate amount of covered transactions with any individual affiliate is limited to 10% of the capital and surplus of the savings institution. The aggregate amount of covered transactions with all affiliates is limited to 20% of a savings institution’s capital and surplus. Certain transactions with affiliates are required to be secured by collateral in an amount and of a type described in federal law. The purchase of low quality assets from affiliates is generally prohibited. Transactions with affiliates must be on terms and under circumstances that are at least as favorable to the institution as those prevailing at the time for comparable transactions with non-affiliated companies. 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.

The Sarbanes-Oxley Act generally prohibits loans by public companies to their executive officers and directors. However, there is a specific exception for loans by financial institutions, such as the Bank, to its executive officers and directors that are made in compliance with federal banking laws. Under such laws, our authority to extend credit to executive officers, directors, and 10% or more shareholders (“insiders”), as well as entities such person’s control is limited. The law limits both the individual and aggregate amount of loans the Bank may make to insiders based, in part, on its capital position and requires certain board approval procedures to be followed. Such loans are required to be made on terms substantially the same as those offered to unaffiliated individuals and cannot 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.
Capital Distribution Limitations. Regulations applicable to the Bank impose limitations upon all capital distributions by savings associations, like cash dividends, payments to repurchase or otherwise acquire its shares, payments to stockholders of another institution in a cash-out merger and other distributions charged against capital. Under these regulations, a savings association may, in circumstances described in those regulations:

- Be required to file an application and await approval from the OCC before it makes a capital distribution;
- Be required to file a notice 30 days before the capital distribution; or
- Be permitted to make the capital distribution without notice or application to the OCC.

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Community Reinvestment Act and the Fair Lending Laws. Savings associations have a responsibility under the Community Reinvestment Act and related regulations of the OCC to help meet the credit needs of their communities, including low- and moderate-income neighborhoods. In addition, the Equal Credit Opportunity Act and the Fair Housing Act prohibit lenders from discriminating in their lending practices on the basis of characteristics specified in those statutes. An institution's failure to comply with the provisions of the Community Reinvestment Act could, at a minimum, result in regulatory restrictions on its activities and the denial of applications. In addition, an institution's failure to comply with the Equal Credit Opportunity Act and the Fair Housing Act could result in the OCC, other federal regulatory agencies or the Department of Justice, taking enforcement actions against the institution. To the best of our knowledge, BofI Federal Bank is in full compliance with each of the Community Reinvestment Act, the Equal Credit Opportunity Act and the Fair Housing Act and we do not anticipate the Bank becoming the subject of any enforcement actions.

Federal Home Loan Bank ("FHLB") System. The Bank is a member of the FHLB system. Among other benefits, each FHLB serves as a reserve or central bank for its members within its assigned region. Each FHLB is financed primarily from the sale of consolidated obligations of the FHLB system. Each FHLB makes available loans or advances to its members in compliance with the policies and procedures established by the board of directors of the individual FHLB. As an FHLB member, the Bank is required to own capital stock in a Federal Home Loan Bank in specified amounts based on either its aggregate outstanding principal amount of its residential mortgage loans, home purchase contracts and similar obligations at the beginning of each calendar year or its outstanding advances from the FHLB.

Federal Reserve System. The Federal Reserve requires all depository institutions to maintain non-interest bearing reserves at specified levels against their transaction accounts (primarily checking, negotiable order of withdrawal ("NOW"), and Super NOW checking accounts) and non-personal time deposits. At June 30, 2015, the Bank was in compliance with these requirements.

Activities of Subsidiaries. A savings association seeking to establish a new subsidiary, acquire control of an existing company or conduct a new activity through a subsidiary must provide 30 days prior notice to the FDIC and the OCC and conduct any activities of the subsidiary in compliance with regulations and orders of the OCC. The OCC has the power to require a savings association to divest any subsidiary or terminate any activity conducted by a subsidiary that the OCC determines to pose a serious threat to the financial safety, soundness or stability of the savings association or to be otherwise inconsistent with sound banking practices.

Consumer Laws and Regulations. The Dodd-Frank Act established the CFPB in order to regulate any person who offers or provides personal, family or household financial products or services. The CFPB is an independent "watchdog" within the Federal Reserve System to enforce and create "Federal consumer financial laws." Banks as well as nonbanks are subject to any rule, regulation or guideline created by the CFPB. The only authority the Federal Reserve has over the CFPB is the authority to delegate examinations regarding compliance with "Federal consumer financial laws." Except for the power of the Federal Reserve to reject any rules of the CFPB in extremely limited situations, the CFPB may promulgate any consumer financial rule or guideline, and exempt whomever it wants therefrom. If a court interprets a CFPB regulation or guideline, a court may only consider the CFPB's interpretation of the rule or guideline. Subject to certain limited exemptions, persons subject to the CFPB include anyone who offers or provides consumer financial products or services, including banks, savings associations, credit unions, mortgage brokers, debt collectors and consumer credit reporting agencies. The apparent goal is to have only one agency in charge of protecting consumers by overseeing the application and implementation of "Federal consumer financial laws," which includes (i) rules, orders and guidelines of the CFPB, (ii) all consumer financial protection functions, powers and duties transferred from other federal agencies, such as the Federal Reserve, the OCC, the FDIC, the Federal Trade Commission, and the Department of Housing and Urban Development, and (iii) a long list of consumer financial protection laws enumerated in the Dodd-Frank Act, such as the Electronic Fund Transfer Act, the Consumer Leasing Act of 1976, the Alternative Mortgage Transaction Parity Act of 1982, the Equal Credit Opportunity Act, the Expedited Funds Availability Act, the Truth in Lending Act and the Truth in Savings Act, among many others. The CFPB has broad examination and enforcement authority, including the power to issue subpoenas and cease and desist orders, commence civil actions, hold investigations and hearings and seek civil penalties, as well as the authority to regulate disclosures, mandate registration of any covered person and to regulate what it considers unfair, deceptive, abusive practices.

However, savings associations with $10 billion or less in assets, such as the Bank, will continue to be examined for compliance with the consumer protection laws and regulations by their primary bank regulators. Such laws and regulations and the other consumer protection laws and regulations to which the Bank has been subject have historically mandated certain disclosure requirements and regulated the manner in which financial institutions must deal with customers when taking deposits from, making loans to, or engaging in other types of transactions with, such customers. The effect of the CFPB on the development and promulgation of consumer protection rules and guidelines and the enforcement of federal "consumer financial laws" on the Bank, if any, cannot be determined with certainty at this time.

Privacy Standards. The Gramm-Leach-Bliley Act ("GLBA") modernized the financial services industry by establishing a comprehensive framework to permit affiliations among commercial banks, insurance companies, securities firms and other financial service providers. The Bank is subject to OCC regulations implementing the privacy protection provisions of the GLBA.

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These regulations require the Bank to disclose its privacy policy, including informing consumers of its information sharing practices and informing consumers of their rights to opt out of certain practices.
Anti-Money Laundering and Customer Identification. The U.S. government enacted the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 ("USA PATRIOT Act") on October 26, 2001 in response to the terrorist events of September 11, 2001. The USA PATRIOT Act gives the federal government broad powers to address terrorist threats through enhanced domestic security measures, expanded surveillance powers, increased information sharing, and broadened anti-money laundering requirements. In February 2010, Congress re-enacted certain expiring provisions of the USA PATRIOT Act.

AVAILABLE INFORMATION

BofI Holding, Inc. files reports, proxy and information statements and other information electronically with the SEC. You may read and copy any materials that we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. Information may be obtained on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The SEC's website site address is http://www.sec.gov. Our web site address is http://www.bofiholding.com, and we make our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K and amendments thereto available on our website free of charge.

ITEM 1A. RISK FACTORS

Risks Relating to Our Industry
Changes in interest rates could adversely affect our performance.
Our results of operations depend to a great extent on our net interest income, which is the difference between the interest rates earned on interest-earning assets such as loans and investment securities, and the interest rates paid on interest-bearing liabilities such as deposits and borrowings. We are exposed to interest rate risk because our interest-earning assets and interest-bearing liabilities do not react uniformly or concurrently to changes in interest rates, as the two have different time periods for adjustment and can be tied to different measures of rates. Interest rates are sensitive to factors that are beyond our control, including general economic conditions and the policies of various governmental and regulatory agencies, including the FRB. The monetary policies of the FRB, implemented through open market operations and regulation of the discount rate and reserve requirements, affect prevailing interest rates. Loan originations and repayment rates tend to increase with declining interest rates and decrease with rising interest rates. On the deposit side, increasing interest rates generally lead to interest rate increases on our deposit accounts. In recent years, the monetary policy of the FRB has been to reduce market interest rates to historical lows, but recently prevailing interest rates have begun to increase and the financial markets are anticipating a further increase in interest rates by the FRB. We manage the sensitivity of our assets and liabilities; however a large and relatively rapid increase in market interest rates would likely have an adverse impact on our net interest income and a decrease in our refinancing business and related fee income, and could cause an increase in delinquencies and non-performing loans in our adjustable-rate loans. In addition, changes in interest rates can affect the value of our loans, investments and other interest-rate sensitive assets and our ability to realize gains on the sale or resolution of these assets
A significant economic downturn could result in increases in our level of non-performing loans and/or reduce demand for our products and services, which could have an adverse effect on our results of operations.
Our business and results of operations are affected by the financial markets and general economic conditions, including factors such as the level and volatility of interest rates, inflation, home prices, unemployment and under-employment levels, bankruptcies, household income and consumer spending. While the national economy and most regions have improved since the financial crisis of 2008 and subsequent economic recession, we continue to operate in a challenging and uncertain economic environment. The risks associated with our business become more

acute in periods of a slowing economy or slow growth. A return or continuation of recessionary conditions or negative events in the housing markets, including significant and continuing home price declines and increased delinquencies and foreclosures, would adversely affect our mortgage and construction loans and result in increased asset write-downs. In addition, poor economic conditions, including continued high unemployment in the United States, have contributed to increased volatility in the financial and capital markets and diminished expectations for the U.S. economy. While we are continuing to take steps to decrease and limit our exposure to problem loans, we nonetheless retain direct exposure to the residential and commercial real estate markets. Declines in real estate values, an economic downturn or continued high unemployment levels may result in higher than expected loan delinquencies and a decline in demand for our products and services. These negative events may cause us to incur losses and may adversely affect our capital, financial condition and results of operations.

The soundness of other financial institutions could adversely affect us.

Our ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial services institutions are interrelated as a result of trading, clearing, counterparty and other relationships. We have exposure to many different counterparties, and we routinely execute transactions with counterparties in the financial industry, including brokers and dealers, other commercial banks, investment banks, mutual and hedge funds, and other financial institutions. As a result, defaults by, or even rumors or questions about, one or more financial services institutions, or the financial services industry generally, could lead to market-wide liquidity problems and losses or defaults by us or by other institutions and organizations. Many of these transactions expose us to credit risk in the event of default of our counterparty or client. In addition, our credit risk may be exacerbated when the collateral held by us cannot be liquidated or is liquidated at prices not sufficient to recover the full amount of the financial instrument exposure due to us. There is no assurance that any such losses would not materially and adversely affect our results of operations.

The impact of changing regulatory capital requirements and new capital rules is unknown.

In 2013, the FDIC, the OCC and the Federal Reserve Board approved a new rule that will substantially amend the regulatory risk-based capital rules applicable to us. The final rule implements the "Basel III" regulatory capital reforms and changes required by the Dodd-Frank Act, and includes new minimum risk-based capital and leverage ratios which became effective for us on January 1, 2015. The final rule also refines the definition of what constitutes "capital" for purposes of calculating these ratios. The new minimum capital requirements to be considered "adequately capitalized" are: (i) a new common equity Tier 1 capital ratio of 4.5%; (ii) a Tier 1 to risk-based assets capital ratio of 6.0%, which was increased from 4.0%; (iii) a total capital ratio of 8.0%, which was unchanged from the previous rules; and (iv) a Tier 1 leverage ratio of 4.0%. The final rule also established a "capital conservation buffer" of 2.5% above the new regulatory minimum capital ratios to be considered "adequately capitalized", and when fully effective in 2019, will result in the following minimum capital ratios: (a) a common equity Tier 1 capital ratio of 7.0%; (b) a Tier 1 to risk-based assets capital ratio of 8.5%; and (c) a total capital ratio of 10.5%. The new capital conservation buffer requirement will be phased in beginning in January 2016 at 0.625% of risk-weighted assets and will increase each year until fully implemented in January 2019.

If an institution does not meet or exceed these minimum capital ratios it will be subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if its capital level falls below the "adequately capitalized" ratios plus the buffer amount. These limitations will establish a maximum percentage of eligible retained income that can be utilized for such activities. The application of more stringent capital requirements for us could, among other things, result in lower returns on equity, require the raising of additional capital, and result in regulatory actions such as a prohibition on the payment of dividends or on the repurchase shares if we were 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 restructure our business models or increase our holdings of liquid assets. Implementation of changes in asset risk weightings for risk-based capital calculations, items included or deducted in calculating regulatory capital or additional capital conservation buffers could result in modifications to our business strategy.

Policies and regulations enacted by the Consumer Financial Protection Bureau may negatively impact our residential mortgage loan business and compliance risk.

Our consumer business, including our mortgage and deposit businesses, may be adversely affected by the policies enacted or regulations adopted by the Consumer Financial Protection Bureau ("CFPB") which under the Dodd-Frank Act has broad rulemaking authority over consumer financial products and services. For example, in January 2014 new federal regulations promulgated by the CFPB took effect which impact how we originate and service residential mortgage loans. Those regulations, among other things, require mortgage lenders to assess and document a borrower's ability to repay their mortgage loan. The regulations provide borrowers the ability to challenge foreclosures and sue for damages based on allegations that the lender failed to meet the standard for determining the borrower's ability to repay their loan. While the regulations include presumptions in favor of the lender based on certain loan underwriting criteria, it is uncertain how these presumptions will be construed and applied by courts in the event of litigation. The ultimate impact of these new regulations on the lender's enforcement of its loan documents in the event of a loan default, and the cost and expense of doing so, is uncertain, but may be significant. In addition, the secondary market demand for loans that do not fall within the presumptively safest category of a "qualified mortgage" as defined by the CFPB is uncertain. The 2014 regulations also require changes to certain loan servicing procedures and practices, which result in

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increased foreclosure costs and longer foreclosure timelines in the event of loan default, and failure to comply with the new servicing rules may result in additional litigation and compliance risk. On November 20, 2014, the CFPB released its Final Integrated Disclosure Rule (“Rule”) that became effective on August 1, 2015. Among other things, the new rule requires lenders to combine the initial Good Faith Estimate and Initial Truth in Lending (“TIL”) disclosures into a single new Loan Estimate disclosure and the HUD-1 and Final TIL disclosures into a single new Closing Disclosure. The definition of an application and timing requirements will also change, and a new Closing Disclosure waiting period has been added. These changes, along with other changes required by the Rule, will require significant systems modifications, process and procedures changes and training. Failure to comply with these new requirements may result in penalties for disclosure violations under the Real Estate Settlement Procedures Act (“RESPA”) and the Truth In Lending Act (“TILA”).

Risks Relating to Mortgage Loans and Mortgage-Backed Securities

Declining real estate values, particularly in California, could reduce the value of our loan portfolio and impair our profitability and financial condition.

The majority of the loans in our portfolio are secured by real estate. At June 30, 2015, approximately 66.4% of our mortgage portfolio was secured by real estate located in California. In recent years, there has been significant volatility in real estate values in California and in some cases the collateral for our real estate loans has become less valuable. If real estate values decrease or more of our borrowers experience financial difficulties, we will experience increased charge-offs, as the proceeds resulting from foreclosure may be significantly lower than the amounts outstanding on such loans. In addition, declining real estate values frequently accompany periods of economic downturn or recession and increasing unemployment, all of which can lead to lower demand for mortgage loans of the types we originate. A decline of real estate values or decline of the credit position of our borrowers in California would have a material adverse effect on our business, prospects, financial condition and results of operations.

Many of our mortgage loans are unseasoned and defaults on such loans would harm our business.

At June 30, 2015, our multifamily residential loans were $1,185.5 million or 28.2% of our mortgage loans and our commercial real estate loans were $61.4 million, or 1.5% of our mortgage loans. The payment on such loans is typically dependent on the cash flows generated by the projects, which are affected by the supply and demand for multifamily residential units and commercial property within the relative market. If the market for multifamily residential units and commercial property experiences a decline in demand, multifamily and commercial borrowers may suffer losses on their projects and be unable to repay their loans. If residential housing values were to decline and nationwide unemployment were to increase, we are likely to experience increases in the level of our non-performing loans and foreclosed and repossessed vehicles in future periods.

We could recognize other-than-temporary impairment on securities held in our available-for-sale and held-to-maturity portfolios, if economic and market conditions worsen.

Our held-to-maturity securities had gross unrecognized losses of $12.7 million at June 30, 2015. We analyze securities held in our portfolio for other-than-temporary impairment on a quarterly basis. The process for determining whether impairment is other-than-temporary requires difficult, subjective judgments about the future financial performance of the issuer and any collateral underlying the security in order to assess the probability of receiving all contractual principal and interest payments on the security. Because of changing economic and market conditions affecting issuers and the performance of the underlying collateral, we may be required to recognize other-than-temporary impairment in future periods reducing future earnings.

A decrease in the mortgage buying activity of Fannie Mae and Freddie Mac or a failure by Fannie Mae and Freddie Mac to satisfy their obligations with respect to their RMBS could have a material adverse effect on our business, financial condition and results of operations.

During the last three fiscal years we have sold over $1,327.7 million of residential mortgage loans to the government sponsored entities GSE aggregators and, as of June 30, 2015, approximately 21.5% of our securities portfolio consisted of RMBS issued or guaranteed by the GSEs. Each GSE is currently in conservatorship, with its primary regulator, the Federal Housing Finance Agency, acting as conservator. The United States government is contemplating structural changes to the GSEs, including consolidation and/or a reduction in the ability of GSEs to purchase mortgage loans or guarantee mortgage obligations. We cannot predict if, when or how the conservatorships will end, or what associated changes (if any) may be made to the structure, mandate or overall business practices of either of the GSEs. Accordingly, there continues to be uncertainty regarding the future of the GSEs, including whether they will continue to exist in their current form and whether they will continue to meet their obligations with respect to their RMBS. A substantial reduction in mortgage purchasing activity by the GSEs could result in a material decrease in the availability of residential mortgage loans and the number of qualified borrowers, which in turn may lead to increased volatility in the residential housing market, including a decrease in demand for residential housing and a corresponding drop in the value

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of real property that secures current residential mortgage loans, as well as a significant increase in interest rates. In a rising or higher interest rate environment, our originations of mortgage loans may decrease, which would result in a decrease in mortgage loan revenues and a corresponding decrease in non-interest income. Any decision to change the structure, mandate or overall business practices of the GSEs and/or the relationship among the GSEs, the government and the private mortgage loan markets, or any failure by the GSEs to satisfy their obligations with respect to their RMBS, could have a material adverse effect on our business, financial condition and results of operations.

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

From time to time, we purchase real estate loans in bulk or "pools." In the past 8 years we purchased real estate loans in pools totaling $577 million, some of which remain in our loan portfolio. When we determine the purchase price we are willing to pay to purchase loans in bulk, management makes certain assumptions about, among other things, how fast borrowers will prepay their loans, the real estate market and our ability to collect loans successfully and, if necessary, to dispose of any real estate that may be acquired through foreclosure. When we purchase loans in bulk, we perform certain due diligence procedures and we purchase the loans subject to customary limited indemnities. To the extent that our underlying assumptions prove to be inaccurate or the basis for those assumptions change (such as an unanticipated decline in the real estate market), the purchase price paid for "pools" of loans may prove to have been excessive, resulting in a lower yield or a loss of some or all of the loan principal. For example, in the past, we have purchased "pools" of loans at a premium and some of the loans were prepaid before we expected. Accordingly, we earned less interest income on the purchase than expected. Our success in growing through purchases of loan "pools" depends on our ability to price loan "pools" properly and on general economic conditions in the geographic areas where the underlying properties of our loans are located.

Acquiring loans through bulk purchases may involve acquiring loans of a type or in geographic areas where management may not have substantial prior experience. We may be exposed to a greater risk of loss to the extent that bulk purchases contain such loans.

Risks Relating to the Company

Our pending transaction with H&R Block Bank may not close as anticipated.

On April 10, 2014, we announced that BofI Federal Bank has entered into a definitive Purchase and Assumption Agreement with H&R Block Bank, a federal savings bank ("HRBB"), and its parent company Block Financial LLC, pursuant to which the Bank agreed to purchase certain assets and assume all of the deposits of HRBB. In addition, we have agreed with HRBB to the terms of a Program Management Agreement ("PMA") under which the Bank will provide certain H&R Block-branded financial services products to customers of H&R Block, Inc. ("HRB"). The closing of the pending transactions with HRBB is subject to customary closing conditions. If the customary closing conditions are not satisfied, the transaction with HRBB will likely not be consummated in its current form, or at all.

We may fail to realize the anticipated benefits of the transaction with HRBB.

The success of our pending transaction with HRBB will depend upon, among other things, our ability to combine and integrate the assumed deposits, our ability to operate the PMA and HRB's desire and ability to offer financial services products to customers after the closing date. Our objectives with regard to executing the assumption of the deposits and managing our obligations under the PMA are subject to risks that operational and regulatory procedures may change. Under the terms of the PMA there are no minimum transaction levels and the number of transactions that are processed may be more or less than expected due to business changes by HRB, regulatory changes or changes due to competition for HRB's products. If we are not able to successfully achieve our objectives or if HRB limits, eliminates or fails to realize the expected volumes for one or more of the financial services products described in the PMA, the anticipated benefits of the transaction with HRBB may not be realized fully or at all, or may take longer to realize than expected.

In addition, the transaction with HRBB will require substantial resources and effort from our management. The integration process and other disruptions resulting from the transaction may disrupt our ongoing businesses or cause inconsistencies in our standards, controls, procedures or policies. In addition, difficulties in integrating the functions following completion of the transaction could harm our reputation with customers.

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If our allowance for loan losses, particularly in growing areas of lending such as C&I and specialty finance loans, is not sufficient to cover actual loan losses, our earnings, capital adequacy and overall financial condition may suffer materially.

Our loans are generally secured by multifamily and, to a lesser extent, commercial and single family real estate properties, each initially having a fair market value generally greater than the amount of the loan secured. Although our loans are typically secured, the risk of default, generally due to a borrower's inability to make scheduled payments on his or her loan, is an inherent risk of the banking business. In determining the amount of the allowance for loan losses, we make various assumptions and judgments about the collectability of our loan portfolio, including the creditworthiness of our borrowers, the value of the real estate serving as collateral for the repayment of our loans and our loss history. Defaults by borrowers could result in losses that exceed our loan loss reserves. We have originated or purchased many of our loans recently, so we do not have sufficient repayment experience to be certain whether the established allowance for loan losses is adequate. We may have to establish a larger allowance for loan losses in the future if, in our judgment, it becomes necessary. Any increase in our allowance for loan losses will increase our expenses and consequently may adversely affect our profitability, capital adequacy and overall financial condition.

In addition, we continue to increase our emphasis on non-residential lending, particularly in commercial and industrial (C&I) lending and specialty finance lending, and these types of loans are expected to comprise a larger portion of our originations and loan portfolio in future periods. To the extent that we fail to adequately address the risks associated with C&I and specialty finance lending, we may experience increases in levels of non-performing loans and be forced to take additional loan loss reserves, which would adversely affect our net interest income and capital levels and reduce our profitability. For further information about our C&I lending business, please refer to "Business – Asset Origination and Fee Income Businesses – Commercial Real Estate Secured and Commercial Lending."

Our results of operations could vary as a result of the methods, estimates, and judgments that we use in applying our accounting policies.

The methods, estimates, and judgments that we use in applying our accounting policies have a significant impact on our results of operations. Such methods, estimates, and judgments, include methodologies to value our securities, evaluate securities for other-than-temporary impairment and estimate our allowance for loan losses. These methods, estimates, and judgments are, by their nature, subject to substantial risks, uncertainties, and assumptions, and factors may arise over time that lead us to change our methods, estimates, and judgments. Changes in those methods, estimates, and judgments could significantly affect our results of operations.

We may seek additional capital but it may not be available when it is needed and limit our ability to execute our strategic plan. In addition, raising additional equity capital would dilute existing shareholders' equity interests and may cause our stock price to decline.

We are required by regulatory authorities to maintain adequate levels of capital to support our operations. In addition, we may elect to raise additional capital to support the growth of our business or to finance acquisitions, if any, or we elect to raise additional capital for other reasons. We may seek to do so through the issuance of, among other things, our common stock or securities convertible into our common stock, which could dilute existing shareholders' interests in the Company.

Our ability to raise additional capital, if needed, will depend on conditions in the capital markets, economic conditions and a number of other factors, many of which are outside our control, and on our financial performance. Accordingly, we cannot provide assurance on our ability to raise additional capital if needed or if it can be raised on terms acceptable to us. If we cannot raise additional capital when needed or on terms acceptable to us, it may have a material adverse effect on our financial condition, results of operations and prospects. In addition, raising equity capital will have a dilutive effect on the equity interests of our existing shareholders and may cause our stock price to decline.

Access to adequate funding cannot be assured.

We have significant sources of liquidity as a result of our federal thrift structure, including consumer deposits, brokered deposits, the FHLB, repurchase lending facilities, and the FRB discount window. We rely primarily upon consumer deposits and FHLB advances. Our ability to attract deposits could be negatively impacted by a public perception of our financial prospects or by increased deposit rates available at troubled institutions suffering from shortfalls in liquidity. The FHLB is subject to regulation and other factors beyond our control. These factors may adversely affect the availability and pricing of advances to members such as the Bank. Selected sources of liquidity may become unavailable to the Bank if it were to no longer be considered “well-capitalized.”

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Our inability to manage our growth or deploy assets profitably could harm our business and decrease our overall profitability, which may cause our stock price to decline.

Our assets and deposit base have grown substantially in recent years, and we anticipate that we will continue to grow over time, perhaps significantly. To manage the expected growth of our operations and personnel, we will be required to manage multiple aspects of the business simultaneously, including among other things: (i) improve existing and implement new transaction processing, operational and financial systems, procedures and controls; (ii) maintain effective credit scoring and underwriting guidelines; (iii) maintain sufficient levels of regulatory capital; and (iv) expand our employee base and train and manage this growing employee base. In addition, acquiring other banks, asset pools or deposits may involve risks such as exposure to potential asset quality issues, disruption to our normal business activities and diversion of management's time and attention due to integration and conversion efforts. If we are unable to manage growth effectively or execute integration efforts properly, we may not be able to achieve the anticipated benefits of growth and our business, financial condition and results of operations could be adversely affected.

In addition, we may not be able to sustain past levels of profitability as we grow, and our past levels of profitability should not be considered a guarantee or indicator of future success. If we are not able to maintain our levels of profitability by deploying growth in our deposits in profitable assets or investments, our net interest margin and overall level of profitability will decrease and our stock price may decline.

We face strong competition for customers and may not succeed in implementing our business strategy.

Our business strategy depends on our ability to remain competitive. There is strong competition for customers from existing banks and other types of financial institutions, including those that use the Internet as a medium for banking transactions or as an advertising platform. Our competitors include large, publicly-traded, Internet-based banks, as well as smaller Internet-based banks; "brick and mortar" banks, including those that have implemented websites to facilitate online banking; and traditional banking institutions such as thrifts, finance companies, credit unions and mortgage banks. Some of these competitors have been in business for a long time and have name recognition and an established customer base. Most of our competitors are larger and have greater financial and personnel resources. In order to compete profitably, we may need to reduce the rates we offer on loans and investments and increase the rates we offer on deposits, which actions may adversely affect our business, prospects, financial condition and results of operations.

To remain competitive, we believe we must successfully implement our business strategy. Our success depends on, among other things:

- Having a large and increasing number of customers who use our bank for their banking needs;
- Our ability to attract, hire and retain key personnel as our business grows;
- Our ability to secure additional capital as needed;
- The relevance of our products and services to customer needs and demands and the rate at which we and our competitors introduce or modify new products and services;
- Our ability to offer products and services with fewer employees than competitors;
- The satisfaction of our customers with our customer service;
- Ease of use of our websites; and
- Our ability to provide a secure and stable technology platform for financial services that provides us with reliable and effective operational, financial and information systems.

If we are unable to implement our business strategy, our business, prospects, financial condition and results of operations could be adversely affected.

We expect the rate of our revenue growth to decline and consequently anticipate downward pressure on our operating margins in the future.

We believe the rate of our revenue growth will, at some point, generally decline as a result of a number of factors, including the inevitable decline in growth rates as our revenues increase to higher levels and the continued maturity of the internet-based banking market. We believe our operating margin will experience downward pressure as a result of increasing competition and increased expenditures for many aspects of our business, including increased expenditures for attracting new customers and retaining existing customers.

Our business depends on a strong brand, and failing to maintain and enhance our brand would hurt our ability to expand our customer base.

The brand identities that we have developed will significantly contribute to the success of our business. Maintaining and enhancing the "BofI Federal Bank" brands (including our other trade styles and trade names such as apartmentbank.com) is critical to expanding our customer base. We believe that the importance of brand recognition will increase due to the relatively low barriers to entry for our "brick and mortar" competitors in the internet-based banking market. Our brands could be negatively impacted by a number of factors, including data privacy and security issues, service outages, and product malfunctions. If we fail to maintain and enhance our "BofI Federal Bank" brands, or if we incur excessive expenses in this effort, our business, financial condition and results of operations will be materially adversely affected. Maintaining and enhancing our brand will depend largely on our ability to continue to provide high-quality products and services, which we may not do successfully.

A natural disaster or recurring energy shortage, especially in California, could harm our business.

We are based in San Diego, California, and approximately 66.4% of our mortgage loan portfolio was secured by real estate located in California at June 30, 2015. In addition, some of our computer systems that operate our internet websites and their back-up systems are located in San Diego, California. Historically, California has been vulnerable to natural disasters. Therefore, we are susceptible to the risks of natural disasters, such as earthquakes, wildfires, floods and mudslides. Natural disasters could harm our operations directly through interference with communications, including the interruption or loss of our websites, which would prevent us from gathering deposits, originating loans and processing and controlling our flow of business, as well as through the destruction of facilities and our operational, financial and management information systems. A natural disaster or recurring power outages may also impair the value of our largest class of assets, our loan portfolio, which is comprised substantially of real estate loans. Uninsured or under-insured disasters may reduce borrowers' ability to repay mortgage loans. Disasters may also reduce the value of the real estate securing our loans, impairing our ability to recover on defaulted loans through foreclosure and making it more likely that we would suffer losses on defaulted loans. California has also experienced energy shortages, which, if they recur, could impair the value of the real estate in those affected areas. Although we have implemented several back-up systems and protections (and maintain standard business interruption insurance), these measures may not protect us fully from the effects of a natural disaster. The occurrence of natural disasters or energy shortages in California could have a material adverse effect on our business, prospects, financial condition and results of operations.

Our success depends in large part on the continuing efforts of a few individuals. If we are unable to retain these key personnel or attract, hire and retain others to oversee and manage our company, our business could suffer.

Our success depends substantially on the skill and abilities of our senior management team, including our Chief Executive Officer and President, Gregory Garrabrants, our Chief Financial Officer, Andrew J. Micheletti, and other employees that perform multiple functions that might otherwise be performed by separate individuals at larger banks. The loss of the services of any of these individuals or other key employees, whether through termination of employment, disability or otherwise, could have a material adverse effect on our business. In addition, our ability to grow and manage our growth depends on our ability to continue to identify, attract, hire, train, retain and motivate highly skilled executive, technical, managerial, sales, marketing, customer service and professional personnel. The implementation of our business plan and our future success will depend on such qualified personnel. Competition for such employees is intense, and there is a risk that we will not be able to successfully attract, assimilate or retain sufficiently qualified personnel. If we fail to attract and retain the necessary personnel, our business, prospects, financial condition and results of operations could be adversely affected.

We are exposed to risk of environmental liability with respect to properties to which we take title.

In the course of our business, we may foreclose and take title to real estate and could be subject to environmental liabilities with respect to those properties. We may be held liable to a governmental entity or to third parties for property damage, personal injury, investigation and clean-up costs incurred by these parties in connection with environmental contamination or may be required to investigate or clean up hazardous or toxic substances or chemical releases at a property. The costs associated with investigation or remediation activities could be substantial. In addition, if we are the owner or former owner of a contaminated site, we may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from the property. If we become subject to significant environmental liabilities, our business, prospects, financial condition and results of operations could be adversely affected.

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Risks Relating to Being an Internet-Based Company

We depend on third-party service providers for our core banking technology, and interruptions in or terminations of their services could materially impair the quality of our services.

We rely substantially upon third-party service providers for our core banking technology and to protect us from bank system failures or disruptions. This reliance may mean that we will not be able to resolve operational problems internally or on a timely basis, which could lead to customer dissatisfaction or long-term disruption of our operations. Our operations also depend upon our ability to replace a third-party service provider if it experiences difficulties that interrupt operations or if an essential third-party service terminates. If these service arrangements are terminated for any reason without an immediately available substitute arrangement, our operations may be severely interrupted or delayed. If such interruption or delay were to continue for a substantial period of time, our business, prospects, financial condition and results of operations could be adversely affected.

Privacy concerns relating to our technology could damage our reputation and deter current and potential customers from using our products and services.

Generally speaking, concerns have been expressed about whether internet-based products and services compromise the privacy of users and others. Concerns about our practices with regard to the collection, use, disclosure or security of personal information of our customers or other privacy related matters, even if unfounded, could damage our reputation and results of operations. While we strive to comply with all applicable data protection laws and regulations, as well as our own posted privacy policies, any failure or perceived failure to comply may result in proceedings or actions against us by government entities or others, or could cause us to lose customers, which could potentially have an adverse effect on our business.

In addition, as nearly all of our products and services are internet-based, the amount of data we store for our customers on our servers (including personal information) has been increasing and will continue to increase. Any systems failure or compromise of our security that results in the release of our customers' data could seriously limit the adoption of our products and services, as well as harm our reputation and brand and, therefore, our business. We may also need to expend significant resources to protect against security breaches. The risk that these types of events could seriously harm our business is likely to increase as we add more customers and expand the number of internet-based products and services we offer.

Regulatory authorities around the world are considering a number of legislative and regulatory proposals concerning data protection. In addition, the interpretation and application of consumer and data protection laws in the U.S., Europe and elsewhere are often uncertain and in flux. It is possible that these laws may be interpreted and applied in a manner that is inconsistent with our data practices. If so, in addition to the possibility of fines, this could result in an order requiring that we change our data practices, which could have an adverse effect on our business. Complying with these various laws could cause us to incur substantial costs or require us to change our business practices in a manner adverse to our business.

We have risks of systems failure and security risks, including "hacking" and "identity theft."

The computer systems and network infrastructure utilized by us and others could be vulnerable to unforeseen problems. This is true of both our internally developed systems and the systems of our third-party service providers. Our operations are dependent upon our ability to protect computer equipment against damage from fire, power loss, telecommunication failure or similar catastrophic events.

Any damage or failure that causes an interruption in our operations or security breaches such as hacking or identity theft could adversely affect our business, prospects, financial condition and results of operations.

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If our security measures are breached, or if our services are subject to attacks that degrade or deny the ability of customers to access our products and services, our products and services may be perceived as not being secure, customers may curtail or stop using our products and services, and we may incur significant legal and financial exposure.

Our products and services involve the storage and transmission of customers' proprietary information, and security breaches could expose us to a risk of loss of this information, litigation, and potential liability. Our security measures may be breached due to the actions of outside parties, employee error, malfeasance, or otherwise and, as a result, an unauthorized party may obtain access to our data or our customers' data. Additionally, outside parties may attempt to fraudulently induce employees or customers to disclose sensitive information in order to gain access to our data or our customers' data. Any such breach or unauthorized access could result in significant legal and financial exposure, damage to our reputation, and a loss of confidence in the security of our products and services that could potentially have an adverse effect on our business. Because the techniques used to obtain unauthorized access, disable or degrade service or sabotage systems change frequently and often are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. If an actual or perceived breach of our security occurs, the market perception of the effectiveness of our security measures could be harmed and, as a result, we could lose customers, which may have a material adverse effect on our business, financial condition and results of operations.

Our business depends on continued and unimpeded access to the internet by us and our customers. Internet access providers may be able to block, degrade, or charge for access to our website, which could lead to additional expenses and the loss of customers.

Our products and services depend on the ability of our customers to access the internet and our website. Currently, this access is provided by companies that have significant market power in the broadband and internet access marketplace, including incumbent telephone companies, cable companies and mobile communications companies. Some of these providers have the ability to take measures that could degrade, disrupt, or increase the cost of customer access to our products and services by restricting or prohibiting the use of their infrastructure to access our website or by charging fees to us or our customers to provide access to our website. Such interference could result in a loss of existing customers and/or increased costs and could impair our ability to attract new customers, which could have a material adverse effect on our business, financial condition and results of operations.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our principal executive offices, which also serve as our bank's main office and branch, are located at 4350 La Jolla Village Drive, Suite 140, San Diego, California 92122, and our telephone number is (858) 764-6597. This facility occupies a total of approximately 92,338 square feet under a lease that expires June 30, 2020.

ITEM 3. LEGAL PROCEEDINGS

We may from time to time become a party to legal proceedings arising in the ordinary course of our business. We are not currently a party to any material legal proceedings, lawsuit or claim.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock began trading on the NASDAQ Global Select Market on March 15, 2005 under the symbol "BOFI." There were 15,640,845 shares of common stock outstanding held by approximately 29,000 shareholders as of August 20, 2015. The following table sets forth, for the calendar quarters indicated, the range of high and low sales prices for the common stock of BofI Holding, Inc. for each quarter during the last two fiscal years. Sales prices represent actual sales of which our management has knowledge. The transfer agent and registrar of our common stock is Computershare.

	BofI Holding, Inc. Common Stock Price Per Share	
Quarter ended:	High	Low
June 30, 2013	$49.98	$35.05
September 30, 2013	$69.46	$45.60
December 31, 2013	$82.27	$57.55
March 31, 2014	$106.55	$75.22
June 30, 2014	$87.03	$71.37
September 30, 2014	$81.55	$69.90
December 31, 2015	$80.31	$65.67
March 31, 2015	$97.27	$76.21
June 30, 2015	$106.47	$88.18

DIVIDENDS

The holders of record of our Series A preferred stock, which was issued in 2003 and 2004, are entitled to receive annual dividends at the rate of six percent (6%) of the stated value per share, which stated value is $10,000 per share. Dividends on the Series A preferred stock accrue and are payable quarterly. Dividends on the preferred stock must be paid prior and in preference to any declaration or payment of any distribution on any outstanding shares of junior stock, including our common stock.

During 2011 we issued an aggregate of 20,182 shares of 6.0% Series B Non-cumulative Perpetual Convertible Preferred Stock (the "Series B preferred stock"). Dividends on the Series B preferred stock were paid quarterly. On August 31, 2012, the Company announced that it would mandatorily convert all outstanding shares of Series B preferred stock into common stock of the Company, and the conversion was completed effective September 11, 2012.

In October 2012 we issued an aggregate of 1,857 shares of 6.0% Series C Non-cumulative Perpetual Convertible Preferred Stock (the "Series C Preferred Stock") for a purchase price of $10,000 per share or an aggregate of $18.6 million before expenses of the offering. Dividends on the Series C preferred stock were paid quarterly. On April 24, 2013, the Company completed the mandatory conversion of the Series C Preferred Stock, which was converted into 608,840 shares of common stock, reflecting an approximate initial conversion price of $30.50 per share.

Other than dividends to be paid on our preferred stock, we currently intend to retain any earnings to finance the growth and development of our business. Our board of directors has never declared or paid any cash dividends on our common stock and does not expect to do so in the foreseeable future. Our ability to pay dividends, should our board of directors elect to do so, depends largely upon the ability of the Bank to declare and pay dividends to us. Future dividends will depend primarily upon our earnings, financial condition and need for funds, as well as government policies and regulations applicable to us and our bank that limit the amount that may be paid as dividends without prior approval.

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ISSUER PURCHASES OF EQUITY SECURITIES

Stock Repurchases. On June 30, 2005, our board of directors approved a common stock buyback program to purchase up to 5% of BofI outstanding common shares. The buyback program became effective on August 23, 2005 with no termination date. Prior to July 1, 2008, a total of 319,500 shares of BofI were purchased under the June 2005 buyback program. On November 21, 2008 the board of directors approved an expansion of our common stock buyback program to purchase up to an additional 500,000 shares of our outstanding common shares if and when the opportunity arises. The increased authorization was effective immediately with no termination date. The program authorizes BofI to buy back common stock at its discretion, subject to market conditions. During the fiscal year ended June 30, 2015, no additional shares of BofI common stock were purchased under this program.

Net Settlement of Restricted Stock Awards. Effective November 2007, the stockholders of the Company approved an amendment to the 2004 Stock Incentive Plan, which among other changes permitted net settlement of restricted stock awards for purposes of payment of a grantee's minimum income tax obligation. During the fiscal year ended June 30, 2015, there were 56,151 restricted stock award shares and 42,287 shares from exercised stock options which were retained by the Company and converted to cash at the average rate of $96.83 per share to fund the grantee's income tax obligations.

The following table sets forth our market repurchases of BofI common stock and the BofI common shares retained in connection with net settlement of restricted stock awards and stock option exercises during the fourth fiscal quarter ending June 30, 2015. Purchases made relate to the stock repurchase plan of 414,991 shares that was originally approved by the Company's Board of Directors on July 5, 2005, plus an additional 500,000 shares approved on November 20, 2008. Stock repurchased under this plan will be held as treasury shares.

Period	Number of Shares Purchased	Average Price Paid Per Shares	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet be Purchased Under the Plans or Programs
Stock Repurchases				
Quarter Ended June 30, 2015				
April 1, 2015 to June 30, 2015	—	—	—	319,291
Stock Repurchases Balance at June 30, 2015	595,700	$5.72	595,700	319,291
Stock Retained in Net Settlement				
Ending Balance at March 31, 2015	398,987			
April 1, 2015 to June 30, 2015	75,673			
Ending Balance at June 30, 2015	474,660			
Total Treasury Shares at June 30, 2015	1,070,360			

SALE OF UNREGISTERED SECURITIES

In October 2012, the Company sold an aggregate of 1,857 shares of its Series C Preferred Stock for a purchase price of $10,000 per share or an aggregate of $18.6 million before expenses of the offering. On April 24, 2013, the Company completed the mandatory conversion of the Company's 1,857 shares of the Series C Preferred Stock into 608,840 shares of common stock, reflecting an approximate initial conversion price of $30.50 per share of our common stock, plus cash in lieu of fractional shares. The conversion of Series C Preferred Stock into common stock was conducted in reliance upon the exemptions from registration under the Securities Act of 1933, as amended, provided by Sections 3(a)(9) and 4(2) thereof.

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EQUITY COMPENSATION PLAN INFORMATION

The following table provides information regarding the aggregate number of securities to be issued under all of our stock option and equity based compensation plans upon exercise of outstanding options, warrants and other rights and their weighted-average exercise prices as of June 30, 2015. There were no securities issued under equity compensation plans not approved by security holders.

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options and units granted	(b) Weighted-average exercise price of outstanding options and units granted	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	304,372	$0.50	920,000
Equity compensation plans not approved by security holders	—	—	N/A
Total	304,372	$0.50	920,000

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ITEM 6. SELECTED FINANCIAL DATA

The following selected consolidated financial information should be read in conjunction with "Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations" and the audited consolidated financial statements and footnotes included elsewhere in this Form 10-K.

	At or for the Fiscal Years Ended June 30,				
(Dollars in thousands, except per share amounts)	2015	2014	2013	2012	2011
Selected Balance Sheet Data:					
Total assets	$5,823,719	$4,402,999	$3,090,771	$2,386,845	$1,940,087
Loans, net of allowance for loan losses	4,928,618	3,532,841	2,256,918	1,720,563	1,325,101
Loans held for sale, at fair value	25,430	20,575	36,665	38,469	20,110
Loans held for sale, at cost	77,891	114,796	40,326	40,712	—
Allowance for loan losses	28,327	18,373	14,182	9,636	7,419
Securities—trading	7,832	8,066	7,111	5,838	5,053
Securities—available-for-sale	163,361	214,778	185,607	164,159	145,671
Securities—held-to-maturity	225,555	247,729	275,691	313,032	370,626
Total deposits	4,451,917	3,041,536	2,091,999	1,615,088	1,340,325
Securities sold under agreements to repurchase	35,000	45,000	110,000	120,000	130,000
Advances from the FHLB	753,000	910,000	590,417	422,000	305,000
Junior subordinated debentures and other borrowings	5,155	5,155	5,155	5,155	7,655
Total stockholders' equity	533,526	370,778	268,262	206,620	147,766
Selected Income Statement Data:					
Interest and dividend income	$244,364	$172,878	$135,654	$115,733	$92,935
Interest expense	45,419	35,781	34,026	36,545	34,422
Net interest income	198,945	137,097	101,628	79,188	58,513
Provision for loan losses	11,200	5,350	7,550	8,063	5,800
Net interest income after provision for loan losses	187,745	131,747	94,078	71,125	52,713
Non-interest income (loss)	30,590	22,455	27,710	16,370	7,993
Non-interest expense	77,478	59,933	53,587	37,958	26,534
Income before income tax expense	140,857	94,269	68,201	49,537	34,172
Income tax expense	58,175	38,313	27,910	20,061	13,593
Net income	$82,682	$55,956	$40,291	$29,476	$20,579
Net income attributable to common stock	$82,373	$55,647	$39,456	$28,205	$20,270
Per Share Data:					
Net income:					
Basic	$5.39	$3.87	$3.00	$2.45	$1.88
Diluted	$5.37	$3.85	$2.89	$2.33	$1.87
Book value per common share	$34.05	$25.31	$19.16	$15.82	$13.67
Tangible book value per common share	$33.92	$25.27	$19.16	$15.82	$13.67
Weighted average number of common shares outstanding:					

Basic	15,294,477	14,367,824	13,156,646	11,489,190	10,763,571
Diluted	15,351,091	14,442,692	13,819,412	12,488,555	10,857,470
Common shares outstanding at end of period	15,518,751	14,451,900	13,733,325	11,512,536	10,436,332
Performance Ratios and Other Data:					
Loan originations for investment	$3,271,911	$2,297,976	$1,054,624	$732,826	$608,901
Loan originations for sale	$1,048,982	$741,494	$1,085,941	$664,622	$216,868
Loan purchases	$2,452	$95	$1,541	$—	$124,784
Return on average assets	1.61 %	1.59 %	1.46 %	1.35 %	1.26 %
Return on average common stockholders' equity	18.34 %	17.89 %	17.57 %	16.95 %	15.17 %
Interest rate spread [1]	3.79 %	3.81 %	3.66 %	3.55 %	3.50 %
Net interest margin [2]	3.92 %	3.95 %	3.79 %	3.70 %	3.67 %
Efficiency ratio [3]	33.75 %	37.56 %	41.43 %	39.72 %	39.90 %

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	At or for the Fiscal Years Ended June 30,									
(Dollars in thousands, except per share amounts)	2015		2014		2013		2012		2011	
Capital Ratios:										
Equity to assets at end of period	9.16	%	8.42	%	8.68	%	8.66	%	7.62	%
Tier 1 leverage (core) capital to adjusted average assets [4]	9.25	%	N/A		N/A		N/A		N/A	
Tier 1 leverage (core) capital to adjusted tangible assets [4]	N/A		8.66	%	8.63	%	8.62	%	7.99	%
Common equity tier 1 capital (to risk-weighted assets) [4]	14.58	%	N/A		N/A		N/A		N/A	
Tier 1 capital (to risk-weighted assets) [4]	14.58	%	14.42	%	14.52	%	13.69	%	12.41	%
Total capital (to risk-weighted assets) [4]	15.38	%	15.11	%	15.28	%	14.32	%	13.01	%
Asset Quality Ratios:										
Net charge-offs to average loans outstanding	0.03	%	0.04	%	0.14	%	0.35	%	0.45	%
Non-performing loans to total loans	0.62	%	0.57	%	0.80	%	0.98	%	0.72	%
Non-performing assets to total assets	0.55	%	0.46	%	0.66	%	0.77	%	0.99	%
Allowance for loan losses to total loans held for investment at end of period	0.57	%	0.51	%	0.62	%	0.55	%	0.56	%
Allowance for loan losses to non-performing loans	91.88	%	90.13	%	77.48	%	56.28	%	77.18	%

[1] Interest rate spread represents the difference between the weighted average yield on interest-earning assets and the weighted average rate paid on interest-bearing liabilities.

[2] Net interest margin represents net interest income as a percentage of average interest-earning assets.

[3] Efficiency ratio represents non-interest expense as a percentage of the aggregate of net interest income and non-interest income.

[4] Reflects regulatory capital ratios of the Bank. Effective January 1, 2015, the new capital requirements change our tier 1 leverage ratio from using end of period
adjusted tangible assets to using adjusted average assets for the quarter and add a common equity tier 1 capital ratio. See Capital Resources and requirements for detailed information.

ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis contains forward-looking statements that are based upon current expectations. Forward-looking statements involve risks and uncertainties. Our actual results and the timing of events could differ materially from those expressed or implied in our forward-looking statements due to various important factors, including those set forth under “Risk Factors” in Item 1A. and elsewhere in this Form 10-K. The following discussion and analysis should be read together with the “Selected Financial Data” and consolidated financial statements, including the related notes included elsewhere in this Form 10-K.

OVERVIEW

BofI Holding, Inc., is the holding company for BofI Federal Bank, a diversified financial services company with over $5.8 billion in assets that provides innovative banking and lending products and services to customers nationwide through scalable low cost distribution channels. BofI Holding, Inc.'s common stock is listed on the NASDAQ Global Select Market and is a component of the Russell 2000® Index and the S&P SmallCap 600® Index.

Net income for the fiscal year ended June 30, 2015 was $82.7 million compared to $56.0 million and $40.3 million for the fiscal years ended June 30, 2014 and 2013, respectively. Net income attributable to common stockholders for the fiscal year ended June 30, 2015 was $82.4 million, or $5.37 per diluted share compared to $55.6 million, or $3.85 per diluted share and $39.5 million, or $2.89 per diluted share for the years ended June 30, 2014 and 2013, respectively. Growth in our interest earning assets, particularly the loan portfolio, was the primary driver of the increase in our net income from fiscal 2013 to fiscal 2015. Net interest income increased $61.8 million for the year ended June 30, 2015 compared to the year ended June 30, 2014.

We define net income without the after-tax impact of realized and unrealized securities gains and losses as adjusted earnings ("adjusted earnings"), a non-GAAP financial measure, which we believe provides useful information about the Bank's operating performance. Adjusted earnings, previously referred to as "core earnings," for the fiscal years ended 2015, 2014, and 2013 were $82.9 million, $56.9 million, and $41.5 million, respectively.

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Below is a reconciliation of net income to adjusted earnings:

	For the Fiscal Years Ended June 30,		
(Dollars in thousands)	2015	2014	2013
Net Income	$82,682	$55,956	$40,291
Realized securities losses (gains)	(587)	(208)	(212)
FHLB one-time dividend	(1,662)	—	—
Unrealized securities losses	2,599	1,848	2,227
Tax provision	(145)	(666)	(825)
Adjusted earnings	$82,887	$56,930	$41,481

Net interest income for the year ended June 30, 2015 was $198.9 million compared to $137.1 million and $101.6 million for the years ended June 30, 2014 and 2013, respectively. The increase was due to growth in our loan portfolio and increasing net interest margin from fiscal years 2013 through 2015.

Provision for loan losses for the year ended June 30, 2015 was $11.2 million, compared to $5.4 million and $7.6 million for the years ended June 30, 2014 and 2013, respectively. The increase of $5.8 million for fiscal year 2015 is the result of additional provisions needed for growth in the loan portfolio.

Mortgage banking income was $15.3 million compared to $10.2 million and $23.0 million for the years ended June 30, 2015, 2014, and 2013. The increase was primarily due to an increased volume of Agency mortgage originations resulting from declines in the 30-year mortgage rates and increased refinance activity. Originations for sale were $1,049.0 million compared to $741.5 million and $1,085.9 million for the years ended June 30, 2015, 2014 and 2013, respectively.

Non-interest expense for the fiscal year ended June 30, 2015 was $77.5 million compared to $59.9 million and $53.6 million for the years ended June 30, 2014 and 2013 respectively. The increase was primarily due to an increase in the Bank's staffing for lending, business banking and regulatory compliance. Our staffing rose to 467 full-time equivalents compared to 366 and 312 at June 30, 2015, 2014, and 2013, respectively.

Total assets were $5,823.7 million at June 30, 2015 compared to $4,403.0 million at June 30, 2014. Assets grew $1,420.7 million or 32.3% during the last fiscal year, primarily due to an increase in the origination of single family and multifamily mortgage loans and C&I loans. These loans were funded primarily with growth in deposits.

Our future performance will depend on many factors: changes in interest rates, competition for deposits and quality loans, the credit performance of our assets, regulatory actions, strategic transactions, and our ability to improve operating efficiencies. See "Item 1A. Risk Factors."

MERGERS AND ACQUISITIONS

From time to time we undertake acquisitions or similar transactions consistent with the Bank's operating and growth strategies. During the fiscal year ended June 30, 2014 and June 30, 2015, there were three transactions, which are discussed below.

Union Federal Deposit Acquisition

In September 2014, the Bank completed the acquisition of approximately $42 million in deposits consisting of individual checking, money market savings, and CD accounts from Union Federal Savings Bank ("Union") and its parent company, The First Marblehead Corporation.

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H&R Block Bank Deposit Acquisition

In April 2014, the Bank entered into a Purchase and Assumption Agreement (the "Agreement") with H&R Block Bank, a federal savings bank ("HRBB"), and its parent company Block Financial LLC. Block Financial LLC is a wholly-owned subsidiary of H&R Block, Inc.

Pursuant to the Agreement, the Bank agreed to purchase certain assets and assume certain liabilities of HRBB. The assumed liabilities at closing are projected to include approximately $450 million in customer deposits of HRBB and balances on prepaid cards, including HRBB's Emerald Cards, gift cards and incentive cards. The amount is subject to change based on such factors as the timing of the closing. Substantially all of the assets transferred to the Bank will consist of cash equal to the face amount of deposits and other liabilities transferred to the Bank at closing. The Bank will also acquire a de-minimis amount of non-cash assets at zero cost. The Bank will not acquire the HRBB charter. Furthermore, the Bank will not acquire any other material assets nor assume other liabilities of HRBB and will not acquire any branches or employees as a part of this transaction.

Subsequent to the closing of the transactions contemplated by the Agreement, the Bank also intends to enter into a Program Management Agreement with Emerald Financial Services, LLC, a subsidiary of H&R Block, Inc., under which the Bank will provide H&R Block-branded financial services products through H&R Block's retail and online channels. These products will include Emerald Prepaid MasterCard®, Refund Transfers, Emerald Advance® lines of credit, deposits, credit card and other products through H&R Block's retail and digital channels.

In August 2015, the Bank announced it received regulatory approval from the OCC to proceed with the definitive purchase and assumption transaction. The transaction is subject to customary closing conditions and is scheduled to close no later than September 30, 2015.

Principal Bank Deposit Acquisition

In September 2013, the Bank announced the completion of the acquisition of approximately $173 million in deposits from Principal Bank, which included $142 million in checking, savings and money market accounts and $31 million in time deposit accounts.

CRITICAL ACCOUNTING POLICIES

The following discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements and the notes thereto, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these consolidated financial statements requires us to make a number of estimates and assumptions that affect the reported amounts and disclosures in the consolidated financial statements. On an ongoing basis, we evaluate our estimates and assumptions based upon historical experience and various factors and circumstances. We believe that our estimates and assumptions are reasonable under the circumstances. However, actual results may differ significantly from these estimates and assumptions that could have a material effect on the carrying value of assets and liabilities at the balance sheet dates and our results of operations for the reporting periods.

Securities. Currently, we classify securities as either trading, available-for-sale or held-to-maturity. Trading securities are those securities for which we have elected fair value accounting. Trading securities are recorded at fair value with changes in fair value recorded in earnings each period. Securities available-for-sale are reported at estimated fair value, with unrealized gains and losses, net of the related tax effects, excluded from operations and reported as a separate component of accumulated other comprehensive income or loss. The fair values of securities traded in active markets are obtained from market quotes. If quoted prices in active markets are not available, we determine the fair values by utilizing industry-standard tools to calculate the net present value of the expected cash flows available to the securities from the underlying mortgage assets. To determine the performance of the underlying mortgage loan pools, we consider where appropriate borrower prepayments, defaults, and loss severities based on a number of macroeconomic factors, including housing price changes, unemployment rates, interest rates and borrower attributes such as credit score and loan documentation at the time of origination. We input for each security our projections of monthly default rates, loss severity rates and voluntary prepayment rates for the underlying mortgages for the remaining life of the security to determine the expected cash flows. The projections of default rates are derived by the Company from the historic default rate observed in the pool of loans collateralizing the security, increased by (or decreased by) the forecasted increase or decrease in the national unemployment rate as well as the forecasted increase or decrease in the national home price appreciation (HPA) index. The projections of loss severity rates are derived by the Company from the historic loss severity rate observed in the pool of loans, increased by (or decreased by) the forecasted decrease or increase in the HPA index. To determine the discount rates used to compute the present value of the expected cash flows for these non-agency RMBS securities, we separate the securities by the borrower characteristics in the underlying pool. For example, non-agency RMBS “Prime” securities generally have borrowers with higher FICO scores and better documentation of income. “Alt-A” securities generally have borrowers with lower FICO and less documentation of income. “Pay-option ARMs” are Alt-A securities with borrowers that tend to pay the least amount of principal (or increase their loan balance through negative amortization). Separate discount rates are calculated for Prime, Alt-A and Pay-option ARM non-agency RMBS securities using market-participant assumptions for risk, capital and return on equity.

Securities that management has the positive intent and ability to hold to maturity are classified as held-to-maturity and recorded at amortized cost. Amortization of purchase premiums and accretion of discounts on securities are recorded as yield adjustments on such securities using the effective interest method. The specific identification method is used for purposes of determining cost in computing realized gains and losses on investment securities sold.

At each reporting date, we monitor our available-for-sale and held-to-maturity securities for other-than-temporary impairment. The Company measures its debt securities in an unrealized loss position at the end of the reporting period for other-than-temporary impairment by comparing the present value of the cash flows currently expected to be collected from the security with its amortized cost basis. If the calculated present value is lower than the amortized cost, the difference is the credit component of an other-than-temporary impairment of its debt securities. The excess of the present value over the fair value of the security (if any) is the noncredit component of the impairment, only if the Company does not intend to sell the security and will not be required to sell the security before recovery of its amortized cost basis. The credit component of the other-than-temporary-impairment is recorded as a loss in earnings and the noncredit component is recorded as a charge to other comprehensive income, net of the related income tax benefit.

For non-agency RMBS we determine the cash flow expected to be collected and calculate the present value for purposes of testing for other-than-temporary impairment, by utilizing the same industry-standard tool and the same cash flows as those calculated for fair values (discussed above). We compute cash flows based upon the underlying mortgage loan pools and our estimates of prepayments, defaults, and loss severities. We input our projections for the underlying mortgages for the remaining life of the security to determine the expected cash flows. The discount rates used to compute the present value of the expected cash flows for purposes of testing for the credit component of the other-than-temporary impairment are different from those used to calculate fair value and are either the implicit rate calculated in each of our securities at acquisition or the last accounting yield (ASC Topic 325-40-35). We calculate the implicit rate at acquisition based on the contractual terms of the security, considering scheduled payments (and minimum payments in the case of pay-option ARMs) without prepayment assumptions. We use this discount rate in the industry-standard model to calculate the present value of the cash flows for purposes of measuring the credit component of an other-than-temporary impairment of our debt securities.

Allowance for Loan Losses. The allowance for loan losses is maintained at a level estimated to provide for probable incurred losses in the loan portfolio. Management determines the adequacy of the allowance based on reviews of individual loans and pools of loans, recent loss experience, current economic conditions, the risk characteristics of the various categories of loans and other pertinent factors. This evaluation is inherently subjective and requires estimates that are susceptible to significant revision as more information becomes available. The allowance is increased by the provision for loan losses, which is reduced by charge-offs and recoveries of loans previously charged-off. Allocations of the allowance may be made for specific loans but the entire allowance is available for any loan that, in management’s judgment, may be uncollectible or impaired.

The allowance for loan loss includes specific and general reserves. Specific reserves are provided for impaired loans. All other impaired loans are written down through charge-offs to their realizable value and no specific or general reserve is provided. A loan is measured for impairment generally two different ways. If the loan is primarily dependent upon the borrowers ability to make payments, then impairment is calculated by comparing the present value of the expected future payments discounted at the effective loan rate to the carrying value of the loan. If the loan is collateral dependent, the net proceeds from the sale of the collateral is compared to the carrying value of the loan. If the calculated amount is less than the carrying value of the loan, the loan has impairment.

A general reserve is included in the allowance for loan loss and is determined by adding the results of a quantitative and a qualitative analysis to all other loans not measured for impairment at the reporting date. The quantitative analysis determines the Bank’s actual annual historic charge-off rates and applies the average historic rates to the outstanding loan balances in each loan class. The qualitative analysis considers one or more of the following factors: changes in lending policies and procedures, changes in economic conditions, changes in the content of the portfolio, changes in lending management, changes in the volume of delinquency rates, changes to the scope of the loan review system, changes in the underlying collateral of the loans, changes in credit concentrations and any changes in the requirements to the credit loss calculations. A loss rate is estimated and applied to those loans affected by the qualitative factors. The following portfolio segments have been identified: single family secured mortgage, home equity secured mortgage, single family warehouse and other, multifamily secured mortgage, commercial real estate mortgage, recreational vehicles and auto secured, factoring, C&I and other.

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USE OF NON-GAAP FINANCIAL MEASURES

In addition to the results presented in accordance with GAAP, this report includes non-GAAP financial measures such as non-GAAP securities adjusted earnings. Non-GAAP securities adjusted earnings exclude realized and unrealized gains and losses associated with our securities portfolios, net of tax. Excluding these gains and losses provides investors with an understanding of the Bank’s core lending and mortgage banking business performance. Non-GAAP financial measures have inherent limitations, are not required to be uniformly applied and are not audited. Readers should be aware of these limitations and should be cautious as to their use of such measures. Although we believe the non-GAAP financial measures disclosed in this report enhance investors’ understanding of our business and performance, these non-GAAP measures should not be consider in isolation, or as a substitute for GAAP basis financial measures.

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AVERAGE BALANCES, NET INTEREST INCOME, YIELDS EARNED AND RATES PAID

The following tables set forth, for the periods indicated, information regarding (i) average balances; (ii) the total amount of interest income from interest-earning assets and the weighted average yields on such assets; (iii) the total amount of interest expense on interest-bearing liabilities and the weighted average rates paid on such liabilities; (iv) net interest income; (v) interest rate spread; and (vi) net interest margin:

	For the Fiscal Years Ended June 30,								
	2015			2014			2013		
(Dollars in thousands)	Average Balance[1]	Interest Income / Expense	Average Yields Earned / Rates Paid	Average Balance[1]	Interest Income / Expense	Average Yields Earned / Rates Paid	Average Balance[1]	Interest Income / Expense	Average Yields Earned / Rates Paid
Assets:									
Loans[2,3]	$4,388,336	$220,486	5.02 %	$2,850,600	$147,664	5.18 %	$2,157,974	$113,503	5.26 %
Federal funds sold	—	—	— %	—	—	— %	17,017	30	0.18 %
Interest-earning deposits in other financial institutions	204,176	511	0.25 %	107,534	275	0.26 %	23,632	47	0.20 %
Mortgage-backed and other investment securities	432,948	18,165	4.20 %	480,940	22,566	4.69 %	462,946	21,588	4.66 %
Stock of the FHLB, at cost	46,819	5,202	11.11 %	32,115	2,373	7.39 %	22,594	486	2.15 %
Total interest-earning assets	5,072,279	244,364	4.82 %	3,471,189	172,878	4.98 %	2,684,163	135,654	5.05 %
Non-interest-earning assets	68,039			58,953			70,896		
Total assets	$5,140,318			$3,530,142			$2,755,059		
Liabilities and Stockholders' Equity:									
Interest-bearing demand and savings	$2,862,295	$20,709	0.72 %	$1,522,884	$10,723	0.70 %	$826,797	$6,399	0.77 %
Time deposits	790,661	14,024	1.77 %	876,621	14,094	1.61 %	1,065,669	16,469	1.55 %
Securities sold under agreements to repurchase	36,562	1,633	4.47 %	85,726	3,840	4.48 %	114,247	5,068	4.44 %
Advances from the FHLB	700,805	8,910	1.27 %	576,307	6,981	1.21 %	436,383	5,939	1.36 %
Other borrowings	5,155	143	2.77 %	5,155	143	2.77 %	5,155	151	2.93 %
Total interest-bearing liabilities	4,395,478	45,419	1.03 %	3,066,693	35,781	1.17 %	2,448,251	34,026	1.39 %
Non-interest-bearing demand deposits	255,321			123,859			45,299		
Other non-interest-bearing liabilities	35,219			23,549			18,681		
Stockholders' equity	454,300			316,041			242,828		

Total liabilities and stockholders' equity	$5,140,318	$3,530,142	$2,755,059
Net interest income	$198,945	$137,097	$101,628
Interest rate spread[4]	3.79 %	3.81 %	3.66 %
Net interest margin[5]	3.92 %	3.95 %	3.79 %

[1] Average balances are obtained from daily data.
[2] Loans include loans held for sale, loan premiums and unearned fees.
[3] Interest income includes reductions for amortization of loan and investment securities premiums and earnings from accretion of discounts and loan fees. Loan fee income is not significant. Also includes $31.4 million as of June 30, 2015, $32.1 million as of June 30, 2014 and $32.8 million as of June 30, 2013 of Community Reinvestment Act loans which are taxed at a reduced rate.
[4] Interest rate spread represents the difference between the weighted average yield on interest-earning assets and the weighted average rate paid on interest-bearing liabilities.
[5] Net interest margin represents net interest income as a percentage of average interest-earning assets.

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RESULTS OF OPERATIONS

Our results of operations depend on our net interest income, which is the difference between interest income on interest-earning assets and interest expense on interest-bearing liabilities. Our net interest income has increased as a result of the growth in our interest earning assets. Our net interest income is reduced by our estimate of loss provisions for our impaired loans. We also earn non-interest income primarily from mortgage banking activities, prepaid card fee income, prepayment fee income from multifamily borrowers who repay their loans before maturity and from gains on sales of other loans and investment securities. Losses on investment securities reduce non-interest income. The largest component of non-interest expense is salary and benefits, which is a function of the number of personnel, which increased from 366 full time employees at June 30, 2014 to 467 full time equivalent employees at June 30, 2015. We are subject to federal and state income taxes, and our effective tax rates were 41.30%, 40.64% and 40.92% for the fiscal years ended June 30, 2015, 2014, and 2013, respectively. Other factors that affect our results of operations include expenses relating to professional services, occupancy, data processing, advertising and other miscellaneous expenses.

COMPARISON OF THE FISCAL YEAR ENDED JUNE 30, 2015 AND JUNE 30, 2014

Net Interest Income. Net interest income totaled $198.9 million for the fiscal year ended June 30, 2015 compared to $137.1 million for the fiscal year ended June 30, 2014. The following table sets forth the effects of changing rates and volumes on our net interest income. Information is provided with respect to (i) effects on interest income and interest expense attributable to changes in volume (changes in volume multiplied by prior rate); (ii) effects on interest income and interest expense attributable to changes in rate (changes in rate multiplied by prior volume); and (iii) changes in rate/volume (change in rate multiplied by change in volume):

	Fiscal Year Ended June 30, 2015 vs 2014 Increase (Decrease) Due to			
(Dollars in thousands)	Volume	Rate	Rate/ Volume	Total Increase (Decrease)
Increase (decrease) in interest income:				
Loans	$79,655	$(4,561)	$(2,272)	$72,822
Interest-earning deposits in other financial institutions	251	(11)	(4)	236
Mortgage-backed and other investment securities	(2,251)	(2,357)	207	(4,401)
Stock of the FHLB, at cost	1,087	1,195	547	2,829
Total increase (decrease) in interest income	$78,742	$(5,734)	$(1,522)	$71,486
Increase (decrease) in interest expense:				
Interest-bearing demand and savings	$9,376	$305	$305	$9,986
Time deposits	(1,384)	1,403	(89)	(70)
Securities sold under agreements to repurchase	(2,203)	(9)	5	(2,207)
Advances from the FHLB	1,506	346	77	1,929
Other borrowings	—	—	—	—
Total increase (decrease) in interest expense	$7,295	$2,045	$298	$9,638

Interest Income. Interest income for the fiscal year ended June 30, 2015 totaled $244.4 million, an increase of $71.5 million, or 41.4%, compared to $172.9 million in interest income for the fiscal year ended June 30, 2014 primarily due to growth of interest-earning assets. Average interest-earning assets for the fiscal year ended June 30, 2015 increased by $1,601.1 million compared to the fiscal year ended June 30, 2014 primarily due to the origination of loans for investment, which increased $973.9 million during the year ended June 30, 2015 compared to 2014. For the fiscal year ended June 30, 2015, the growth in average balances contributed additional interest income of $78.7 million, which was partially offset by a net $5.7 million decrease in interest income due to the decrease in average rate. The average yield earned on our interest-earning assets decreased to 4.82% for the fiscal year ended June 30, 2015, down from 4.98% for the same period in 2014. During fiscal 2015, our new portfolio loans were added at market rates, which were below the average of our portfolio.

Interest Expense. Interest expense totaled $45.4 million for the fiscal year ended June 30, 2015, an increase of $9.6 million, compared to $35.8 million in interest expense during the fiscal year ended June 30, 2014. Average interest-bearing liabilities for the fiscal year ended June 30, 2015 increased $1,328.8 million compared to the same period in 2014, due primarily to increased demand and savings accounts and advances from the FHLB. The average interest-bearing balances of demand and savings increased $1,339.4 million and the average interest-bearing balances of advances from the FHLB increased $124.5 million. The average rate paid on all of our interest-bearing liabilities decreased to 1.03% for the fiscal year ended June 30, 2015 from 1.17% for the

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fiscal year ended June 30, 2014. The maturity of higher-rate term deposits, the reductions in securities sold under agreements to repurchase and the addition of lower rate demand and savings deposits were the primary reasons for the decrease in average rate paid year over year. Additionally, during fiscal 2015, we increased our non-interest paying deposit accounts.

Provision for Loan Losses. Provision for loan losses was $11.2 million for the fiscal year ended June 30, 2015 and $5.4 million for fiscal 2014. The provisions are made to maintain our allowance for loan losses at levels which management believes to be adequate. The assessment of the adequacy of our allowance for loan losses is based upon a number of quantitative and qualitative factors, including levels and trends of past due and nonaccrual loans, loss history and changes in the volume and mix of loans and collateral values.

See “Asset Quality and Allowance for Loan Loss” for discussion of our allowance for loan loss and the related loss provisions.

Non-interest Income. The following table sets forth information regarding our non-interest income:

	For the Fiscal Year Ended June 30,	
(Dollars in thousands)	2015	2014
Realized gain on securities:		
Sale of mortgage-backed securities	$587	$208
Total realized gain on securities	587	208
Unrealized loss on securities:		
Total impairment losses	(6,805)	(2,359)
(Gain) loss recognized in other comprehensive loss	4,440	(443)
Net impairment loss recognized in earnings	(2,365)	(2,802)
Fair value (gain) loss on trading securities	(234)	954
Total unrealized loss on securities	(2,599)	(1,848)
Prepayment penalty fee income	4,695	2,687
Gain on sale – other	5,793	6,658
Mortgage banking income	15,264	10,170
Banking service fees and other income	6,850	4,580
Total non-interest income	$30,590	$22,455

Non-interest income totaled $30.6 million for the fiscal year ended June 30, 2015 compared to non-interest income of $22.5 million for fiscal 2014. The increase was primarily the result of an increase in mortgage banking income of $5.1 million, a $2.3 million increase in banking service fees and a $2.0 million increase in prepayment penalty fee income all partially offset by a decrease of $0.9 million from other gains on sales and an increase of $0.8 million in securities losses. The increase in mortgage banking of $5.1 million income was primarily due to an increased volume of Agency mortgage originations resulting from declines in the 30-year mortgage rates and increased refinance activity. Banking service fees and other income includes deposit and certain C&I loan fees as well as fee income from prepaid card sponsors.

Included in gain on sale – other are sales of structured settlement annuity receivables. We engage in the wholesale and retail purchase of state lottery prize and structured settlement annuity payments. These payments are high credit quality deferred payment receivables having a state lottery commission or investment grade (top two tiers) insurance company payor. The Bank originates contracts for the retail purchase of such payments and classifies these under the heading of Factoring in the loan portfolio. Factoring yields are typically higher than mortgage loan rates. Typically, the gain received upon sale of these payment streams is greater than the gain received from an equivalent amount of mortgage loan sales. Since 2013, pools of structured settlement receivables have been originated for sale depending upon management’s assessment of interest rate risk, liquidity, and offers containing favorable terms and are classified on our balance sheet as loans held for sale.

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Non-interest Expense. The following table sets forth information regarding our non-interest expense for the periods shown:

	For the Fiscal Year Ended June 30,	
(Dollars in thousands)	2015	2014
Salaries and related costs	$43,819	$32,240
Professional services	4,122	5,421
Occupancy and equipment	3,091	2,324
Data processing and internet	6,632	5,373
Advertising and promotional	6,060	3,724
Depreciation and amortization	3,273	2,874
Real estate owned and repossessed vehicles	(120)	(149)
FDIC and regulator fees	3,434	2,343
Other general and administrative	7,167	5,783
Total non-interest expenses	$77,478	$59,933

Non-interest expense totaled $77.5 million for the fiscal year ended June 30, 2015, an increase of $17.5 million compared to fiscal 2014. Salaries and related costs increased $11.6 million, or 35.9%, in fiscal 2015 due to increased staffing levels to support growth in the Bank’s staffing for lending, business banking and regulatory compliance. Our staff increased to 467 from 366 or 27.6% between fiscal 2015 and 2014.

Professional services, which include accounting and legal fees, decreased $1.3 million in fiscal 2015 compared to 2014. The decrease in professional services was primarily due to reduced legal expenses and increased insurance reimbursement.

Advertising and promotion expense increased $2.3 million, primarily due to additional lead generation costs.

Data processing and internet expense increased $1.3 million, primarily due to growth in the number of customer accounts and enhancements to the Bank’s core processing system.

Occupancy and equipment expense increased $0.8 million, in order to support increased production and office space for additional employees.

Other expense categories such as FDIC and regulator fees increased by $1.1 million in fiscal 2015 compared to fiscal 2014, due to increased deposit balances. Other general and administrative costs increased $1.4 million in fiscal 2015 primarily related to costs supporting loan production.

Income Tax Expense. Income tax expense was $58.2 million for the fiscal year ended June 30, 2015 compared to $38.3 million for fiscal 2014. Our effective tax rates were 41.30% and 40.64% for the fiscal year ended June 30, 2015 and 2014, respectively. The changes in the tax rates are the result of changes in state tax allocations and the expiration of a California state enterprise zone tax credit at December 31, 2013.

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COMPARISON OF THE FISCAL YEAR ENDED JUNE 30, 2014 AND JUNE 30, 2013

Net Interest Income. Net interest income totaled $137.1 million for the fiscal year ended June 30, 2014 compared to $101.6 million for the fiscal year ended June 30, 2013. The following table sets forth the effects of changing rates and volumes on our net interest income. Information is provided with respect to (i) effects on interest income and interest expense attributable to changes in volume (changes in volume multiplied by prior rate); (ii) effects on interest income and interest expense attributable to changes in rate (changes in rate multiplied by prior volume); and (iii) changes in rate/volume (change in rate multiplied by change in volume):

	Fiscal Year Ended June 30, 2014 vs 2013 Increase (Decrease) Due to			
(Dollars in thousands)	Volume	Rate	Rate/ Volume	Total Increase (Decrease)
Increase/(decrease) in interest income:				
Loans	$36,432	$(1,726)	$(545)	$34,161
Federal funds sold	(31)	(31)	31	(31)
Interest-earning deposits in other financial institutions	168	14	46	228
Mortgage-backed and other investment securities	839	139	—	978
Stock of the FHLB, at cost	205	1,184	499	1,888
Total increase/(decrease) in interest income	$37,613	$(420)	$31	$37,224
Increase/(decrease) in interest expense:				
Interest-bearing demand and savings	$5,360	$(579)	$(457)	$4,324
Time deposits	(2,930)	639	(84)	(2,375)
Securities sold under agreements to repurchase	(1,266)	46	(8)	(1,228)
Advances from the FHLB	1,903	(655)	(206)	1,042
Other borrowings	—	(8)	—	(8)
Total increase/(decrease) in interest expense	$3,067	$(557)	$(755)	$1,755

Interest Income. Interest income for the fiscal year ended June 30, 2014 totaled $172.9 million, an increase of $37.2 million, or 27.4%, compared to $135.7 million in interest income for the fiscal year ended June 30, 2013 primarily due to growth of interest-earning assets. Average interest-earning assets for the fiscal year ended June 30, 2014 increased by $787.0 million compared to the fiscal year ended June 30, 2013 due to the origination of loans for investment, which increased $1,243.4 million during the year ended June 30, 2014 compared to 2013. For the fiscal year ended June 30, 2014, the growth in average balances contributed additional interest income of $37.6 million, which was offset by the decrease in average rate which resulted in a net $0.4 million decrease in interest income. The average yield earned on our interest-earning assets decreased to 4.98% for the fiscal year ended June 30, 2014, down from 5.05% for the same period in 2013. During fiscal 2014, our new portfolio loans were added at market rates, which were below the average of our portfolio.

Interest Expense. Interest expense totaled $35.8 million for the fiscal year ended June 30, 2014, an increase of $1.8 million, compared to $34.0 million in interest expense during the fiscal year ended June 30, 2013. Average interest-bearing liabilities for the fiscal year ended June 30, 2014 increased $618.4 million compared to the same period in 2013, due to increased demand and savings accounts and advances from the FHLB. The average interest-bearing balances of demand and savings increased $696.1 million and the average interest-bearing balances of advances from the FHLB increased $139.9 million. The average rate paid on all of our interest-bearing liabilities decreased to 1.17% for the fiscal year ended June 30, 2014 from 1.39% for the fiscal year ended June 30, 2013. The maturity of higher-rate term deposits and the addition of lower rate demand and savings deposits was the primary reason for the decrease in average rate paid year over year. During fiscal 2014, we continued to benefit from low U.S. Treasury interest rates, which reduced our interest rates on deposits and borrowings.

Provision for Loan Losses. Provision for loan losses was $5.4 million for the fiscal year ended June 30, 2014 and $7.6 million for fiscal 2013. The provisions are made to maintain our allowance for loan losses at levels which management believes to be adequate. The assessment of the adequacy of our allowance for loan losses is based upon a number of quantitative and qualitative factors, including levels and trends of past due and nonaccrual loans, loss history and changes in the volume and mix of loans and collateral values.

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See "Asset Quality and Allowance for Loan Loss" for discussion of our allowance for loan loss and the related loss provisions.

Non-interest Income. The following table sets forth information regarding our non-interest income:

	For the Fiscal Year Ended June 30,	
(Dollars in thousands)	2014	2013
Realized gain on securities:		
Sale of mortgage-backed securities	$208	$212
Total realized gain on securities	208	212
Unrealized loss on securities:		
Total impairment losses	(2,359)	(8,080)
Loss recognized in other comprehensive loss	(443)	4,579
Net impairment loss recognized in earnings	(2,802)	(3,501)
Fair value gain (loss) on trading securities	954	1,274
Total unrealized loss on securities	(1,848)	(2,227)
Prepayment penalty fee income	2,687	1,742
Gain on sale-other	6,658	1,130
Mortgage banking income	10,170	22,953
Banking service fees and other income	4,580	3,900
Total non-interest income	$22,455	$27,710

Non-interest income totaled $22.5 million for the fiscal year ended June 30, 2014 compared to non-interest income of $27.7 million for fiscal 2013. The decrease was primarily the result of a decline in mortgage banking income of $12.8 million, partially offset by an increase of $5.5 million from other gains on sales, a $0.9 million increase in prepayment penalty fee income, and a $0.7 million increase in banking service fees and other income. The decrease in mortgage banking income was due to a decrease in origination volume of loans held for sale from $1,085.9 million to $741.5 million due primarily to the nationwide decline in Agency mortgage refinancing activity. Banking service fees and other income includes deposit and loans fees as well as fee income from prepaid card sponsors.

Non-interest Expense. The following table sets forth information regarding our non-interest expense:

	For the Fiscal Year Ended June 30,	
(Dollars in thousands)	2014	2013
Salaries and related costs	$32,240	$28,874
Professional services	5,421	3,531
Occupancy and equipment	2,324	2,086
Data processing and internet	5,373	2,773
Advertising and promotional	3,724	4,084
Depreciation and amortization	2,874	1,904
Real estate owned and repossessed vehicles	(149)	505
FDIC and regulator fees	2,343	2,125
Other general and administrative	5,783	7,705
Total non-interest expenses	$59,933	$53,587

Non-interest expense totaled $59.9 million for the fiscal year ended June 30, 2014, an increase of $6.3 million compared to fiscal 2013. Salaries and related costs increased $3.4 million, or 11.7%, in fiscal 2014 due to increased staffing levels to support growth in deposit and lending activities. Our staff increased to 366 from 312 or 17.3% between fiscal 2014 and 2013.

Professional services, which include accounting and legal fees, increased $1.9 million in fiscal 2014 compared to 2013. The increase in professional services was primarily due to legal fees related to loan acquisition and other contracts, contract underwriters, and business expansion costs.

Advertising and promotion expense decreased $0.4 million, primarily due to decreases in lead generation costs for our single family Agency mortgage refinance business.

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Data processing and internet expense increased $2.6 million, primarily due to growth in the number of customer accounts and costs for special enhancements to the Bank's core processing system.
Occupancy and equipment expense increased $0.2 million, in order to support increased account volume and office space for additional employees.
Other expense categories such as FDIC and regulator fees increased by $0.2 million in fiscal 2014 compared to fiscal 2013, due to increased deposit balances. Real estate owned, repossessed RV losses and collection expenses decreased by $0.7 million due to fewer foreclosures and repossessions. Other general and administrative costs decreased $1.9 million in fiscal 2014 as a result of the cost management initiative implemented in the first quarter of fiscal 2014 to improve the efficiency and effectiveness of people, vendors and other costs.
Income Tax Expense. Income tax expense was $38.3 million for the fiscal year ended June 30, 2014 compared to $27.9 million for fiscal 2013. Our effective tax rates were 40.64% and 40.92% for the fiscal year ended June 30, 2014 and 2013, respectively.

COMPARISON OF FINANCIAL CONDITION AT JUNE 30, 2015 AND JUNE 30, 2014

Our total assets increased $1,420.7 million, or 32.3%, to $5,823.7 million, as of June 30, 2015, up from $4,403.0 million at June 30, 2014. The loan portfolio increased a net $1,395.8 million, primarily from portfolio loan originations of $3,271.9 million less principal repayments of $1,847.7 million. Loans held for sale decreased $32.1 million from June 30, 2014 to June 30, 2015. Total liabilities increased by $1,258.0 million or 31.2%, to $5,290.2 million at June 30, 2015, up from $4,032.2 million at June 30, 2014. The increase in total liabilities resulted primarily from growth in demand and savings deposits of $1,408.1 million partially offset by a decrease in FHLB borrowings of $157.0 million.
Stockholders' equity increased by $162.7 million, or 43.9%, to $533.5 million at June 30, 2015, up from $370.8 million at June 30, 2014. The increase was the result of $82.7 million in net income for the fiscal year, sale of common stock of $76.0 million, vesting and issuance of RSUs and exercise of stock options of $3.4 million and $1.0 million unrealized gain in other comprehensive income less $0.3 million in dividends declared on preferred stock.

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ASSET QUALITY AND ALLOWANCE FOR LOAN LOSS

Non-performing loans and foreclosed assets or "non-performing assets" consisted of the following:

	At June 30,				
(Dollars in thousands)	2015	2014	2013	2012	2011
Non-performing assets:					
Non-accrual loans:					
Single family real estate secured:					
Mortgage	$22,842	$12,396	$11,353	$10,099	$6,586
Home equity	9	168	37	102	157
Warehouse and other	—	—	—	—	—
Multifamily real estate secured	5,399	4,302	2,882	5,757	2,744
Commercial real estate secured	2,128	2,985	3,559	425	—
Total non-accrual loans secured by real estate	30,378	19,851	17,831	16,383	9,487
Auto and recreational vehicle secured	453	534	472	739	125
Factoring	—	—	—	—	—
Commercial & Industrial	—	—	—	—	—
Other	—	—	—	—	—
Total non-performing loans	30,831	20,385	18,303	17,122	9,612
Foreclosed real estate	1,225	—	1,865	457	7,678
Repossessed vehicles	15	75	141	700	1,926
Total non-performing assets	$32,071	$20,460	$20,309	$18,279	$19,216
Total non-performing loans as a percentage of total loans	0.62 %	0.57 %	0.80 %	0.98 %	0.72 %
Total non-performing assets as a percentage of total assets	0.55 %	0.46 %	0.66 %	0.77 %	0.99 %

Our non-performing assets increased $11.6 million to $32.1 million at June 30, 2015 compared to $20.5 million at June 30, 2014. The increase in non-performing assets during the fiscal year ended June 30, 2015 was comprised of an increase in non-performing loans of $10.4 million accompanied by an increase in foreclosed real estate of $1.2 million. The increase in non-performing assets during the fiscal year ended June 30, 2014 was comprised of an increase in non-performing loans of $2.1 million partially offset by a decrease in foreclosed real estate of $1.9 million. Approximately 16.08% of our non-performing loans at June 30, 2015 were considered TDRs, compared to 19.60% at June 30, 2014. Borrowers making timely payments after a troubled debt restructuring are considered non-performing for at least six months. Generally, after six months of timely payments, troubled debt restructured loans are reclassified from the non-performing loan category to performing and any previously deferred interest income is recognized. Approximately 74.09% of the Bank's non-performing loans are single family first mortgages already written down in aggregate to 58.10% of the original appraisal value of the underlying properties. Previously, these loans had experienced longer delays completing the foreclosure process due to the servicing practices of one of our seller servicers.

At June 30, 2015, our $22.8 million in single family non-performing loans represents 37 loans in 15 states ranging in amount from $33,000 to $6.3 million. At June 30, 2014, our $12.4 million in single family non-performing loans represents 36 loans in 17 states ranging in amount from $38,000 to $1.4 million. The Bank has already taken impairment charge-offs of $2.2 million on the non-performing single family loans at June 30, 2015. At June 30, 2015, our $5.4 million in multifamily non-performing loans represents seven loans in six states with impairment charge-offs taken in the amount of $0.5 million. At June 30, 2014 the $4.3 million of non-performing multifamily loans represented five loans in four states, with impairment charge-offs taken in the amount of $0.5 million. At June 30, 2015, our $2.1 million in commercial non-performing loans represents three loans in three states with impairment charge-offs taken in the amount of $1.4 million. At June 30, 2014, our $3.0 million in commercial non-performing loans represented three loans in three states with impairment charge-offs taken in the amount of $1.2 million.

The $453,000 in non-performing recreational vehicle (“RV”) and automobile loans represents 39 RVs ranging in amount from $47 to $92,000 at June 30, 2015. The $534,000 in non-performing RV and automobile loans represented 54 RVs ranging in amount from $1,000 to $69,000 at June 30, 2014. Foreclosed real estate of $1.2 million at June 30, 2015 represents one single family home and one multifamily property. There was no foreclosed real estate at June 30, 2014. All foreclosed real estate is measured at the lower of carrying value or fair value less costs to sell. Repossessed vehicles of $15,000 includes four RVs with fair values ranging in amount from $500 to $7,000 at June 30, 2015, compared to $75,000 at June 30, 2014, which includes 14 RVs with fair values ranging in amount from $1,000 to $14,000. Impaired loans are generally adjusted through charge-offs against the allowance for loan losses.

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We have experienced growth in our non-performing single family mortgage loans over the last four years; however, we believe that the write-downs taken as of June 30, 2015 on these non-performing loans and the low average LTVs on the balance of our single family mortgage real estate loans in our portfolio make our future risk of loss better than other banks with significant exposure to real estate loans. If average nationwide residential housing values decline or if nationwide unemployment increases, we are likely to experience growth in the level of our non-performing loans and foreclosed and repossessed vehicles in future periods.

Allowance for Loan Losses. We maintain an allowance for loan losses in an amount that we believe is sufficient to provide adequate protection against probable incurred losses in our loan portfolio. We evaluate quarterly the adequacy of the allowance based upon reviews of individual loans, recent loss experience, current economic conditions, risk characteristics of the various categories of loans and other pertinent factors. The evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available. The allowance is increased by the provision for loan losses, which is charged against current period operating results. The allowance is decreased by the amount of charge-offs of loans deemed uncollectible and increased by recoveries of loans previously charged off.

The allowance for loan losses includes specific and general reserves. Specific reserves are provided for impaired loans considered TDRs. All other impaired loans are written down through charge-offs to their realizable value and no specific or general reserve is provided. A loan is measured for impairment generally two different ways. If the loan is primarily dependent upon the borrower to make payments, then impairment is calculated by comparing the present value of the expected future payments discounted at the effective loan rate to the carrying value of the loan. If the loan is collateral dependent, the net proceeds from the sale of the collateral is compared to the carrying value of the loan. If the calculated amount is less than the carrying value of the loan, the loan has impairment.

A general reserve is included in the allowance for loan losses and is determined by adding the results of a quantitative and a qualitative analysis to all other loans not measured for impairment at the reporting date. The quantitative analysis determines the Bank’s actual annual historic charge-off rates and applies the average historic rates to the outstanding loan balances in each pool, the product of which is the general reserve amount. The qualitative analysis considers one or more of the following factors: changes in lending policies and procedures, changes in economic conditions, changes in the content of the portfolio, changes in lending management, changes in the volume of delinquency rates, changes to the scope of the loan review system, changes in the underlying collateral of the loans, changes in credit concentrations and any changes in the requirements to the credit loss calculations. A loss rate is estimated and applied to those loans affected by the qualitative factors.

The assessment of the adequacy of the Company’s allowance for loan losses is based upon a range of quantitative and qualitative factors, including levels and trends of past due and nonaccrual loans, change in volume and mix of loans, collateral values and charge-off history.

The Company provides general loan loss reserves for its RV and auto loans based upon the borrower credit score at the time of origination and the Company’s loss experience to date. The Company obtains updated credit scores for its auto and recreational vehicle borrowers approximately every six months. The updated credit score will result in a higher or lower general loan loss allowance depending on the change in borrowers’ FICO scores and the resulting shift in loan balances among the five FICO bands from which the Company measures and calculates its reserves. For the general loss reserve, the Company does not use individually updated credit scores or valuations for the real estate collateralizing its real estate loans, but does recalculate the LTV based upon principal payments made during each quarter.

The allowance for loan losses for the RV and auto loan portfolio at June 30, 2015 was determined by classifying each outstanding loan according to the original FICO score and providing loss rates. The Company had $12,687 (dollars in thousands) of RV and auto loan balances subject to general reserves as follows: FICO greater than or equal to 770: $2,882; 715 – 769: $4,408; 700 – 714: $1,150; 660 – 699: $2,323 and less than 660: $1,924.

The Company provides general loan loss reserves for mortgage loans based upon the size and class of the mortgage loan and the loan-to-value (“LTV”) at date of origination. The allowance for each class is determined by dividing the outstanding unpaid balance for each loan by the LTV and applying a loss rate. At June 30, 2015, the LTV groupings for each significant mortgage class were as follows (dollars in thousands):

The Company had $2,957,736 of single family mortgage portfolio loan balances subject to general reserves as follows: LTV less than or equal to 60%: $1,606,203; 61% – 70%: $1,111,742; 71% – 80%: $239,584; and greater than 80%: $207.
The Company had $1,180,132 of multifamily mortgage portfolio loan balances subject to general reserves as follows: LTV less than or equal to 55%: $533,292; 56% – 65%: $367,910; 66% – 75%: $263,766; 76% – 80%: $15,164 and greater than 80%: $0. During the quarter ended March 31, 2011, the Company divided the LTV analysis into two classes, separating the purchased loans from the loans underwritten directly by the Company.

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Based on historical performance, the Company concluded that multifamily loans originated by the Bank require lower estimated loss rates than multifamily loans purchased. In fiscal years 2002 through 2004 the Company originated $137 million of primarily 30-year multifamily mortgage loans using the same basic underwriting criteria and accounting for 20%, 25% and 19% of the total average balance of the loan portfolio for fiscal year 2004, 2003 and 2002, respectively. The Company intentionally slowed its multifamily and single family origination volume in 2005 through 2009 based upon the overall loosening of credit standards by competitors and the economic downturn. Since 2009, the economy has stabilized and competitive underwriting standards have strengthened allowing the Company to resume its originations. Since 2010, our weighted average of multifamily loans is equal to 32.5% of the total loan portfolio. For these reasons, the Company believes that its historical underwriting experience originating multifamily loans allows the Company to use its historical loss rate as a reasonable indicator of risk. The historic loss or quantitative component of the Company's general loan loss allowance is supplemented with a qualitative factor including a volume-based adjustment. At June 30, 2015 and June 30, 2014, all of the qualitative components of the general loan loss allowance for multifamily loans accounted for 74% and 76% of the total multifamily allowance, respectively.

The Bank originates and purchases mortgage loans with terms that may include repayments that are less than the repayments for fully amortizing loans, including interest only loans, option adjustable-rate mortgages, and other loan types that permit payments that may be smaller than interest accruals. The Bank's lending guidelines for interest only loans are adjusted for the increased credit risk associated with these loans by requiring borrowers with such loans to borrow at LTVs that are lower than standard amortizing ARM loans and by calculating debt to income ratios for qualifying borrowers based upon a fully amortizing payment, not the interest only payment. The Company's Credit Committee monitors and performs reviews of interest only loans. Adverse trends reflected in the Company's delinquency statistics, grading and classification of interest only loans would be reported to management and the Board of Directors. As of June 30, 2015, the Company had $700.3 million of interest only loans and $4.0 million of option ARM mortgage loans. Through June 30, 2015, the net amount of deferred interest on these loan types was not material to the financial position or operating results of the Company.

The Company had $59,275 of commercial real estate loan balances subject to general reserves as follows: LTV less than or equal to 50%: $22,111; 51% – 60%: $24,975; 61% – 70%: $12,189; 71% – 80%: $0 and greater than 80%: $0.

The Company's commercial secured portfolio consists of business loans well-collateralized by real estate. The Company's other portfolio consists of receivables factoring for businesses and consumers. The Company allocates its allowance for loan losses for these asset types based on qualitative factors which consider the value of the collateral and the financial position of the issuer of the receivables.

We believe the weighted average LTV percentage at June 30, 2015 of 56.15% for our entire real estate loan portfolio is lower and more conservative than most banks which has resulted, and is expected to continue to result in the future, in lower average mortgage loan charge-offs when compared to the real estate loan portfolios of other comparable banks.

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The following table sets forth the changes in our allowance for loan losses, by portfolio class for the dates indicated:

(Dollars in thousands)	Single Family Real Estate Secured: Mortgage	Home Equity	Warehouse and Other	Multi-family Real Estate Secured	Commercial Real Estate Secured	Auto and RV Secured	Factoring	Commercial & Industrial	Other	Total	Total Allowance as a % of Total Loans
Balance at June 30, 2010	$1,721	$205	$—	$ 1,860	$ 213	$1,859	$29	$—	$6	$5,893	0.75 %
Provision for loan losses	1,688	40	7	1,179	(46)	2,897	3	10	22	5,800	
Charge-offs	(1,132)	(87)	—	(713)	—	(2,315)	—	—	(27)	(4,274)	
Balance at June 30, 2011	2,277	158	7	2,326	167	2,441	32	10	1	7,419	0.56 %
Provision for loan losses	3,775	409	101	1,871	325	1,432	54	92	4	8,063	
Charge-offs	(2,028)	(375)	—	(1,469)	(94)	(1,714)	—	—	(2)	(5,682)	
Transfers to held for sale	(43)	—	—	(170)	—	—	—	—	—	(213)	
Recoveries	49	—	—	—	—	—	—	—	—	49	
Balance at June 30, 2012	4,030	192	108	2,558	398	2,159	86	102	3	9,636	0.55 %
Provision for loan losses	1,469	229	1,142	858	1,958	131	115	1,521	127	7,550	
Charge-offs	(730)	(257)	—	(420)	(1,496)	(867)	—	—	(137)	(3,907)	
Recoveries	43	19	—	190	518	113	—	—	20	903	
Balance at June 30, 2013	4,812	183	1,250	3,186	1,378	1,536	201	1,623	13	14,182	0.62 %
Provision for loan losses	3,214	3	9	708	12	(142)	78	1,425	43	5,350	
Charge-offs	(125)	(98)	—	(359)	(355)	(620)	—	—	(34)	(1,591)	
Recoveries	58	46	—	250	—	38	—	—	40	432	
Balance at June 30, 2014	7,959	134	1,259	3,785	1,035	812	279	3,048	62	18,373	0.51 %
Provision for loan losses	6,305	(1)	620	922	224	288	13	2,834	(5)	11,200	
Charge-offs	(747)	(43)	—	(344)	(156)	(271)	—	—	—	(1,561)	

Recoveries	147	32	—	—	—	124	—	—	12	315		
Balance at June 30, 2015	$13,664	$122	$1,879	$ 4,363	$ 1,103	$953	$292	$ 5,882	$69	$28,327	0.57	%

At June 30, 2015, the entire allowance for loan losses for each portfolio class was calculated as a contingent impairment (ASC 450, Contingencies for Gain and Loss). When specific loan impairment analysis is performed under ASC 310-10, the impairment is either recorded as a charge-off to the loan loss allowance or, if such loan is a TDR, the impairment is recorded as a specific loan loss allowance.

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The following table sets forth our allowance for loan losses by portfolio class:

(Dollars in thousands)	At June 30, 2015 Amount of Allowance	Loan Category as a % of Total Loans		2014 Amount of Allowance	Loan Category as a % of Total Loans		2013 Amount of Allowance	Loan Category as a % of Total Loans		2012 Amount of Allowance	Loan Category as a % of Total Loans		2011 Amount of Allowance	Loan Category as a % of Total Loans	
Single family real estate secured:															
Mortgage	$13,664	59.6	%	$7,959	53.4	%	$4,812	46.5	%	$4,030	46.5	%	$2,277	38.7	%
Home equity	122	0.1	%	134	0.4	%	183	1.0	%	192	1.7	%	158	2.7	%
Warehouse & Other	1,879	7.7	%	1,259	10.3	%	1,250	8.9	%	108	3.5	%	7	0.2	%
Multifamily real estate secured	4,363	23.7	%	3,785	27.2	%	3,186	33.4	%	2,558	39.5	%	2,326	48.4	%
Commercial real estate secured	1,103	1.2	%	1,035	0.7	%	1,378	1.3	%	398	2.0	%	167	2.8	%
Auto & RV secured	953	0.3	%	812	0.4	%	1,536	0.8	%	2,159	1.4	%	2,441	2.4	%
Factoring	292	2.4	%	279	3.3	%	201	4.7	%	86	2.8	%	32	2.0	%
Commercial & Industrial	5,882	5.0	%	3,048	4.2	%	1,623	3.4	%	102	2.6	%	10	2.8	%
Other	69	—	%	62	0.1	%	13	—	%	3	—	%	1	—	%
Total	$28,327	100.0	%	$18,373	100.0	%	$14,182	100.0	%	$9,636	100.0	%	$7,419	100.0	%

The Company’s allowance for loan losses increased $10.0 million or 54.2% from June 30, 2014 to June 30, 2015. As a percentage of the outstanding loan balance the Company’s loan loss allowance was 0.57% at June 30, 2015 and 0.51% at June 30, 2014. Provisions for loan loss were $11.2 million for fiscal 2015 and $5.4 million for fiscal 2014. The Company’s loan loss provisions for fiscal 2015 compared to 2014 increased by $5.9 million as a result of loan portfolio growth partially offset by lower charge-offs.

Charge-offs, net of recoveries, for fiscal 2015 increased $0.5 million, increased $0.2 million and decreased $0.2 million for single family mortgage, multifamily and commercial real estate secured loans, respectively. Charge-offs, net of recoveries, for the Auto & RV portfolio decreased $0.4 million for fiscal 2015. For fiscal 2014 charge-offs, net of recoveries, decreased $0.6 million, $0.1 million and $0.6 million for single family mortgage, multifamily and commercial real estate secured loans, respectively. Charge-offs, net of recoveries, attributed to the Auto & RV portfolio decreased $0.2 million, for fiscal 2014.

Between June 30, 2014 and 2015, the Bank’s total allowance for loan losses as a proportion of the loan portfolio increased 6 basis points primarily due to the increase in the single family and C&I loan portfolios.

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LIQUIDITY AND CAPITAL RESOURCES

Liquidity. Our sources of liquidity include deposits, borrowings, payments and maturities of outstanding loans, sales of loans, maturities or gains on sales of investment securities and other short-term investments. While scheduled loan payments and maturing investment securities and short-term investments are relatively predictable sources of funds, deposit flows and loan prepayments are greatly influenced by general interest rates, economic conditions and competition. We generally invest excess funds in overnight deposits and other short-term interest-earning assets. We use cash generated through retail deposits, our largest funding source, to offset the cash utilized in lending and investing activities. Our short-term interest-earning investment securities are also used to provide liquidity for lending and other operational requirements. As an additional source of funds, we have two credit agreements. BofI Federal Bank can borrow up to 40% of its total assets from the FHLB. Borrowings are collateralized by pledging certain mortgage loans and investment securities to the FHLB. Based on loans and securities pledged at June 30, 2015, we had a total borrowing availability of approximately $1,584.7 million which reflects a fully collateralized position. The Bank can also borrow from the discount window at the FRB. FRB borrowings are collateralized by consumer loans and mortgage-backed securities pledged to the FRB. Based on loans and securities pledged at June 30, 2015, we had a total borrowing capacity of approximately $8.7 million, all of which was available for use. At June 30, 2015, we also had $35.0 million in unsecured fed funds purchase lines with two major banks under which there were no borrowings outstanding.

In the past, we have used long-term borrowings to fund our loans and to minimize our interest rate risk. Our future borrowings will depend on the growth of our lending operations and our exposure to interest rate risk. We expect to continue to use deposits and advances from the FHLB as the primary sources of funding our future asset growth.

On December 16, 2004, we completed a transaction in which we formed a trust and issued $5.0 million of trust-preferred securities. The net proceeds from the offering were used to purchase approximately $5.2 million of junior subordinated debentures of our company with a stated maturity date of February 23, 2035. The debentures are the sole assets of the trust. The trust preferred securities are mandatorily redeemable upon maturity, or upon earlier redemption as provided in the indenture. We have the right to redeem the debentures in whole (but not in part) on or after specific dates, at a redemption price specified in the indenture plus any accrued but unpaid interest through the redemption date. Interest accrues at the rate of three-month LIBOR plus 2.4%, which was 2.68% at June 30, 2015, with interest paid quarterly starting in February 2005. We entered into this transaction to provide additional regulatory capital to our bank to support its growth.

In March 2012, we filed a shelf registration with the SEC which had a 3-year term and allowed us to raise capital up to $250.0 million through the sale of debt securities, common stock, preferred stock and warrants. In February 2015, we filed a post-effective amendment to deregister all securities unsold under the March 2012 shelf registration and subsequently, we filed a new shelf registration with the SEC which allows us to raise capital up to $350.0 million through the sale of debt securities, common stock, preferred stock and warrants.

AT-THE-MARKET OFFERINGS

On July 22, 2014, we entered into an At-the-Market (“ATM”) Equity Distribution Agreement with Keefe, Bruyette & Woods, Inc., Raymond James & Associates, Inc. and Sterne, Agee & Leach, Inc. (the “Distribution Agents”) pursuant to which we may issue and sell through the Distribution Agents from time to time shares of our common stock in at the market offerings with an aggregate offering price of up to $50.0 million (the “ATM Offering”). The sales of shares of our common stock under the Equity Distribution Agreement are to be made in “at the market” offerings as defined in Rule 415 of the Securities Act of 1933, as amended, including sales made directly on the NASDAQ Global Select Market (the principal existing trading market for our common stock), or sales made through a market maker or any other trading market for our common stock, or (with our prior consent) in privately negotiated transactions at negotiated prices. The aggregate compensation payable to the Distribution Agents under the Distribution Agreement will not exceed 2.5% of the gross sales price of the shares sold under the agreement. We have also agreed to reimburse the Distribution Agents for up to $75,000 in their expenses and have provided the Distribution Agents with customary indemnification rights.

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In August 2014, we commenced sales of common stock through the ATM Offering. The details of the shares of common stock sold through the ATM Offering through January 31, 2015 are as follows (dollars in thousands, except per share data):

Distribution Agent	Month	Per Share Price and Number of Shares Sold		Net Proceeds	Compensation to Distribution Agent
Keefe, Bruyette & Woods, Inc.	August 2014	$78.72	44,417	$3,409	$87
Keefe, Bruyette & Woods, Inc.	September 2014	$74.58	236,800	$17,218	$441
Keefe, Bruyette & Woods, Inc.	October 2014	$70.22	50,000	$3,423	$88
Keefe, Bruyette & Woods, Inc.	November 2014	$78.30	130,000	$9,924	$254
Keefe, Bruyette & Woods, Inc.	December 2014	$78.76	66,800	$5,130	$132
Keefe, Bruyette & Woods, Inc.	January 2015	$81.38	121,570	$9,646	$248

As of January 31, 2015, the total gross sales were $50.0 million and this offering was concluded.

On February 23, 2015, we entered into an ATM Equity Distribution Agreement with FBR Capital Markets & Co., Sterne, Agee & Leach, Inc. and Raymond James & Associates, Inc. (the “2015 Distribution Agents”) pursuant to which we may issue and sell through the 2015 Distribution Agents from time to time shares of our common stock in at the market offerings with an aggregate offering price of up to $50.0 million (the “2015 ATM Offering”). The sales of shares of our common stock under the Equity Distribution Agreement are to be made in “at the market” offerings as defined in Rule 415 of the Securities Act of 1933, as amended, including sales made directly on the NASDAQ Global Select Market (the principal existing trading market for our common stock), or sales made through a market maker or any other trading market for our common stock, or (with our prior consent) in privately negotiated transactions at negotiated prices. The aggregate compensation payable to the 2015 Distribution Agents under the Distribution Agreement will not exceed 2.5% of the gross sales price of the shares sold under the agreement. We have also agreed to reimburse the 2015 Distribution Agents for up to $75,000 in their expenses through September 30, 2015 and up to $25,000 thereafter and have provided the 2015 Distribution Agents with customary indemnification rights. In February 2015, we commenced sales of common stock through the 2015 ATM Offering. The details of the shares of common stock sold through the 2015 ATM Offering through March 31, 2015 are as follows (dollars in thousands, except per share data):

Distribution Agent	Month	Weighted Average Per Share Price	Number of Shares Sold	Net Proceeds	Compensation to Distribution Agent
FBR Capital Markets & Co.	February 2015	$90.71	10,000	$884	$23
FBR Capital Markets & Co.	March 2015	$93.50	129,632	$11,818	$303
FBR Capital Markets & Co.	April 2015	$92.41	66,272	$5,971	$153
FBR Capital Markets & Co.	May 2015	$94.77	30,700	$2,843	$73
FBR Capital Markets & Co.	June 2015	$98.77	62,898	$6,060	$155

As of June 30, 2015, the total gross sales were $28.3 million and the remaining amount of common stock we have available under the 2015 ATM offering to sell was $21.7 million.

Off-Balance Sheet Commitments. At June 30, 2015, we had commitments to originate loans with an aggregate outstanding principal balance of $212.0 million, commitments to sell loans with an aggregate outstanding principal balance at the time of sale of $88.6 million, and no commitments to purchase loans, investment securities or any other unused lines of credit.

Contractual Obligations. The Company enters into contractual obligations in the normal course of business primarily as a source of funds for its asset growth and to meet required capital needs. Our time deposits due within one year of June 30, 2015 totaled $374.0 million. If these maturing deposits do not remain with us, we may be required to seek other sources of funds, including other time deposits and borrowings. Depending on market conditions, we may be required to pay higher rates on deposits and borrowings than we currently pay on time deposits maturing within one year. We believe, however, based on past experience, that a significant portion of our time deposits will remain with us. We believe we have the ability to attract and retain deposits by adjusting interest rates offered.

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The following table presents our contractual obligations for long-term debt, time deposits, and operating leases by payment date:

	At June 30, 2015				
	Payments Due by Period				
(Dollars in thousands)	Total	Less than One Year	One to Three Years	Three to Five Years	More than Five Years
Long-term debt obligations[1, 2]	$839,727	$333,975	$177,660	$199,292	$128,800
Time deposits[2]	861,803	386,620	129,395	92,260	253,528
Operating lease obligations[3]	17,433	2,673	6,946	7,814	—
Total	$1,718,963	$723,268	$314,001	$299,366	$382,328

[1] Long-term debt includes advances from the FHLB and borrowings under repurchase agreements.
[2] Amounts include principal and interest due to recipient.
[3] Payments are for the lease of real property.

Capital Requirements. Our Company and Bank are subject to regulatory capital adequacy requirements promulgated by federal bank regulatory agencies. Failure by our Company or Bank to meet minimum capital requirements could result in certain mandatory and discretionary actions by regulators that could have a material adverse effect on our consolidated financial statements. The Federal Reserve establishes capital requirements for our Company and the OCC has similar requirements for our Bank. The following tables present regulatory capital information for our Company and Bank. Information presented for June 30, 2015, reflects the Basel III capital requirements that became effective January 1, 2015 for both our Company and Bank. Prior to January 1, 2015, our Bank was subject to capital requirements under Basel I and there were no capital requirements for our Company. Under these capital requirements and the regulatory framework for prompt corrective action, our Company and Bank must meet specific capital guidelines that involve quantitative measures of our Company and Bank's assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. Our Company's and Bank's capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weightings and other factors.

Quantitative measures established by regulation require our Company and Bank to maintain certain minimum capital amounts and ratios. Federal bank regulators require our Company and Bank maintain minimum ratios of core capital to adjusted average assets of 4.0%, common equity tier 1 capital to risk-weighted assets of 4.5%, tier 1 capital to risk-weighted assets of 6.0% and total risk-based capital to risk-weighted assets of 8.0%. At June 30, 2015, our Company and Bank met all the capital adequacy requirements to which they were subject. At June 30, 2015, our Company and Bank were "well capitalized" under the regulatory framework for prompt corrective action. To be "well capitalized," our Company and Bank must maintain minimum leverage, common equity tier 1 risk-based, tier 1 risk-based and total risk-based capital ratios of at least 5.0%, 6.5%, 8.0% and 10.0%, respectively. Management believes that no conditions or events have occurred since June 30, 2015 that would materially adversely change the Company's and Bank's capital classifications. From time to time, we may need to raise additional capital to support our Company's and Bank's further growth and to maintain their "well capitalized" status.

The Bank's capital amounts, capital ratios and requirements were as follows:

	At June 30, 2015								
	Actual			For Capital Adequacy Purposes			To be "well-capitalized" Under Prompt Corrective Action Regulations		
(Dollars in thousands)	Amount	Ratio		Amount	Ratio		Amount	Ratio	
Tier 1 leverage (core) capital to adjusted average assets:	$522,891	9.25	%	$226,168	4.00	%	$282,710	5.00	%
Common equity tier 1 capital (to risk-weighted assets):	$522,891	14.58	%	$161,332	4.50	%	$233,035	6.50	%

Tier 1 capital (to risk-weighted assets):	$522,891	14.58	%	$215,109	6.00	%	$286,812	8.00	%
Total capital (to risk-weighted assets):	$551,218	15.38	%	$286,812	8.00	%	$358,515	10.00	%

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The Company's capital amounts, capital ratios and capital requirements were as follows:

	At June 30, 2015					
	Actual		For Capital Adequacy Purposes		To be "well-capitalized" Under Prompt Corrective Action Regulations	
(Dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
Tier 1 leverage (core) capital to adjusted average assets:	$542,924	9.59 %	$226,404	4.00 %	$283,005	5.00 %
Common equity tier 1 capital (to risk-weighted assets):	$537,861	14.98 %	$161,614	4.50 %	$233,443	6.50 %
Tier 1 capital (to risk-weighted assets):	$542,924	15.12 %	$215,486	6.00 %	$287,315	8.00 %
Total capital (to risk-weighted assets):	$571,251	15.91 %	$287,315	8.00 %	$359,143	10.00 %

Beginning January 1, 2016, Basel III implements a requirement for all banking organizations to maintain a capital conservation buffer above the minimum risk-based capital requirements in order to avoid certain limitations on capital distributions, stock repurchases and discretionary bonus payments to executive officers. The capital conservation buffer will be exclusively composed of common equity tier 1 capital, and it applies to each of the three risk-based capital ratios but not the leverage ratio. On January 1, 2016, the Company and Bank will be expected to comply with the capital conservation buffer requirement, which will increase the three risk-based capital ratios by 0.625% each year through 2019, at which point, the common equity tier 1 risk based, tier 1 risk-based and total risk-based capital ratios will be 7.0%, 8.5% and 10.5%, respectively. If the capital conservation buffer were in effect at June 30, 2015, the Company and Bank would exceed the requirement.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is defined as the sensitivity of income and capital to changes in interest rates, foreign currency exchange rates, commodity prices and other relevant market rates or prices. The primary market risk to which we are exposed is interest rate risk. Changes in interest rates can have a variety of effects on our business. In particular, changes in interest rates affect our net interest income, net interest margin, net income, the value of our securities portfolio, the volume of loans originated, and the amount of gain or loss on the sale of our loans.

We are exposed to different types of interest rate risk. These risks include lag, repricing, basis, prepayment and lifetime cap risk, each of which is described in further detail below:

Lag/Repricing Risk. Lag risk results from the inherent timing difference between the repricing of our adjustable rate assets and our liabilities. Repricing risk is caused by the mismatch of repricing methods between interest-earning assets and interest-bearing liabilities. Lag/repricing risk can produce short-term volatility in our net interest income during periods of interest rate movements even though the effect of this lag generally balances out over time. One example of lag risk is the repricing of assets indexed to the monthly treasury average ("MTA"). The MTA index is based on a moving average of rates outstanding during the previous 12 months. A sharp movement in interest rates in a month will not be fully reflected in the index for 12 months resulting in a lag in the repricing of our loans and securities based on this index. We expect more of our interest-earning liabilities will mature or reprice within one year than will our interest-bearing assets, resulting in a one year negative interest rate sensitivity gap (the difference between our interest rate sensitive assets maturing or repricing within one year and our interest rate sensitive liabilities maturing or repricing within one year, expressed as a percentage of total interest-earning assets). In a rising interest rate environment, an institution with a positive gap would generally be expected, absent the effects of other factors, to experience a greater increase in its yield on assets relative to its cost on liabilities, and thus an increase in its net interest income.

Basis Risk. Basis risk occurs when assets and liabilities have similar repricing timing but repricing is based on different market interest rate indices. Our adjustable rate loans that reprice are directly tied to indices based upon U.S.

Treasury rates, LIBOR, Eleventh District Cost of Funds and the Prime rate. Our deposit rates are not directly tied to these same indices. Therefore, if deposit interest rates rise faster than the adjustable rate loan indices and there are no other changes in our asset/liability mix, our net interest income will likely decline due to basis risk.

Prepayment Risk. Prepayment risk results from the right of customers to pay their loans prior to maturity. Generally, loan prepayments increase in falling interest rate environments and decrease in rising interest rate environments. In addition, prepayment risk results from the right of customers to withdraw their time deposits before maturity. Generally, early withdrawals of time deposits increase during rising interest rate environments and decrease in falling interest rate environments. When estimating the future performance of our assets and liabilities, we make assumptions as to when and how much of our loans and deposits will be prepaid. If the assumptions prove to be incorrect, the asset or liability may perform differently than expected. In the last three fiscal years, the Bank has experienced high rates of loan prepayments due to historically low interest rates and a low LTV loan portfolio.

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Lifetime Cap Risk. Our adjustable rate loans have lifetime interest rate caps. In periods of rising interest rates, it is possible for the fully indexed interest rate (index rate plus the margin) to exceed the lifetime interest rate cap. This feature prevents the loan from repricing to a level that exceeds the cap’s specified interest rate, thus adversely affecting net interest income in periods of relatively high interest rates. On a weighted average basis, our adjustable rate loans at June 30, 2015 had lifetime rate caps that were 503 basis points greater than their current stated note rates. If market rates rise by more than the interest rate cap, we will not be able to increase these loan rates above the interest rate cap.

The principal objective of our asset/liability management is to manage the sensitivity of Market Value of Equity (“MVE”) to changing interest rates. Asset/liability management is governed by policies reviewed and approved annually by our board of directors. Our board of directors has delegated the responsibility to oversee the administration of these policies to the asset/liability committee (“ALCO”). The interest rate risk strategy currently deployed by ALCO is to primarily use “natural” balance sheet hedging. ALCO makes precise adjustments to the overall MVE sensitivity by recommending investment and borrowing strategies. The management team then executes the recommended strategy by increasing or decreasing the duration of the investments and borrowings, resulting in the appropriate level of market risk the board wants to maintain. Other examples of ALCO policies designed to reduce our interest rate risk include limiting the premiums paid to purchase mortgage loans or mortgage-backed securities. This policy addresses mortgage prepayment risk by capping the yield loss from an unexpected high level of mortgage loan prepayments. At least once a quarter, ALCO members report to our board of directors the status of our interest rate risk profile.

We measure interest rate sensitivity as the difference between amounts of interest-earning assets and interest-bearing liabilities that mature within a given period of time. The difference, or the interest rate sensitivity gap, provides an indication of the extent to which an institution’s interest rate spread will be affected by changes in interest rates. A gap is considered positive when the amount of interest rate sensitive assets exceeds the amount of interest rate sensitive liabilities and negative when the amount of interest rate sensitive liabilities exceeds the amount of interest rate sensitive assets.

In a rising interest rate environment, an institution with a positive gap would be in a better position than an institution with a negative gap to invest in higher yielding assets or to have its asset yields adjusted upward, which would result in the yield on its assets to increase at a faster pace than the cost of its interest-bearing liabilities.

During a period of falling interest rates, however, an institution with a positive gap would tend to have its assets mature at a faster rate than one with a negative gap, which would tend to reduce the growth in its net interest income.

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The following table sets forth the interest rate sensitivity of our assets and liabilities:

	Term to Repricing, Repayment, or Maturity at June 30, 2015				
(Dollars in thousands)	Six Months or Less	Over Six Months Through One Year	Over One Year through Five Years	Over Five Years	Total
Interest-earning assets:					
Cash and cash equivalents	$222,874	$—	$—	$—	$222,874
Mortgage-backed and other investment securities[1]	299,456	8,589	50,273	38,430	396,748
Stock of the FHLB, at cost	66,270		—	—	66,270
Loans, net of allowance for loan loss[2]	1,055,041	529,560	3,245,984	98,033	4,928,618
Loans held for sale	103,321	—	—	—	103,321
Total interest-earning assets	1,746,962	538,149	3,296,257	136,463	5,717,831
Non-interest-earning assets	—	—	—	—	105,888
Total assets	$1,746,962	$538,149	$3,296,257	$136,463	$5,823,719
Interest-bearing liabilities:					
Interest-bearing deposits[3]	$568,958	$2,785,151	$456,335	$332,134	$4,142,578
Securities sold under agreements to repurchase[4]	—	—	35,000	—	35,000
Advances from the FHLB	298,000	25,000	315,000	115,000	753,000
Other borrowings	5,155		—	—	5,155
Total interest-bearing liabilities	872,113	2,810,151	806,335	447,134	4,935,733
Other non-interest-bearing liabilities	—	—	—	—	354,460
Stockholders' equity	—	—	—	—	533,526
Total liabilities and equity	$872,113	$2,810,151	$806,335	$447,134	$5,823,719
Net interest rate sensitivity gap	$874,849	$(2,272,002)	$2,489,922	$(310,671)	$782,098
Cumulative gap	$874,849	$(1,397,153)	$1,092,769	$782,098	$782,098
Net interest rate sensitivity gap—as a % of interest-earning assets	15.30%	(39.74)%	43.55%	(5.43)%	13.68%
Cumulative gap—as a % of cumulative interest-earning assets	15.30%	(24.44)%	19.11%	13.68%	13.68%

[1] Comprised of U.S. government securities and mortgage-backed securities which are classified as held-to-maturity and available-for-sale. The table reflects contractual repricing dates.
[2] The table reflects either contractual repricing dates, or maturities.
[3] The table assumes that the principal balances for demand deposit and savings accounts will reprice in the first year.
[4] Securities sold under agreements to repurchase reflect contractual maturities. Under terms of the agreements, repayment and repricing of repurchase may be accelerated if market rates rise.

Although "gap" analysis is a useful measurement device available to management in determining the existence of interest rate exposure, its static focus as of a particular date makes it necessary to utilize other techniques in measuring exposure to changes in interest rates. For example, gap analysis is limited in its ability to predict trends in future earnings and makes no assumptions about changes in prepayment tendencies, deposit or loan maturity preferences or repricing time lags that may occur in response to a change in the interest rate environment.

Our net interest margin for the fiscal year ended June 30, 2015 decreased to 3.92% compared to 3.95% for the fiscal year ended June 30, 2014. During the fiscal year ended June 30, 2015, interest income earned on loans and on mortgage backed securities was influenced by the amortization of premiums and discounts on purchases, and interest expense paid on deposits and new borrowings were influenced by a Fed Funds rate that was maintained at a reduced level.

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The following table indicates the sensitivity of net interest income movements to parallel instantaneous shocks in interest rates for the 1-12 months and 13-24 months' time periods. For purposes of modeling net interest income sensitivity the Bank assumes no growth in the balance sheet other than for retained earnings:

(Dollars in thousands)	As of June 30, 2015 First 12 Months Net Interest Income	Percentage Change from Base	Next 12 Months Net Interest Income	Percentage Change from Base
Up 200 basis points	$219,435	1.36 %	$204,513	(3.80)%
Base	$216,493	— %	$212,590	— %
Down 200 basis points	$208,348	(3.76)%	$198,386	(6.68)%

We attempt to measure the effect market interest rate changes will have on the net present value of assets and liabilities, which is defined as MVE. We analyze the MVE sensitivity to an immediate parallel and sustained shift in interest rates derived from the current treasury and LIBOR yield curves. For rising interest rate scenarios, the base market interest rate forecast was increased by 100, 200 and 300 basis points. For the falling interest rate scenarios, we used a 100 basis points decrease due to limitations inherent in the current rate environment.

The following table indicates the sensitivity of MVE to the interest rate movement as described above:

(Dollars in thousands)	As of June 30, 2015 Market Value of Equity	Percentage Change from Base	MVE as a Percentage of Assets
Up 300 basis points	$479,329	(27.80)%	8.82 %
Up 200 basis points	$554,173	(16.53)%	9.91 %
Up 100 basis points	$619,412	(6.70)%	10.78 %
Base	$663,895	— %	11.27 %
Down 100 basis points	$675,484	1.75 %	11.23 %

The computation of the prospective effects of hypothetical interest rate changes is based on numerous assumptions, including relative levels of interest rates, asset prepayments, runoffs in deposits and changes in repricing levels of deposits to general market rates, and should not be relied upon as indicative of actual results. Furthermore, these computations do not take into account any actions that we may undertake in response to future changes in interest rates.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Quantitative and Qualitative Disclosures About Market Risk."

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA

The following financial statements are filed as a part of this report beginning on page F – 1:

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures. Our management, under supervision and with the participation of the Chief Executive Officer and the Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures, as defined under Exchange Act Rule 13a-15(e). Based upon this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of June 30, 2015, the disclosure controls and procedures were effective to ensure that information required to be disclosed in the Company's Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the Securities Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Management's Report On Internal Control Over Financial Reporting. Management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(1) promulgated under the Securities Exchange Act of 1934 as a process designed by, or under the supervision of; our principal executive and principal financial officers and effected by the 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 U.S. generally accepted accounting principles and includes those policies and procedures that:

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions of our assets;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. 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.

Management assessed the effectiveness of our internal control over financial reporting as of June 30, 2015. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control – Integrated Framework (2013 version). Based on this assessment, management has determined that our internal control over financial reporting as of June 30, 2015 is effective.

BDO USA, LLP has audited the effectiveness of the company's internal control over financial reporting as of June 30, 2015, as stated in their report dated August 26, 2015.

Changes in Internal Control Over Financial Reporting. There have been no changes in our internal control over financial reporting that occurred during the quarter ending June 30, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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Report of Independent Registered Public Accounting Firm
Board of Directors and Stockholders
BofI Holding, Inc.
San Diego, CA

We have audited BofI Holding, Inc.'s internal control over financial reporting as of June 30, 2015, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). BofI Holding, Inc.'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 Item 9A, Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company'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, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included 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 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 its inherent limitations, internal control over financial reporting 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.

In our opinion, BofI Holding, Inc. maintained, in all material respects, effective internal control over financial reporting as of June 30, 2015, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of BofI Holding, Inc. as of June 30, 2015 and 2014, and the related consolidated statements of income and comprehensive income, stockholders' equity, and cash flows for the years then ended and our report dated expressed an unqualified opinion thereon.

/s/ BDO USA, LLP
San Diego, California

August 26, 2015

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ITEM 9B. OTHER INFORMATION

None.

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PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information called for by this item with respect to directors and executive officers is incorporated herein by reference to the information contained in the section captioned “Election of Directors” and “Executive Compensation” in our definitive Proxy Statement for the 2015 Annual Meeting of Stockholders, which Proxy Statement will be filed with the Securities and Exchange Commission within 120 days after June 30, 2015 (the “Proxy Statement”).

The information with respect to our audit committee and our audit committee financial expert is incorporated herein by reference to the information contained in the section captioned “Committees of the Board of Directors” in the Proxy Statement. The information with respect to our Code of Ethics is incorporated herein by reference to the information contained in the section captioned “Corporate Governance—Code of Business Conduct” in the Proxy Statement.

ITEM 11. EXECUTIVE COMPENSATION

The information called for by this item is incorporated herein by reference to the information contained in the section captioned “Executive Compensation” in the Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information called for by this item is incorporated herein by reference to the information contained in the sections captioned “Principal Holders of Common Stock” and “Security Ownership of Directors and Executive Officers” in the Proxy Statement.

Information regarding securities authorized for issuance under equity compensation plans is disclosed above in Item 5, which information is incorporated herein by this reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information called for by this item is incorporated herein by reference to the information contained in the sections captioned “Related Transactions And Other Matters” and “Corporate Governance—Board of Directors Composition and Independence” in the Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information called for by this item is incorporated herein by reference to the information contained in the section captioned “Independent Public Accountants” in the Proxy Statement.

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PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a)(1). Financial Statements: See Part II, Item 8—Financial Statements and Supplementary data.

(a)(2). Financial Statement Schedules: All financial statement schedules have been omitted as they are either not required, not applicable, or the information is otherwise included.

(a)(3). Exhibits:

Exhibit Number	Description	Incorporated By Reference to
3.1	Certificate of Incorporation of the Company, filed with the Delaware Secretary of State on July 6, 1999	Exhibit 3.1 to the Registration Statement on Form S-1/A (File No. 333-121329) filed on January 26, 2005.
3.1.1	Certificate of Amendment of Certificate of Incorporation of the Company, filed with the Delaware Secretary of State on August 19, 1999	Exhibit 3.5 to the Registration Statement on Form S-1/A (File No. 333-121329) filed on January 26, 2005.
3.1.2	Certificate of Amendment of Certificate of Incorporation of the Company, filed with the Delaware Secretary of State on February 25, 2003	Exhibit 3.6 to the Registration Statement on Form S-1/A (File No. 333-121329) filed on January 26, 2005.
3.1.3	Certificate of Amendment of Certificate of Incorporation of the Company, filed with the Delaware Secretary of State on January 25, 2005	Exhibit 3.2 to the Registration Statement on Form S-1/A (File No. 333-121329) filed on January 26, 2005.
3.1.4	Certificate Eliminating Reference to a Series of Shares from the Certificate of Incorporation of the Company	Exhibit 3.3 to the Current Report on Form 8-K filed on September 7, 2011.
3.1.5	Certificate of Amendment of Certificate of Incorporation of the Company, filed with the Delaware Secretary of State on October 25, 2013	Exhibit 3.1 to the Current Report on Form 8-K filed on October 28, 2013.
3.2	By-laws	Exhibit 3.2 to the Registration Statement on Form S-1 (File No. 333-121329) filed on December 16, 2004 and amended January 26, 2005; February 24, 2005 and March 11, 2005.
4.1	Certificate of Designation-Series A – 6% Cumulative Nonparticipating Perpetual Preferred Stock, Convertible through January 1, 2009	Exhibit 3.3 to the Registration Statement on Form S-1/A (File No. 333-121329) filed on January 26, 2005.
4.2	Certificate of Designations-6.0% Series B Non-Cumulative Perpetual Convertible Preferred Stock.	Exhibit 3.1 to the Current Report on Form 8-K filed on September 2, 2011.
4.3	Certificate of Amendment to Certificate of Designations-6.0% Series B Non-Cumulative Perpetual Convertible Preferred Stock.	Exhibit 3.2 to the Current Report on Form 8-K filed on September 7, 2011.
4.4	Certificate of Amendment to Certificate of Designations-6.0% Series B Non-Cumulative Perpetual Convertible	Exhibit 3.2 to the Current Report on Form 8-K filed on November 8, 2011.

	Preferred Stock.	
4.5	Certificate of Designations-6.0% Series C Non-Cumulative Perpetual Convertible Preferred Stock.	Exhibit 3.1 to the Current Report on Form 8-K filed on October 17, 2012.
10.1	Form of Indemnification Agreement between the Company and each of its executive officers and directors	Exhibit 10.1 to the Registration Statement on Form S-1/A (File No. 333-121329) filed on February 24, 2005.
10.2	Amended and Restated 1999 Stock Option Plan, as amended	Exhibit 10.2 to the Registration Statement on Form S-1 (File No. 333-121329) filed on December 16, 2004.
10.3*	2004 Stock Incentive Plan, as amended November 20, 2007	Exhibit 10.3 to the Registration Statement on Form S-1 (File No. 333-121329) filed on December 16, 2004.
10.4*	2004 Employee Stock Purchase Plan, including forms of agreements thereunder	Exhibit 10.4 to the Registration Statement on Form S-1 (File No. 333-121329) filed on December 16, 2004.
10.5*	First Amended Employment Agreement, dated April 22, 2010, between Bank of Internet USA and Andrew J. Micheletti.	Exhibit 99.1 to the Current Report on Form 8-K filed on April 28, 2010.
10.6	Amended and Restated Declaration of Trust of BofI Trust I dated December 16, 2004	Exhibit 10.10 to the Registration Statement on Form S-1/A (File No. 333-121329) filed on January 26, 2005.
10.7*	Amended and Restated Employment Agreement, dated May 26, 2011, between the Company and subsidiaries, and Gregory Garrabrants	Exhibit 99.1 to the Current Report on Form 8-K filed on May 27, 2011.

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Exhibit Number	Description	Incorporated By Reference to
10.8	Lease Agreement dated December 5, 2011 between La Jolla Village, LLC and the Company	Exhibit 99.1 to the Current Report on Form 8-K filed on December 9, 2011.
10.9	BofI Holding, Inc. 2014 Stock Incentive Plan	Appendix A to the Definitive Proxy Statement on Schedule 14A, filed on September 8, 2014.
10.10	Equity Distribution Agreement dated July 21, 2014, between the Company and the Distribution Agents named therein	Exhibit 1.1 to the Current Report on Form 8-K filed on July 22, 2014.
10.11	Equity Distribution Agreement dated February 23, 2015, between the Company and the Distribution Agents named therein	Exhibit 1.1 to the Current Report on Form 8-K filed on February 24, 2015.
10.12*	Description of Amendment to Employment Letter between Eshel Bar-Adon and BofI Federal Bank	Exhibit 10.2 to the Quarterly Report on Form 10-Q filed on May 6, 2014.
10.13*	Description of Amendment to Employment Letter between Adriaan van Zyl and BofI Federal Bank	Exhibit 10.3 to the Quarterly Report on Form 10-Q filed on May 6, 2014.
10.14*	Description of Amendment to Employment Letter between Brian Swanson and BofI Federal Bank	Exhibit 10.4 to the Quarterly Report on Form 10-Q filed on May 6, 2014.
10.14.1*	Description of Amendment to Employment Letter between Brian Swanson and BofI Federal Bank	Exhibits 99.1 and 99.2 to the Current Report on Form 8-K filed on January 15, 2015.
10.15	Purchase and Assumption Agreement, dated April 10, 2014, by and among BofI Federal Bank, H&R Block Bank, and Block Financial LLC	Exhibits 10.1 (Purchase and Assumption Agreement), 10.2 (Form of Program Management Agreement), 10.3 (Form of Receivables Participation Agreement) and 10.4 (Form of Guaranty Agreement) to Form 8-K filed by H&R Block, Inc. on April 10, 2014. ***
10.15.1	Letter Agreement among H&R Block Bank, Block Financial LLC, and BofI Federal Bank, effective October 23, 2014	Exhibit 10.1 (Letter Agreement among H&R Block Bank, Block Financial LLC, and BofI Federal Bank, effective October 23, 2014) to Form 8-K filed by H&R Block, Inc. on October 23, 2014.
10.15.2	Letter Agreement among H&R Block Bank, Block Financial LLC, and BofI Federal Bank, effective February 12, 2015	Exhibit 10.1 (Letter Agreement among H&R Block Bank, Block Financial LLC, and BofI Federal Bank, effective February 12, 2015) to Form 8-K filed by H&R Block, Inc. on February 13, 2015.
10.15.3	Amended and Restated Purchase and Assumption Agreement, dated August 5, 2015, by and among BofI Federal Bank, H&R Block Bank, and Block Financial LLC	Exhibits 10.1 (Amended and Restated Purchase and Assumption Agreement), 10.2 (Revised Form of Program Management Agreement) to Form 8-K filed by H&R Block, Inc. on August 5, 2015. ***
10.16	Description of Amendment to Employment Letter between Thomas Constantine and BofI Federal Bank	Filed herewith.

21.1	Subsidiaries of the Company consist of Bank of Internet USA (federal charter) and BofI Trust I (Delaware charter)	Exhibit 21.1 to the Registration Statement on Form S-1 (File No. 333-121329) filed on December 16, 2004 and amended January 26, 2005; February 24, 2005 and March 11, 2005.
23.1	Consent of BDO USA, LLP, Independent Registered Public Accounting Firm	Filed herewith.
24.1	Power of Attorney, incorporated by reference to the signature page to this report.	Signature page to this report.
31.1	Chief Executive Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith.
31.2	Chief Financial Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith.
32.1	Chief Executive Officer Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed herewith.
32.2	Chief Financial Officer Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed herewith.
**101.INS	XBRL Instance Document	Filed herewith.
**101.SCH	XBRL Taxonomy Extension Schema Document	Filed herewith.
**101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	Filed herewith.
**101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	Filed herewith.
**101.LAB	XBRL Taxonomy Extension Label Linkbase Document	Filed herewith.
**101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	Filed herewith.

*Indicates management contract or compensatory plan, contract or arrangement.

**XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.

*** The schedules to Exhibit 10.15 and 10.15.3 have been omitted pursuant to Item 601(b)(2) of Regulation S-K. The Company agrees to furnish supplementally to the Securities and Exchange Commission upon request copies of any omitted schedule. A list of the omitted schedules and exhibits is set forth in Exhibit 10.15 on the final page of the exhibit, and is incorporated herein by reference.

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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 caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

		BOFI HOLDING, INC.	
Date:	August 26, 2015	By:	/s/ Gregory Garrabrants Gregory Garrabrants President and Chief Executive Officer

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POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Gregory Garrabrants and Andrew J. Micheletti, jointly and severally, his or her attorneys-in-fact, each with the power of substitution, for him or her in any and all capacities, to sign any amendments to this Report on Form 10-K, and file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact, or his substitute or substitutes, may do or cause to be done by virtue hereof.

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 as of August 26, 2015 in the capacities indicated:

Signature	Title
/s/ Gregory Garrabrants Gregory Garrabrants	Chief Executive Officer (Principal Executive Officer), Director
/s/ Andrew J. Micheletti Andrew J. Micheletti	Chief Financial Officer (Principal Financial Officer)
/s/ Derrick K. Walsh Derrick K. Walsh	Chief Accounting Officer (Principal Accounting Officer)
/s/ Theodore C. Allrich Theodore C. Allrich	Chairman
/s/ Nicholas A. Mosich Nicholas A. Mosich	Vice Chairman
/s/ James S. Argalas James S. Argalas	Director
/s/ Gary Burke Gary Burke	Director
/s/ James Court James Court	Director
/s/ Paul Grinberg Paul Grinberg	Director
/s/ Edward J. Ratinoff Edward J. Ratinoff	Director
/s/ Uzair Dada Uzair Dada	Director

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BOFI HOLDING, INC.
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
BofI Holding, Inc.
San Diego, CA

We have audited the accompanying consolidated balance sheets of BofI Holding, Inc. as of June 30, 2015 and 2014 and the related consolidated statements of income and comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended June 30, 2015. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements and schedules. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of BofI Holding, Inc. at June 30, 2015 and 2014, and the results of its operations and its cash flows for each of the three years in the period ended June 30, 2015, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), BofI Holding, Inc.'s internal control over financial reporting as of June 30, 2015, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated August 26, 2015 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP
San Diego, California

August 26, 2015

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BOFI HOLDING, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

	At June 30,	
(Dollars in thousands, except par and stated value)	2015	2014
ASSETS		
Cash and due from banks	$222,774	$155,484
Federal funds sold	100	100
Total cash and cash equivalents	222,874	155,584
Securities:		
Trading	7,832	8,066
Available for sale	163,361	214,778
Held to maturity—fair value of $228,323 at June 2015 and $243,966 at June 2014	225,555	247,729
Stock of the Federal Home Loan Bank, at cost	66,270	42,770
Loans held for sale, carried at fair value	25,430	20,575
Loans held for sale, carried at lower of cost or fair value	77,891	114,796
Loans—net of allowance for loan losses of $28,327 as of June 2015 and $18,373 as of June 2014	4,928,618	3,532,841
Accrued interest receivable	20,268	13,863
Furniture, equipment and software—net	8,551	6,707
Deferred income tax	32,955	25,245
Cash surrender value of life insurance	5,806	5,625
Mortgage servicing rights, carried at fair value	2,098	562
Other real estate owned and repossessed vehicles	1,240	75
Other assets	34,970	13,783
TOTAL ASSETS	$5,823,719	$4,402,999
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Non-interest bearing	$309,339	$186,786
Interest bearing	4,142,578	2,854,750
Total deposits	4,451,917	3,041,536
Securities sold under agreements to repurchase	35,000	45,000
Advances from the Federal Home Loan Bank	753,000	910,000
Subordinated debentures	5,155	5,155
Accrued interest payable	1,266	1,350
Accounts payable and accrued liabilities and other liabilities	43,855	29,180
Total liabilities	5,290,193	4,032,221
COMMITMENTS AND CONTINGENCIES (Note 14)		
STOCKHOLDERS' EQUITY:		
Preferred stock—$0.01 par value; 1,000,000 shares authorized;		
Series A— $10,000 stated value and liquidation preference per share; 515 shares issued and outstanding as of June 2015 and June 2014	5,063	5,063
Common stock—$0.01 par value; 50,000,000 shares authorized, 16,589,111 shares issued and 15,518,751 shares outstanding as of June 2015, 15,423,822 shares issued and 14,451,900 shares outstanding as of June 2014	166	154
Additional paid-in capital	296,507	207,579
Accumulated other comprehensive income (loss) — net of tax	(9,399)	(10,366)
Retained earnings	265,833	183,460
	(24,644)	(15,112)

Treasury stock, at cost; 1,070,360 shares as of June 2015 and 971,922 shares as of June 2014		
Total stockholders’ equity	533,526	370,778
TOTAL LIABILITIES AND STOCKHOLDERS’ EQUITY	$5,823,719	$4,402,999

See accompanying notes to the consolidated financial statements.

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BOFI HOLDING, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME

	Year Ended June 30,		
(Dollars in thousands, except earnings per share)	2015	2014	2013
INTEREST AND DIVIDEND INCOME:			
Loans, including fees	$220,486	$147,664	$113,503
Investments	23,878	25,214	22,151
Total interest and dividend income	244,364	172,878	135,654
INTEREST EXPENSE:			
Deposits	34,733	24,817	22,868
Advances from the Federal Home Loan Bank	8,910	6,981	5,939
Other borrowings	1,776	3,983	5,219
Total interest expense	45,419	35,781	34,026
Net interest income	198,945	137,097	101,628
Provision for loan losses	11,200	5,350	7,550
Net interest income, after provision for loan losses	187,745	131,747	94,078
NON-INTEREST INCOME:			
Realized gain (loss) on sale of mortgage-backed securities	587	208	212
Other-than-temporary loss on securities:			
Total impairment (losses)	(6,805)	(2,359)	(8,080)
(Gain) loss recognized in other comprehensive loss	4,440	(443)	4,579
Net impairment loss recognized in earnings	(2,365)	(2,802)	(3,501)
Fair value gain (loss) on trading securities	(234)	954	1,274
Total unrealized loss on securities	(2,599)	(1,848)	(2,227)
Prepayment penalty fee income	4,695	2,687	1,742
Gain on sale – other	5,793	6,658	1,130
Mortgage banking income	15,264	10,170	22,953
Banking service fees and other income	6,850	4,580	3,900
Total non-interest income	30,590	22,455	27,710
NON-INTEREST EXPENSE:			
Salaries and related costs	43,819	32,240	28,874
Professional services	4,122	5,421	3,531
Occupancy and equipment	3,091	2,324	2,086
Data processing and internet	6,632	5,373	2,773
Advertising and promotional	6,060	3,724	4,084
Depreciation and amortization	3,273	2,874	1,904
Real estate owned and repossessed vehicles	(120)	(149)	505
FDIC and regulatory fees	3,434	2,343	2,125
Other general and administrative	7,167	5,783	7,705
Total non-interest expense	77,478	59,933	53,587
INCOME BEFORE INCOME TAXES	140,857	94,269	68,201
INCOME TAXES	58,175	38,313	27,910
NET INCOME	$82,682	$55,956	$40,291
NET INCOME ATTRIBUTABLE TO COMMON STOCK	$82,373	$55,647	$39,456
COMPREHENSIVE INCOME	$83,649	$56,390	$34,926
Basic earnings per share	$5.39	$3.87	$3.00
Diluted earnings per share	$5.37	$3.85	$2.89

See accompanying notes to the consolidated financial statements.

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BOFI HOLDING, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended June 30,		
(Dollars in thousands)	2015	2014	2013
NET INCOME	$82,682	$55,956	$40,291
Net unrealized gain (loss) from available-for-sale securities, net of tax expense (benefit) of $(132), $(36) and $1,865 for the years ended June 30, 2015, 2014 and 2013, respectively.	180	54	(2,796)
Other-than-temporary impairment on securities recognized in other comprehensive income, net of tax expense (benefit) of $(832), $(253) and $1,713 for the years ended June 30, 2015, 2014 and 2013, respectively.	1,139	380	(2,569)
Reclassification of net (gain) loss from available-for-sale securities included in income, net of tax expense (benefit) of $235, $0 and $0 for the years ended June 30, 2015, 2014 and 2013, respectively.	(352)	—	—
Other comprehensive income (loss)	967	434	(5,365)
Comprehensive income	$83,649	$56,390	$34,926

See accompanying notes to the consolidated financial statements.

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BOFI HOLDING, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(Dollars in thousands)	Convertible Preferred Stock		Common Stock				Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss), Net of Income Tax	Treasury Stock	T
			Number of Shares								
	Shares	Amount	Issued	Treasury	Outstanding	Amount					
Balance as of June 30, 2012	20,647	$24,502	12,321,578	(809,042)	11,512,536	$123	$105,683	$88,357	$(5,435)	$(6,610)	$
Net income	—	—	—	—	—	—	—	40,291	—	—	4
Other comprehensive income (loss)	—	—	—	—	—	—	—	—	(5,365)	—	(
Cash dividends on preferred stock	—	—	—	—	—	—	—	(835)	—	—	(
Issuance of convertible preferred stock	1,857	18,544	—	—	—	—	—	—	—	—	1
Issuance of common stock	—	—	200,000	—	200,000	2	6,763	—	—	—	6
Convert preferred stock to common stock	(21,989)	(37,983)	1,855,411		1,855,411	18	37,965	—	—	—	-
Stock-based compensation expense	—	—	—	—	—	—	3,297	—	—	—	3
Restricted stock grants	—	—	234,105	(95,862)	138,243	3	2,173	—	—	(3,647)	(
Stock option exercises and tax benefits of equity compensation	—	—	27,135	—	27,135	—	416	—	—	—	4
Balance as of June 30, 2013	515	$5,063	14,638,229	(904,904)	13,733,325	$146	$156,297	$127,813	$(10,800)	$(10,257)	$
Net income	—	—	—	—	—	—	—	55,956	—	—	5
Other comprehensive income (loss)	—	—	—	—	—	—	—	—	434	—	4
Cash dividends on preferred stock	—	—	—	—	—	—	—	(309)	—	—	(
Issuance of common stock	—	—	560,301	—	560,301	7	41,576	—	—	—	4
	—	—	—	—	—	—	4,358	—	—	—	4

Stock-based compensation expense											
Restricted stock grants	—	—	169,760	(67,018)	102,742	1	3,470	—	—	(4,855)	(
Stock option exercises and tax benefits of equity compensation	—	—	55,532	—	55,532	—	1,878	—	—	—	1
Balance as of June 30, 2014	515	$5,063	15,423,822	(971,922)	14,451,900	$154	$207,579	$183,460	$(10,366)	$(15,112)	$
Net income	—	—	—	—	—	—	—	82,682	—	—	8
Other comprehensive income (loss)	—	—	—	—	—	—	—	—	967	—	9
Cash dividends on preferred stock	—	—	—	—	—	—	—	(309)	—	—	(
Issuance of common stock	—	—	949,089	—	949,089	9	75,976	—	—	—	7
Stock-based compensation expense	—	—	—	—	—	—	6,648	—	—	—	6
Restricted stock grants	—	—	129,850	(56,151)	73,699	2	2,428	—	—	(5,310)	(
Stock option exercises and tax benefits of equity compensation	—	—	86,350	(42,287)	44,063	1	3,876	—	—	(4,222)	(
Balance as of June 30, 2015	515	$5,063	16,589,111	(1,070,360)	15,518,751	$166	$296,507	$265,833	$(9,399)	$(24,644)	$

See accompanying notes to the consolidated financial statements.

BOFI HOLDING, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended June 30,		
(Dollars in thousands)	2015	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$82,682	$55,956	$40,291
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Accretion of discounts on securities	(5,517)	(8,340)	(7,687)
Net accretion of discounts on loans	(27)	(2,647)	(3,443)
Stock-based compensation expense	6,648	4,358	3,297
Tax benefit from exercise of common stock options and vesting of restricted stock grants	(5,526)	(4,856)	(2,332)
Valuation of financial instruments carried at fair value	234	(955)	(1,273)
Net gain on sale of investment securities	(587)	—	(212)
Impairment charge on securities	2,365	2,802	3,501
Provision for loan losses	11,200	5,350	7,550
Deferred income taxes	(8,818)	(2,040)	(4,618)
Origination of loans held for sale	(1,048,982)	(741,494)	(1,085,941)
Unrealized (gain) loss on loans held for sale	119	179	284
Gain on sales of loans held for sale	(21,057)	(17,007)	(24,367)
Proceeds from sale of loans held for sale	1,114,097	727,265	1,081,954
Change in fair value of mortgage servicing rights	265	(45)	—
(Gain) loss on sale of other real estate and foreclosed assets	(283)	(350)	(372)
Depreciation and amortization of furniture, equipment and software	3,273	2,874	1,904
Net changes in assets and liabilities which provide (use) cash:			
Accrued interest receivable	(6,405)	(4,100)	(1,891)
Other assets	(17,948)	(1,224)	3,466
Accrued interest payable	(84)	(324)	(128)
Accounts payable and accrued liabilities	10,453	5,917	5,767
Net cash provided by (used) in operating activities	116,102	21,319	15,750
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of investment securities	(10,464)	(83,033)	(79,533)
Proceeds from sales of available-for-sale mortgage-backed securities	9,539	—	2,775
Proceeds from repayment of securities	80,546	88,086	88,106
Purchase of stock of the Federal Home Loan Bank	(60,870)	(34,221)	(14,868)
Proceeds from redemption of stock of Federal Home Loan Bank	37,370	19,201	7,798
Origination of loans held for investment	(3,242,828)	(2,297,976)	(953,012)
Origination of mortgage warehouse loans, net	(29,083)	—	(101,612)
Proceeds from sales of other real estate owned and repossessed assets	1,518	2,724	3,151
Purchases of loans, net of discounts and premiums	(2,452)	(95)	(1,541)
Principal repayments on loans	1,847,665	990,305	541,076
Purchases of furniture, equipment and software	(5,117)	(3,163)	(3,914)
Net cash used in investing activities	(1,374,176)	(1,318,172)	(511,574)

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BOFI HOLDING, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended June 30,		
(Dollars in thousands)	2015	2014	2013
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net increase in deposits	$1,410,381	$949,537	$476,911
Proceeds from the Federal Home Loan Bank advances	734,000	950,000	327,417
Repayment of the Federal Home Loan Bank advances	(891,000)	(630,417)	(159,000)
Repayments of other borrowings and securities sold under agreements to repurchase	(10,000)	(65,000)	(10,000)
Proceeds from exercise of common stock options	781	500	260
Proceeds from issuance of common stock	75,985	41,576	6,765
Proceeds from issuance of preferred stock	—	—	18,544
Tax benefit from exercise of common stock options and vesting of restricted stock grants	5,526	4,856	2,332
Cash dividends paid on preferred stock	(309)	(309)	(1,137)
Net cash provided by financing activities	1,325,364	1,250,743	662,092
NET CHANGE IN CASH AND CASH EQUIVALENTS	67,290	(46,110)	166,268
CASH AND CASH EQUIVALENTS—Beginning of year	155,584	201,694	35,426
CASH AND CASH EQUIVALENTS—End of year	$222,874	$155,584	$201,694
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Interest paid on deposits and borrowed funds	$45,503	$36,104	$34,154
Income taxes paid	$68,481	$37,339	$35,830
Transfers to other real estate and repossessed vehicles	$2,484	$1,206	$4,466
Transfers from loans held for investment to loans held for sale	$30,000	$39,799	$4,654
Transfers from loans held for sale to loans held for investment	$7,237	$1,471	$40,779
Transfer from preferred stock to common stock	$—	$—	$18
Transfer from preferred stock to additional paid-in capital	$—	$—	$37,965

See accompanying notes to the consolidated financial statements.

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BOFI HOLDING, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2015, 2014 AND 2013
(Dollars in thousands, except per share and stated value amounts)

1. ORGANIZATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Consolidation. The consolidated financial statements include the accounts of BofI Holding, Inc. and its wholly owned subsidiary, BofI Federal Bank (collectively, the “Company”). All significant intercompany balances have been eliminated in consolidation. Certain reclassifications were made to previously reported amounts in the unaudited condensed consolidated financial statements and notes thereto to make them consistent with the current period presentation.

BofI Holding, Inc. was incorporated in the State of Delaware on July 6, 1999 for the purpose of organizing and launching an Internet-based savings bank. BofI Federal Bank (the “Bank”), which opened for business over the Internet on July 4, 2000, is subject to regulation and examination by the Office of the Comptroller of the Currency (“OCC”), its primary regulator. The Federal Deposit Insurance Corporation (“FDIC”) insures the Bank’s deposit accounts up to the maximum allowable amount.

Use of Estimates. In preparing consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and reported amounts of revenues and expenses during the reporting period. Actual results may 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 assessment for other-than-temporary impairment on investment securities and the fair value of certain financial instruments.

Business. The Bank provides consumer and business banking products through the branchless distribution channels and affinity partners. The Bank’s deposit products are demand accounts, savings accounts and time deposits marketed to consumers and businesses located in all 50 states. The Bank’s primary lending products are residential single family and multifamily mortgage loans. The Bank’s business is primarily concentrated in the state of California and is subject to the general economic conditions of that state.

Cash and cash equivalents. The Bank’s cash, due from banks, money market mutual funds and federal funds sold, all of which have original maturities within 90 days, consist of cash and cash equivalents. Net cash flows are reported for customer deposit transactions.

Restrictions on Cash. Federal Reserve Board regulations require depository institutions to maintain certain minimum reserve balances. Included in cash were balances required by the Federal Reserve Bank of San Francisco of $6,880 and $8,350 at June 30, 2015 and 2014, respectively.

Interest Rate Risk. The Bank’s assets and liabilities are generally monetary in nature and interest rate changes have an effect on the Bank’s performance. The Bank decreases the effect of interest rate changes on its performance by striving to match maturities and interest sensitivity between loans and deposits. A significant change in interest rates could have a material effect on the Bank’s results of operations.

Concentration of Credit Risk. The Bank’s loan portfolio was collateralized by various forms of real estate with approximately 66.4% of the mortgage portfolio located in California at June 30, 2015. The Bank’s loan portfolio contains concentrations of credit in multifamily, single family, commercial, and home equity loans. The Bank believes its underwriting standards combined with its low LTV requirements substantially mitigate the risk of loss which may result from these concentrations.

Securities. Debt securities are classified as held-to-maturity and carried at amortized cost when management has both the positive intent and ability to hold them to maturity. Debt securities are classified as available-for-sale when they might be sold before maturity. Trading securities refer to certain types of assets that banks hold for resale at a profit or when the Company elects to account for certain securities at fair value. Increases or decreases in the fair value of trading securities are recognized in earnings as they occur. Securities available-for-sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income, net of tax.

Gains and losses on securities sales are based on a comparison of sales proceeds and the amortized cost of the security sold using the specific identification method. Purchases and sales are recognized on the trade date. Interest income includes amortization of purchase premiums or discounts. Premiums and discounts on securities are amortized or accreted using the level-yield method without anticipating prepayments, except for mortgage-backed securities where prepayments are anticipated. The Company’s portfolios of held-to-maturity and available-for-sale securities are reviewed quarterly for other-than-temporary impairment. In performing this review, management considers (1) the length of time and extent that fair value has been less than amortized cost, (2) the financial condition and near term prospects of the issuer, (3) the impact of changes in market interest rates on the market value of the security and (4) how to record an impairment by assessing whether the Company intends to sell it or is more likely than not that it will be required to sell a security in an unrealized loss position before the Company recovers the security’s amortized cost. If either of these criteria for (4) is met, the entire difference between amortized cost and fair value is recognized in earnings. Alternatively, if the criteria for (4) is not met, the amount of impairment recognized in earnings is limited to the amount related to credit losses, while impairment related to other factors is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis.

Loans. Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of unearned interest, deferred purchase premiums and discounts, deferred loan origination fees and costs, and an allowance for loan losses. Interest income is accrued on the unpaid principal balance. Premiums and discounts on loans purchased as well as loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using the level-yield method.

Recognition of interest income on all portfolio segments is generally discontinued at the time the loan is 90 days delinquent unless the loan is well secured and in process of collection. Past due status is based on the contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not received for loans placed on nonaccrual, is reversed against interest income. Interest received on such loans is accounted for on the cash-basis or cost recovery method, until qualifying for return to accrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Loans Held for Sale. U.S. government agency (“agency”) loans originated and intended for sale in the secondary market are carried at fair value. Net unrealized gains and losses are recognized through the income statement. The Bank sells its mortgage loans with either servicing released or servicing retained depending upon market pricing. Gains and losses on loan sales are recorded as mortgage banking income, based on the difference between sales proceeds and carrying value. Non-agency loans held for sale as of June 30, 2015 were carried at the lower of cost or fair value.

Loans that were originated with the intent and ability to hold for the foreseeable future (loans held in portfolio) but which have been subsequently designated as being held for sale for risk management or liquidity needs are carried at the lower of cost or fair value calculated using pools of loans with similar characteristics.

There may be times when loans have been classified as held for sale and for some reason cannot be sold. Loans transferred to a long-term investment classification from held-for-sale are transferred at the lower of cost or market value on the transfer date. Any difference between the carrying amount of the loan and its outstanding principal balance is recognized as an adjustment to yield by the interest method. A loan cannot be classified as a long-term investment unless the Bank has both the ability and the intent to hold the loan for the foreseeable future or until maturity.

Allowance for Loan Losses. The allowance for loan losses is maintained at a level estimated to provide for probable incurred losses in the loan portfolio. Management determines the adequacy of the allowance based on reviews of individual loans and pools of loans, recent loss experience, current economic conditions, the risk characteristics of the various categories of loans and other pertinent factors. This evaluation is inherently subjective and requires estimates that are susceptible to significant revision as more information becomes available. The allowance is increased by the provision for loan losses, which is charged against current period operating results and recoveries of loans previously charged-off. The allowance is decreased by the amount of charge-

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offs of loans deemed uncollectible. Allocations of the allowance may be made for specific loans but the entire allowance is available for any loan that, in management's judgment, should be charged off.

The allowance for loan loss includes specific and general reserves. Specific reserves are provided for impaired loans considered Troubled Debt Restructurings ("TDRs"). All other impaired loans are written down through charge-offs to the fair value of collateral, less estimated selling cost, and no specific or general reserve is provided. A loan is impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans for which terms have been modified resulting in a concession and for which the borrower is experiencing financial difficulties are considered TDRs and classified as impaired. A loan is measured for impairment generally two different ways. If the loan is primarily dependent upon the borrower to make payments, then impairment is calculated by comparing the present value of the expected future payments discounted at the effective loan rate to the carrying value of the loan. If the loan is collateral dependent, the net proceeds from the sale of the collateral is compared to the carrying value of the loan. If the calculated amount is less than the carrying value of the loan, the loan has impairment.

A general reserve is included in the allowance for loan loss and is determined by adding the results of a quantitative and a qualitative analysis to all other loans not measured for impairment at the reporting date. The quantitative analysis determines the Bank's actual annual historic charge-off rates for the previous three fiscal years and applies the average historic rates to the outstanding loan balances in each pool, the product of which is the general reserve amount. The qualitative analysis considers one or more of the following factors: changes in lending policies and procedures, changes in economic conditions, changes in the content of the portfolio, changes in lending management, changes in the volume of delinquency rates, changes to the scope of the loan review system, changes in the underlying collateral of the loans, changes in credit concentrations and any changes in the requirements to the credit loss calculations. A loss rate is estimated and applied to those loans affected by the qualitative factors. The following portfolio segments have been identified: single family secured mortgage, home equity secured mortgage, single family warehouse and other, multi-family secured mortgage, commercial real estate and land secured mortgage, recreational vehicles and auto secured, factoring, commercial and industrial ("C&I") and other.

General loan loss reserves are calculated by grouping each mortgage loan by collateral type and by grouping the LTV ratios of each loan within the collateral type. An estimated allowance rate for each LTV group within each type of loan is multiplied by the total principal amount in the group to calculate the required general reserve attributable to that group. Management uses an allowance rate that provides a larger loss allowance for loans with greater LTV ratios. General loan loss reserves for C&I loans are determined through a loan level grading system to base its projected loss rates. A matrix was created with a base loss rate with additional potential industry and volume risk adjustments, to calculate a loss rating for each deal. Given the lack of historical loss experience for this segment at the Company, an allowance loss range is based upon historical peer loss rates. General loan loss reserves for consumer loans are calculated by grouping each loan by credit score (e.g. FICO) at origination and applying an estimated allowance rate to each group. In addition to credit score grading, general loan loss reserves are increased for all consumer loans determined to be 90 days or more past due. Specific reserves or direct charge-offs are calculated when an internal asset review of a loan identifies a significant adverse change in the financial position of the borrower or the value of the collateral. The specific reserve or direct charge-off is based on discounted cash flows, observable market prices or the estimated value of underlying collateral.

Specific loan charge-offs on impaired loans are recorded as a write-off and a decrease to the allowance in the period the impairment is identified. A loan is classified as a TDR when management determines that an existing borrower is in financial distress and the borrower's loan terms are modified to provide the borrower a financial concession (e.g. lower payment) that would not otherwise be provided by another lender based upon borrower's current financial condition. TDRs are separately identified for impairment disclosures and are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a TDR is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of the collateral less cost to sell. For TDRs that subsequently default, the Company determines the amount of reserve in accordance with the accounting policy for the allowance for loan losses.

If the present value of estimated cash flows under the modified terms of a TDR discounted at the original loan effective rate is less than the book value of the loan before the TDR, the excess is specifically allocated to the loan in the allowance for loan losses.

Mortgage Servicing Rights. Mortgage servicing rights are recorded as separate assets on our consolidated balance sheets when the Company retains the right to service loans that we have sold.

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Mortgage Banking Derivatives. Commitments to fund mortgage loans (interest rate locks) to be sold into the secondary market and forward commitments for the future delivery of these mortgage loans are accounted for as free standing derivatives. Fair values of these mortgage derivatives are estimated based on changes in mortgage interest rates from the date the interest on the loan is locked. The Company enters into forward commitments for the future delivery of mortgage loans when interest rate locks are entered into, in order to hedge the change in interest rates resulting from its commitments to fund the loans. Changes in the fair values of these derivatives are included in mortgage banking income.

Furniture, Equipment and Software. Fixed asset purchases in excess of five hundred dollars are capitalized and recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which are three to seven years. Leasehold improvements are amortized over the lesser of the assets' useful lives or the lease term.

Income Taxes. Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws. The Company records a valuation allowance when management believes it is more likely than not that deferred tax assets will not be realized. An income tax position will be recognized as a benefit only if it is more likely than not that it will be sustained upon IRS examination, based upon its technical merits. Once that status is met, the amount recorded will be the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. The Company recognizes interest and/or penalties related to income tax matters in the income tax expense.

Earnings per Share. Earnings per share ("EPS") are presented under two formats: basic EPS and diluted EPS. Basic EPS is computed by dividing the net income attributable to common stock (net income after deducting dividends on preferred stock) by the sum of the weighted-average number of common shares outstanding during the year and the unvested average of restricted stock unit shares. Diluted EPS is computed by dividing the sum of net income attributable to common stock and dividends on diluted preferred stock by the sum of the weighted-average number of common shares outstanding during the year and the impact of dilutive potential common shares, such as stock options and convertible preferred stock.

Stock-Based Compensation. Compensation cost is recognized for stock options and restricted stock awards issued to employees, based on the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate fair value of the stock options, while market price of the Company's common stock at the date of grant is used for restricted stock awards. Compensation cost is recognized over the required service period, generally defined as the vesting period. For awards with graded vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award.

Federal Home Loan Bank ("FHLB") stock. The Bank is a member of the FHLB system. Members are required to own a certain amount of FHLB stock based on the level of borrowings and other factors, and may invest in additional amounts. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value.

Cash Surrender Value of Life Insurance. The Bank has purchased life insurance policies on certain key executives. Bank owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other amounts due that are probable at settlement.

Loan Commitments and Related Financial Instruments. Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and commercial letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

Comprehensive Income. Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on securities available-for-sale, which are also recognized as separate components of equity.

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Loss Contingencies. Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there are now such matters that will have a material effect on the financial statements.

Dividend Restriction. Banking regulations require maintaining certain capital levels and may limit the dividends paid by the Bank to the holding company.

Fair Value of Financial Instruments. Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in Note 2. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

Operating Segments. While the chief decision-makers monitor the revenue streams of the various products and services, operations are managed and financial performance is evaluated on a Company-wide basis. Accordingly, all of the financial service operations are considered by management to be aggregated in one reportable operating segment.

New Accounting Pronouncements. In January 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-01, “Investments – Equity Method and Joint Ventures (Topic 323), Accounting for Investments in Qualified Affordable Housing Projects.” The amendments in ASU No. 2014-01 provide guidance on accounting for investments by a reporting entity in flow-through limited liability entities that manage or invest in affordable housing projects that qualify for a low-income housing tax credit. The amendments permit reporting entities to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. The decision to apply the proportionate amortization method of accounting should be applied consistently to all qualifying affordable housing project investments. A reporting entity that uses the effective yield or other method to account for its investments in qualified affordable housing projects before the date of adoption may continue to apply such method to those preexisting investments. The amendments are effective for annual and interim periods, beginning after December 15, 2014. The Company adopted this accounting standard for the quarter ended March 31, 2015, with no material impact on its financial statements anticipated.

2. FAIR VALUE

Fair value is defined as the price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC Topic 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1:	Quoted prices in active markets for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
Level 2:	Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets include securities with quoted prices that are traded less frequently than exchange-traded instruments and whose value is determined using a pricing model with inputs

that are observable in the market or can be derived principally from or corroborated by observable market data.

Level 3:	Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models such as discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

When available, the Company generally uses quoted market prices to determine fair value. In some cases where a market price is available, the Company will make use of acceptable practical expedients (such as matrix pricing) to calculate fair value, in which case the items are classified in Level 2.

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The Company considers relevant and observable market prices in its valuations where possible. The frequency of transactions, the size of the bid-ask spread and the nature of the participants are some of the factors the Company uses to help determine whether a market is active and orderly or inactive and not orderly. Price quotes based upon transactions that are not orderly are not considered to be determinative of fair value and are given little, if any, weight in measuring fair value.

If quoted market prices are not available, fair value is based upon internally developed valuation techniques that use, where possible, current market-based or independently sourced market parameters, such as interest rates, credit spreads, housing value forecasts, etc. Items valued using such internally generated valuation techniques are classified according to the lowest level input or value driver that is significant to the valuation. Thus, an item may be classified in Level 3 even though there may be some significant inputs that are readily observable.

The following section describes the valuation methodologies used by the Company to measure various financial instruments at fair value, including an indication of the level in the fair-value hierarchy in which each instrument is generally classified:

Securities—trading. Trading securities are recorded at fair value. The trading portfolio consists of two different issues of floating-rate debt securities collateralized by pools of bank trust preferred securities. Liquidity and economic uncertainty have made the market for collateralized debt obligations less active or inactive. As quoted market prices are not available, the Level 3 fair values for these securities are determined by the Company utilizing industry-standard tools to calculate the net present value of the expected cash flows available to the securities from the underlying assets. The Company’s expected cash flows are calculated for each security and include the impact of actual and forecasted bank defaults within each collateral pool as well as structural features of the security’s tranche such as lock outs, subordination and over-collateralization. The forecast of underlying bank defaults in each pool is based upon a quarterly financial update including the trend in non-performing assets, the allowance for loan loss and the underlying bank’s capital ratios. Also a factor is the Company’s loan loss experience in the local economy in which the bank operates. At June 30, 2015, the Company’s forecast of cash flows for both securities includes actual and forecasted defaults and deferrals totaling 24.5% of all banks in the collateral pools, compared to 21.3% of the banks actually in default as of June 30, 2015. The expected cash flows reflect the Company’s best estimate of all pool losses which are then applied to the over-collateralization reserve and the subordinated tranches to determine the cash flows. The Company selects a discount rate margin based upon the spread between U.S. Treasury rates and the market rates for active credit grades for financial companies. The discount margin when added to the U.S. Treasury rate determines the discount rate, reflecting primarily market liquidity and interest rate risk since expected credit loss is included in the cash flows. At June 30, 2015, the Company used a weighted average discount margin of 475 basis points above U.S. Treasury rates to calculate the net present value of the expected cash flows and the fair value of its trading securities.

The Level 3 fair values determined by the Company for its trading securities rely heavily on management’s assumptions as to the future credit performance of the collateral banks, the impact of the global and regional economic factors, the timing of forecasted defaults and the discount rate applied to cash flows. The fair value of the trading securities at June 30, 2015 is sensitive to an increase or decrease in the discount rate. An increase in the discount margin of 100 basis points would have reduced the total fair value of the trading securities and decreased net income before income tax by $863. A decrease in the discount margin of 100 basis points would have increased the total fair value of the trading securities and increased net income before income tax by $1,011.

Securities—available-for-sale and held-to-maturity. Available-for-sale securities are recorded at fair value and consist of residential mortgage-backed securities (“RMBS”) issued by U.S. agencies, RMBS issued by non-agencies, municipal securities as well as other debt securities. Held-to-maturity securities are recorded at amortized cost and consist of RMBS issued by U.S. agencies, RMBS issued by non-agencies, as well as municipal securities. Fair value for U.S.

agency securities and municipal securities are generally based on quoted market prices of similar securities used to form a dealer quote or a pricing matrix. There continues to be significant illiquidity in the market for RMBS issued by non-agencies, impacting the availability and reliability of transparent pricing. As orderly quoted market prices are not available, the Level 3 fair values for these securities are determined by the Company utilizing industry-standard tools to calculate the net present value of the expected cash flows available to the securities from the underlying mortgage assets. The Company computes Level 3 fair values for each non-agency RMBS in the same manner (as described below) whether available-for-sale or held-to-maturity.

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To determine the performance of the underlying mortgage loan pools, the Company estimates prepayments, defaults, and loss severities based on a number of macroeconomic factors, including housing price changes, unemployment rates, interest rates and borrower attributes such as credit score and loan documentation at the time of origination. The Company inputs for each security a projection of monthly default rates, loss severity rates and voluntary prepayment rates for the underlying mortgages for the remaining life of the security to determine the expected cash flows. The projections of default rates are derived by the Company from the historic default rate observed in the pool of loans collateralizing the security, increased by and decreased by the forecasted increase or decrease in the national unemployment rate. The projections of loss severity rates are derived by the Company from the historic loss severity rate observed in the pool of loans, increased by or decreased by the forecasted increase or decrease in the national home price appreciation ("HPA") index. The largest factors influencing the Company's modeling of the monthly default rate are unemployment and HPA, as a strong correlation exists. The most updated unemployment rate reported in May 2015 was 5.5%. Consensus estimates for unemployment are that the rate will continue to decline. Going forward, the Company is projecting lower monthly default rates. The Company projects that severities will continue to improve.

To determine the discount rates used to compute the present value of the expected cash flows for these non-agency RMBS securities, the Company separates the securities by the borrower characteristics in the underlying pool. Specifically, "prime" securities generally have borrowers with higher FICO scores and better documentation of income. "Alt-A" securities generally have borrowers with a lower FICO and less documentation of income. "Pay-option ARMs" are Alt-A securities with borrowers that tend to pay the least amount of principal (or increase their loan balance through negative amortization). The Company calculates separate discount rates for prime, Alt-A and Pay-option ARM non-agency RMBS securities using market-participant assumptions for risk, capital and return on equity. The range of annual default rates used in the Company's projections at June 30, 2015 are from 1.5% up to 19.6% with prime securities tending toward the lower end of the range and Alt-A and Pay-option ARMs tending toward the higher end of the range. The range of loss severity rates applied to each default used in the Company's projections at June 30, 2015 are from 15.0% up to 66.5% based upon individual bond historical performance. The default rates and the severities are projected for every non-agency RMBS security held by the Company and will vary monthly based upon the actual performance of the security and the macroeconomic factors discussed above. The Company applies its discount rates to the projected monthly cash flows, which already reflect the full impact of all forecasted losses using the assumptions described above. When calculating present value of the expected cash flows at June 30, 2015, the Company computed its discount rates as a spread between 242 and 1749 basis points over the LIBOR Index using the LIBOR forward curve with prime securities tending toward the lower end of the range and Alt-A and Pay-option ARMs tending toward the higher end of the range.

The Bank's estimate of fair value for non-agency securities using Level 3 pricing is highly subjective and is based on the Bank's estimate of voluntary prepayments, default rates, severities and discount margins, which are forecasted monthly over the remaining life of each security. Changes in one or more of these assumptions can cause a significant change in the estimated fair value. For further details see the table later in this note that summarizes quantitative information about level 3 fair value measurements.

Loans Held for Sale. The fair value of mortgage loans held for sale is determined by pricing for comparable assets or by outstanding commitments from third party investors, resulting in a Level 2 classification.

Impaired Loans. Impaired loans are loans which are inadequately protected by the current net worth and paying capacity of the borrowers or the collateral pledged. The accrual of interest income has been discontinued for impaired loans. The impaired loans are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. The Company assesses loans individually and identifies impairment when the loan is classified as impaired or has been restructured or management has serious doubts about the future collectibility of principal and interest, even though the loans may currently be performing. The fair value of an impaired loan is determined based on an observable market price or current appraised value of the underlying collateral. The fair value of impaired loans with specific write-offs or allocations of the allowance for loan losses are generally based on recent real estate appraisals or internal valuation analyses consistent with the methodology used in real estate appraisals and include other third-party valuations and analysis of cash flows. These appraisals and analyses are updated at least on an annual basis. The Company primarily obtains real estate appraisals and in the rare cases where an appraisal cannot be obtained, the Company performs an internal valuation analysis. These appraisals and analyses may utilize a single valuation approach or a combination of approaches including comparable sales and income approaches. The sales comparison approach uses at least three recent similar property sales to help determine the fair value of the property being appraised. The income approach is calculated by taking the net operating income generated by the collateral property of the rent collected and dividing it by an assumed capitalization rate. Adjustments are routinely made in the process by the appraisers to account for differences between the comparable sales and income data available. When measuring the fair value of the impaired loan based upon the projected sale of the underlying collateral, the Company subtracts the costs expected to be incurred for the transfer of the underlying collateral, which includes items such as sales commissions, delinquent taxes and insurance premiums. These adjustments to the

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estimated fair value of non-performing loans may result in increases or decreases to the provision for loan losses recorded in current earnings. Such adjustments are typically significant and result in a Level 3 classification for the inputs for determining fair value.

Other Real Estate Owned. Non-recurring adjustments to certain commercial and residential real estate properties classified as other real estate owned ("OREO") are measured at the lower of carrying amount or fair value, less costs to sell. Fair values are generally based on third party appraisals of the property, resulting in a Level 3 classification. In cases where the carrying amount exceeds the fair value, less costs to sell, an impairment loss is recognized.

Mortgage Servicing Rights. The Company initially records all mortgage servicing rights ("MSRs") at fair value and accounts for MSRs at fair value during the life of the MSR, with changes in fair value recorded through current period earnings. Fair value adjustments encompass market-driven valuation changes as well as modeled amortization involving the run-off of value that occurs due to the passage of time as individual loans are paid by borrowers. Market expectations about loan duration, and correspondingly the expected term of future servicing cash flows, may vary from time to time due to changes in expected prepayment activity, especially when interest rates rise or fall. Market expectations of increased loan prepayment speeds may negatively impact the fair value of the single family MSRs. Fair value is also dependent on the discount rate used in calculating present value, which is imputed from observable market activity and market participants and results in Level 3 classification. Management reviews and adjusts the discount rate on an ongoing basis. An increase in the discount rate would reduce the estimated fair value of the MSRs asset.

Mortgage Banking Derivatives. Fair value for mortgage banking derivatives are either securities based upon prices in active markets for identical securities or based on quoted market prices of similar assets used to form a dealer quote or a pricing matrix, resulting in a Level 2 classification, or derivatives requiring unobservable inputs resulting in Level 3 classification.
The Company's valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While management believes the Company's valuation methodologies are appropriate and consistent with or, in some cases, more conservative than other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the relevant reporting date.

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The following table sets forth the Company’s financial assets and liabilities measured at fair value on a recurring basis. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement:

(Dollars in thousands)	June 30, 2015 Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
ASSETS:				
Securities—Trading: Collateralized Debt Obligations	$—	$—	$7,832	$7,832
Securities—Available-for-Sale:				
Agency Debt	—	—	—	—
Agency RMBS	—	43,491	—	43,491
Non-Agency RMBS	—	—	26,633	26,633
Municipal	—	22,035	—	22,035
Other Debt Securities	—	71,202	—	71,202
Total—Securities—Available-for-Sale	$—	$136,728	$26,633	$163,361
Loans Held for Sale	$—	$25,430	$—	$25,430
Mortgage servicing rights	$—	$—	$2,098	$2,098
Other assets—Derivative instruments	$—	$—	$2,261	$2,261
LIABILITIES:				
Other liabilities—Derivative instruments	$—	$—	$—	$—

(Dollars in thousands)	June 30, 2014 Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
ASSETS:				
Securities—Trading: Collateralized Debt Obligations	$—	$—	$8,066	$8,066
Securities—Available-for-Sale:				
Agency Debt	—	—	—	—
Agency RMBS	—	59,880	—	59,880
Non-Agency RMBS	—	—	37,409	37,409
Municipal	—	28,943	—	28,943
Other Debt Securities	—	88,546	—	88,546
Total—Securities—Available-for-Sale	$—	$177,369	$37,409	$214,778
Loans Held for Sale	$—	$20,575	$—	$20,575
Mortgage servicing rights	$—	$—	$562	$562
Other assets—Derivative Instruments	$—	$—	$1,364	$1,364
LIABILITIES:				
Other liabilities—Derivative instruments	$—	$—	$489	$489

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The following table presents additional information about assets measured at fair value on a recurring basis and for which the Company has utilized Level 3 inputs to determine fair value:

	Year Ended June 30, 2015				
(Dollars in thousands)	Securities-Trading: Collateralized Debt Obligations	Securities-Available-for-Sale: Non-Agency RMBS	Mortgage Servicing Rights	Derivative Instruments, net	Total
Assets:					
Opening Balance	$8,066	$37,409	$562	$875	$46,912
Transfers into Level 3	—	—	—	—	—
Transfers out of Level 3	—	—	—	—	—
Total gains or losses for the period:					
Included in earnings—Fair value gain(loss) on trading securities	(234)	—	—	—	(234)
Included in earnings—Mortgage banking income	—	—	(265)	1,386	1,121
Included in other comprehensive income	—	(1,325)	—	—	(1,325)
Purchases, issues, sales and settlements:					—
Purchases	—	—	1,801	—	1,801
Issues	—	—	—	—	—
Sales	—	—	—	—	—
Settlements	—	(8,518)	—	—	(8,518)
Other-than-temporary impairment	—	(933)	—	—	(933)
Closing balance	$7,832	$26,633	$2,098	$2,261	$38,824
Change in unrealized gains or losses for the period included in earnings for assets held at the end of the reporting period	$(234)	$(1,325)	$(265)	$1,386	$(438)

	Year Ended June 30, 2014				
(Dollars in thousands)	Securities-Trading: Collateralized Debt Obligations	Securities-Available-for-Sale: Non-Agency RMBS	Mortgage Servicing Rights	Derivative Instruments, net	Total
Assets:					
Opening Balance	$7,111	$49,284	$—	$2,222	$58,617
Transfers into Level 3	—	—	—	—	—
Transfers out of Level 3	—	—	—	—	—
Total gains or losses for the period:					
Included in earnings—Fair value gain(loss) on trading securities	955	—	—	—	955
Included in earnings—Mortgage banking income	—	—	45	(1,347)	(1,302)
Included in other comprehensive income	—	(125)	—	—	(125)
Purchases, issues, sales and settlements:					—
Purchases	—	—	—	—	—

Issues	—	—	529	—	529
Sales	—	—	—	—	—
Settlements	—	(11,534)	(12)	—	(11,546)
Other-than-temporary impairment	—	(216)	—	—	(216)
Closing balance	$8,066	$37,409	$562	$875	$46,912
Change in unrealized gains or losses for the period included in earnings for assets held at the end of the reporting period	$955	$—	$45	$(1,347)	$(347)

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The table below summarizes the quantitative information about Level 3 fair value measurements at the periods indicated:

	June 30, 2015			
(Dollars in thousands)	Fair Value	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Securities – Trading	$7,832	Discounted Cash Flow	Total Projected Defaults, Discount Rate over Treasury	18.8 to 29.8% (24.6%) 4.8 to 4.8% (4.8%)
Securities – Non-agency MBS	$26,633	Discounted Cash Flow	Projected Constant Prepayment Rate, Projected Constant Default Rate, Projected Loss Severity, Discount Rate over LIBOR	6.3 to 29.5% (13.0%) 1.5 to 19.6% (5.6%) 37.6 to 66.5% (51.1%) 2.4 to 3.0% (2.9%)
Mortgage Servicing Rights	$2,098	Discounted Cash Flow	Projected Constant Prepayment Rate, Life (in years), Discount Rate	4.4 to 19.2% (7.7%) 4.3 to 8.3 (7.4) 9.5 to 10.5% (9.7%)
Derivative Instruments	$2,261	Sales Comparison Approach	Projected Sales Profit of Underlying Loans	0.5 to 1.3% (0.8%)

	June 30, 2014			
(Dollars in thousands)	Fair Value	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Securities – Trading	$8,066	Discounted Cash Flow	Total Projected Defaults, Discount Rate over Treasury	19.0 to 26.6% (23.1%) 4.0 to 4.0% (4.0%)
Securities – Non-agency MBS	$37,409	Discounted Cash Flow	Projected Constant Prepayment Rate, Projected Constant Default Rate, Projected Loss Severity, Discount Rate over LIBOR	0.1 to 27.8% (10.0%) 0.0 to 21.7% (5.6%) 1.6 to 87.9% (61.7%) 2.5 to 8.4% (5.2%)
Mortgage Servicing Rights	$562	Discounted Cash Flow	Projected Constant Prepayment Rate, Life (in years), Discount Rate	5.6 to 7.4% (7.4%) 3.6 to 8.3 (7.1) 10.0 to 11.5% (10.1%)
Derivative Instruments	$875	Sales Comparison Approach	Projected Sales Profit of Underlying Loans	0.5 to 1.5%

The significant unobservable inputs used in the fair value measurement of the Company’s residential mortgage-backed securities are projected prepayment rates, probability of default, and projected loss severity in the event of default. Significant increases (decreases) in any of those inputs in isolation would result in a significantly lower (higher) fair value measurement. Generally, a change in the assumption used for the probability of default is accompanied by a directionally similar change in the assumption used for the projected loss severity and a directionally opposite change in the assumption used for projected prepayment rates.

The table below summarizes changes in unrealized gains and losses and interest income recorded in earnings for Level 3 trading assets and liabilities that are still held at the periods indicated:

	Year Ended June 30,		
(Dollars in thousands)	2015	2014	2013
Interest income on investments	$223	$230	$253
Fair value adjustment	(234)	955	1,274
Total	$(11)	$1,185	$1,527

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The table below summarizes the fair value of assets measured for impairment on a non-recurring basis:

(Dollars in thousands)	June 30, 2015 Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance
Impaired Loans:				
Single family real estate secured:				
Mortgage	$—	$—	$ 23,059	$23,059
Home equity	—	—	9	9
Multifamily real estate secured	—	—	5,399	5,399
Commercial real estate secured	—	—	2,128	2,128
Auto and RV secured	—	—	453	453
Total	$—	$—	$ 31,048	$31,048
Other real estate owned and foreclosed assets:				
Single family real estate secured	$—	$—	$ 463	$463
Multifamily real estate secured	—	—	762	762
Auto and RV secured	—	—	15	15
Total	$—	$—	$ 1,240	$1,240
HTM Securities-Non Agency MBS	$—	$—	$ 88,094	$88,094

(Dollars in thousands)	June 30, 2014 Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance
Impaired Loans:				
Single family real estate secured:				
Mortgage	$—	$—	$ 13,385	$13,385
Home equity	—	—	168	168
Multifamily real estate secured	—	—	4,301	4,301
Commercial real estate secured	—	—	4,376	4,376
Auto and RV secured	—	—	534	534
Total	$—	$—	$ 22,764	$22,764
Other real estate owned and foreclosed assets:				
Single family real estate secured	$—	$—	$ —	$—
Multifamily real estate secured	—	—	—	—
Auto and RV secured	—	—	75	75
Total	$—	$—	$ 75	$75
HTM Securities-Non Agency MBS	$—	$—	$ 91,297	$91,297

Impaired loans measured for impairment on a non-recurring basis using the fair value of the collateral for collateral-dependent loans have a carrying amount of $31,048 at June 30, 2015 and life to date charge-offs of $6,010. Impaired loans had a related allowance of $273 at June 30, 2015. At June 30, 2014, such impaired loans had a carrying amount of $22,764 and life to date charge-offs of $5,387, and a related allowance of $77.

Other real estate owned and foreclosed assets, which are measured at the lower of carrying value or fair value less costs to sell, had a net carrying amount of $1,240 after charge-offs of $0 at June 30, 2015. Our other real estate owned and foreclosed assets had a net carrying amount was $75 after charge-offs of $0 during the year ended June 30, 2014.

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Held-to-maturity securities measured for impairment on a non-recurring basis have a carrying amount of $85,579 at June 30, 2015, after charges to income of $1,432 and other comprehensive income of $2,836 during the fiscal year ended June 30, 2015. At June 30, 2014 held-to-maturity securities measured for impairment on a non-recurring basis had a carrying amount of $112,651 after charges to income of $2,586 and charges to other comprehensive income of $633 during the fiscal year ended June 30, 2014. These held-to-maturity securities are valued using Level 3 inputs.

The Company has elected the fair value option for Agency loans held for sale. These loans are intended for sale and the Company believes that the fair value is the best indicator of the resolution of these loans. Interest income is recorded based on the contractual terms of the loan and in accordance with the Company's policy on loans held for investment. None of these loans are 90 days or more past due nor on non-accrual as of June 30, 2015 and June 30, 2014.

The aggregate fair value, contractual balance (including accrued interest), and gain was as follows:

	At June 30,		
(Dollars in thousands)	2015	2014	2013
Aggregate fair value	$25,430	$20,575	$36,665
Contractual balance	24,886	20,138	36,070
Gain	$544	$437	$595

The total amount of gains and losses from changes in fair value included in earnings for the period indicated below for loans held for sale were:

	At June 30,		
(Dollars in thousands)	2015	2014	2013
Interest income	$671	$545	$1,314
Change in fair value	1,505	(1,526)	353
Total change in fair value	$2,176	$(981)	$1,667

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The following table presents quantitative information about Level 3 fair value measurements for financial instruments measured at fair value on a non-recurring basis at the periods indicated:

	June 30, 2015			
(Dollars in thousands)	Fair Value	Valuation Technique	Unobservable Input	Range (Weighted Average)[1]
Impaired Loans:				
Single family real estate secured:				
Mortgage	$23,059	Sales comparison approach	Adjustment for differences between the comparable sales	-52.5 to 53.7% (3.9%)
Home equity	$9	Sales comparison approach	Adjustment for differences between the comparable sales	-9.7 to 5.5% (-2.1%)
Multifamily real estate secured	$5,399	Sales comparison approach and income approach	Adjustment for differences between the comparable sales and adjustments for differences in net operating income expectations, capitalization rate	-73.4 to 80.6% (-8.3%)
Commercial real estate secured	$2,128	Sales comparison approach and income approach	Adjustment for differences between the comparable sales and adjustments for differences in net operating income expectations, capitalization rate	-66.5 to 81.1% (-10.3%)
Auto and RV secured	$453	Sales comparison approach	Adjustment for differences between the comparable sales	0.0 to 66.2% (10.8%)
Other real estate owned and foreclosed assets:				
Single family real estate secured:				
Mortgage	$463	Sales comparison approach	Adjustment for differences between the comparable sales	-20.3 to 12.1% (-4.1%)
Multifamily real estate secured	$762	Sales comparison approach and income approach	Adjustment for differences between the comparable sales and adjustments for differences in net operating income expectations, Capitalization rate	-37.1 to 48.6% (5.7%)
Auto and RV secured	$15	Sales comparison approach	Adjustment for differences between the comparable sales	0.0 to 20.7% (10.3%)
HTM Securities – Non-agency MBS	$88,094	Discounted cash flow	Projected Constant Prepayment Rate, Projected Constant Default Rate, Projected Loss Severity, Discount Rate over LIBOR	5.0 to 43.8% (10.5%) 1.5 to 14.6% (6.7%) 15.0 to 65.5% (54.4%) 3.0 to 6.9% (5.8%)

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[1] For impaired loans and other real estate owned the ranges shown may vary positively or negatively based on the comparable sales reported in the current appraisal. In certain instances, the range can be significant due to small sample sizes and in some cases the property being valued having limited comparable sales with similar characteristics at the time the current appraisal is conducted.

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(Dollars in thousands)	June 30, 2014 Fair Value	Valuation Technique	Unobservable Input	Range (Weighted Average)[1]
Impaired Loans:				
Single family real estate secured:				
Mortgage	$13,385	Sales comparison approach	Adjustment for differences between the comparable sales	-28.7 to 35.1% (1.3%)
Home equity	$168	Sales comparison approach	Adjustment for differences between the comparable sales	-20.0 to 42.7% (10.1%)
Multifamily real estate secured	$4,301	Sales comparison approach and income approach	Adjustment for differences between the comparable sales and adjustments for differences in net operating income expectations, capitalization rate	-43.3 to 65.0% (13.1%)
Commercial real estate secured	$4,376	Sales comparison approach and income approach	Adjustment for differences between the comparable sales and adjustments for differences in net operating income expectations, capitalization rate	-84.1 to 82.4% (-22.1%)
Auto and RV secured	$534	Sales comparison approach	Adjustment for differences between the comparable sales	0.0 to 27.4% (10.3%)
Other real estate owned and foreclosed assets:				
Single family real estate secured:				
Auto and RV secured	$75	Sales comparison approach	Adjustment for differences between the comparable sales	-84.0 to 41.3% (-32.8%)
HTM Securities – Non-agency MBS	$91,297	Discounted cash flow	Projected Constant Prepayment Rate, Projected Constant Default Rate, Projected Loss Severity, Discount Rate over LIBOR	0.1 to 16.3% (10.2%) 0.0 to 11.1% (5.9%) 3.5 to 76.5% (61.2%) 2.7 to 8.4% (6.2%)

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[1] For impaired loans and other real estate owned the ranges shown may vary positively or negatively based on the comparable sales reported in the current appraisal. In certain instances, the range can be significant due to small sample sizes and in some cases the property being valued having limited comparable sales with similar characteristics at the time the current appraisal is conducted.

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FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amount and estimated fair values of financial instruments at year-end were as follows:

(Dollars in thousands)	June 30, 2015 Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Financial assets:					
Cash and cash equivalents	$222,874	$222,874	$—	$—	$222,874
Securities trading	7,832	—	—	7,832	7,832
Securities available-for-sale	163,361	—	136,728	26,633	163,361
Securities held-to-maturity	225,555	—	83,441	144,882	228,323
Loans held for sale, at fair value	25,430	—	25,430	—	25,430
Loans held for sale, at lower of cost or fair value	77,891	—	—	77,932	77,932
Loans held for investment—net	4,928,618	—	—	5,011,596	5,011,596
Accrued interest receivable	20,268	—	—	20,268	20,268
Mortgage servicing rights	2,098	—	—	2,098	2,098
Financial liabilities:					
Time deposits and savings	4,451,917	—	4,385,034	—	4,385,034
Securities sold under agreements to repurchase	35,000	—	37,489	—	37,489
Advances from the Federal Home Loan Bank	753,000	—	757,265	—	757,265
Subordinated debentures	5,155	—	5,155	—	5,155
Accrued interest payable	1,266	—	1,266	—	1,266

(Dollars in thousands)	June 30, 2014 Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Financial assets:					
Cash and cash equivalents	$155,584	$155,584	$—	$—	$155,584
Securities trading	8,066	—	—	8,066	8,066
Securities available-for-sale	214,778	—	177,369	37,409	214,778
Securities held-to-maturity	247,729	—	89,409	154,557	243,966
Loans held for sale, at fair value	20,575	—	20,575		20,575
Loans held for sale, at lower of cost or fair value	114,796	—	—	114,840	114,840
Loans held for investment—net	3,532,841	—	—	3,632,841	3,632,841
Accrued interest receivable	13,863	—	—	13,863	13,863
Mortgage servicing rights	562	—	—	562	562
Financial liabilities:					
Time deposits and savings	3,041,536	—	3,066,830	—	3,066,830
Securities sold under agreements to repurchase	45,000	—	48,883	—	48,883
Advances from the Federal Home Loan Bank	910,000	—	917,184	—	917,184
Subordinated debentures	5,155	—	5,284	—	5,284
Accrued interest payable	1,350	—	1,350	—	1,350

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The methods and assumptions, not previously presented, used to estimate fair value are described as follows:

Carrying amount is the estimated fair value for cash and cash equivalents, interest bearing deposits, accrued interest receivable and payable, demand deposits, short-term debt, and variable rate loans or deposits that reprice frequently and fully. For fixed rate loans, deposits, borrowings or subordinated debt and for variable rate loans, deposits, borrowings or subordinated debt with infrequent repricing or repricing limits, fair value is based on discounted cash flows using current market rates applied to the estimated life and credit risk. A discussion of the methods of valuing trading securities, available-for-sale securities and loans held for sale can be found earlier in this footnote. The carrying amount of FHLB Stock approximates the estimated fair value of this investment. The fair value of off-balance sheet items is not considered material.

3. SECURITIES

The amortized cost, carrying amount and fair value for the major categories of securities trading, available-for-sale, and held-to-maturity for the following periods were:

	June 30, 2015								
	Trading	Available-for-sale				Held-to-maturity			
(Dollars in thousands)	Fair Value	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Carrying Amount	Unrecognized Gains	Unrecognized Losses	Fair Value
Mortgage-backed securities (RMBS):									
U.S agencies[1]	$—	$43,738	$701	$(948)	$43,491	$41,993	$1,398	$—	$43,391
Non-agency[2]	—	23,799	2,835	(1)	26,633	147,586	10,045	(12,749)	144,882
Total mortgage-backed securities	—	67,537	3,536	(949)	70,124	189,579	11,443	(12,749)	188,273
Other debt securities:									
U.S. agencies[1]	—	—	—	—	—	—	—	—	—
Municipal	—	21,731	390	(86)	22,035	35,976	4,074	—	40,050
Non-agency	7,832	70,216	1,271	(285)	71,202	—	—	—	—
Total other debt securities	7,832	91,947	1,661	(371)	93,237	35,976	4,074	—	40,050
Total debt securities	$7,832	$159,484	$5,197	$(1,320)	$163,361	$225,555	$15,517	$(12,749)	$228,323

	June 30, 2014								
	Trading	Available-for-sale				Held-to-maturity			
(Dollars in thousands)	Fair Value	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Carrying Amount	Unrecognized Gains	Unrecognized Losses	Fair Value
Mortgage-backed securities (RMBS):									
U.S. agencies[1]	$—	$60,670	$1,060	$(1,850)	$59,880	$47,982	$1,895	$—	$49,877
Non-agency[2]	—	33,521	4,077	(189)	37,409	163,695	6,352	(15,490)	154,557
Total mortgage-backed securities	—	94,191	5,137	(2,039)	97,289	211,677	8,247	(15,490)	204,434

Other debt securities:									
U.S. agencies[1]	—	—	—	—	—	—	—	—	—
Municipal	—	28,522	425	(4)	28,943	36,052	3,480	—	39,532
Non-agency	8,066	87,913	687	(54)	88,546	—	—	—	—
Total other debt securities	8,066	116,435	1,112	(58)	117,489	36,052	3,480	—	39,532
Total debt securities	$8,066	$210,626	$6,249	$(2,097)	$214,778	$247,729	$11,727	$(15,490)	$243,966

[1] U.S. government-backed or government sponsored enterprises including Fannie Mae, Freddie Mac and Ginnie Mae.
[2] Private sponsors of securities collateralized primarily by pools of 1-4 family residential first mortgages. Primarily super senior securities secured by prime, Alt-A or pay-option ARM mortgages.

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The Company’s non-agency RMBS available-for-sale portfolio with a total fair value of $26,633 at June 30, 2015 consists of twenty-one different issues of super senior securities with a fair value of $17,455; one senior structured whole loan security with a fair value of $8,974 and three mezzanine z-tranche securities, negative-amortizing support tranches, with a fair value of $204 collateralized by seasoned prime and Alt-A first-lien mortgages. The Company acquired its mezzanine z-tranche securities in fiscal 2010 and accounts for them by measuring the excess of cash flows expected at acquisition over the purchase price (accretable yield) and recognizes interest income over the remaining life of the security.

The non-agency RMBS held-to-maturity portfolio with a carrying value of $147,586 at June 30, 2015 consists of seventy-seven different issues of super senior securities totaling $145,419 and one senior-support security with a carrying value of $2,167. Debt securities with evidence of credit quality deterioration since issuance and for which it is probable at purchase that the Company will be unable to collect all of the par value of the security are accounted for under ASC Topic 310-30, Accounting for Certain Loans or Debt Securities Acquired in a Transfer. Under ASC Topic 310-30, the excess of cash flows expected at acquisition over the purchase price is referred to as the accretable yield and is recognized in interest income over the remaining life of the security. The Company has one senior support security that it acquired at a significant discount that evidenced credit deterioration at acquisition and is accounted for under ASC Topic 310. For a cost of $17,740, the Company acquired the senior support security with a contractual par value of $30,560 and accretable and non-accretable discounts that were projected to be $9,015 and $3,805, respectively. Since acquisition, repayments from the security have been received more rapidly than projected at acquisition, but expected total payments have declined, resulting in a determination that the security was other-than-temporarily impaired. The security realized an other-than temporary loss of $0 in fiscal 2015 and $572 in 2014. At June 30, 2015, the security had a remaining contractual par value of zero and amortizable and non-amortizable premium are currently projected to be zero and $2,472, respectively.

The current face amounts of debt securities available-for-sale and held-to-maturity that were pledged to secure borrowings at June 30, 2015 and 2014 were $39,014 and $67,605 respectively.

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The securities with unrealized losses, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position were as follows:

	June 30, 2015											
	Available-for-sale securities in loss position for						Held-to-maturity securities in loss position for					
	Less Than 12 Months		More Than 12 Months		Total		Less Than 12 Months		More Than 12 Months		Total	
(Dollars in thousands)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealiz Losses
RMBS:												
U.S. agencies	$369	$(2)	$24,974	$(946)	$25,343	$(948)	$—	$—	$—	$—	$—	$—
Non-agency	1,275	(1)	—	—	1,275	(1)	23,450	(1,802)	67,090	(10,947)	90,540	(12,749
Total RMBS securities	1,644	(3)	24,974	(946)	26,618	(949)	23,450	(1,802)	67,090	(10,947)	90,540	(12,749
Other debt:												
U.S. agencies	—	—	—	—	—	—	—	—	—	—	—	—
Municipal debt	1,358	(86)	—	—	1,358	(86)	—	—	—	—	—	—
Non-agency	19,100	(285)	—	—	19,100	(285)	—	—	—	—	—	—
Total other debt	20,458	(371)	—	—	20,458	(371)	—	—	—	—	—	—
Total debt securities	$22,102	$(374)	$24,974	$(946)	$47,076	$(1,320)	$23,450	$(1,802)	$67,090	$(10,947)	$90,540	$(12,74

	June 30, 2014											
	Available-for-sale securities in loss position for						Held-to-maturity securities in loss position for					
	Less Than 12 Months		More Than 12 Months		Total		Less Than 12 Months		More Than 12 Months		Total	
(Dollars in thousands)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealiz Losses
RMBS:												
U.S. agencies	$—	$—	$25,498	$(1,850)	$25,498	$(1,850)	$—	$—	$1	$—	$1	$—
Non-agency	1,819	(33)	2,402	(157)	4,221	(190)	5,871	(400)	66,974	(15,090)	72,845	(15,490
Total RMBS securities	1,819	(33)	27,900	(2,007)	29,719	(2,040)	5,871	(400)	66,975	(15,090)	72,846	(15,490
Other debt:												
Municipal debt	47	—	2,257	(3)	2,304	(3)	—	—	—	—	—	—
Non-agency	5,365	(48)	1,389	(6)	6,754	(54)	—	—	—	—	—	—
Total other debt	5,412	(48)	3,646	(9)	9,058	(57)	—	—	—	—	—	—
Total debt securities	$7,231	$(81)	$31,546	$(2,016)	$38,777	$(2,097)	$5,871	$(400)	$66,975	$(15,090)	$72,846	$(15,49

There were thirty-two securities that were in a continuous loss position at June 30, 2015 for a period of more than 12 months. There were thirty-five securities that were in a continuous loss position at June 30, 2014 for a period of more than 12 months.

The following table summarizes amounts of anticipated credit loss recognized in the income statement through other-than-temporary impairment charges, which reduced non-interest income:

	At June 30,		
(Dollars in thousands)	2015	2014	2013
Beginning balance	$(18,138)	$(15,336)	$(11,835)
Additions for the amounts related to the credit loss for which an other-than-temporary impairment was not previously recognized	(742)	(206)	(323)
Increases to the amount related to the credit loss for which other-than-temporary impairment was previously recognized	(1,623)	(2,596)	(3,178)
Ending balance	$(20,503)	$(18,138)	$(15,336)

At June 30, 2015, fifty-one non-agency RMBS with a total carrying amount of $97,937 were determined to have cumulative credit losses of $20,503 of which $3,501 was recognized in earnings during fiscal 2013, $2,802 was recognized in earnings during fiscal 2014 and $2,365 was recognized in earnings during fiscal 2015. This year’s other-than-temporary impairment of $2,365 is related to twenty non-agency RMBS with a total carrying amount of $29,907. The Company measures its non-agency RMBS in an unrealized loss position at the end of the reporting period for other-than-temporary impairment by comparing the

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present value of the cash flows currently expected to be collected from the security with its amortized cost basis. If the calculated present value is lower than the amortized cost, the difference is the credit component of other-than-temporary impairment of its debt securities. The excess of present value over the fair value of the security, if any, is the noncredit component of the other-than-temporary impairment. If the Company does not intend to sell the security and will not be required to sell the security before recovery of its amortized cost basis, the credit component of other-than-temporary impairment is recorded as a loss in earnings and the noncredit component of other-than-temporary impairment is recorded in comprehensive income, net of the related income tax benefit. If the Company does not intend to hold the security, or will be required to sell the security prior to a recovery of the amortized cost basis of the security, the credit component and noncredit component of the other-than-temporary impairment is recorded as a loss in earnings.

To determine the cash flow expected to be collected and to calculate the present value for purposes of testing for other-than-temporary impairment, the Company utilizes the same industry-standard tool and the same cash flows as those calculated for Level 3 fair values as discussed in Note 2 – Fair Value. The discount rates used to compute the present value of the expected cash flows for purposes of testing for the credit component of the other-than-temporary impairment are either the implicit rate calculated in each of the Company's securities at acquisition or the last accounting yield. The Company calculates the implicit rate at acquisition based on the contractual terms of the security, considering scheduled payments (and minimum payments in the case of pay-option ARMs) without prepayment assumptions. Once the discount rate (or discount margin in the case of floating rate securities) is calculated as described above, the discount is used in the industry-standard model to calculate the present value of the cash flows.

During the current fiscal year ended June 30, 2015, the company sold two available-for-sale securities with a carrying value of $8,952 resulting in a $587 gain.

The gross gains and losses realized through earnings upon the sale of available-for-sale securities were as follows:

	At June 30,		
(Dollars in thousands)	2015	2014	2013
Proceeds	$9,614	$3,723	$2,775
Gross realized gains	$587	$—	$420
Net gain on securities	$587	$—	$420

The Company records unrealized gains and unrealized losses in accumulated other comprehensive loss as follows:

	At June 30,	
(Dollars in thousands)	2015	2014
Available-for-sale debt securities—net unrealized gains	$3,877	$4,151
Available-for-sale debt securities—non-credit related	(271)	—
Held-to-maturity debt securities—non-credit related	(18,597)	(21,433)
Subtotal	(14,991)	(17,282)
Tax benefit	5,592	6,916
Net unrealized loss on investment securities in accumulated other comprehensive loss	$(9,399)	$(10,366)

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The expected maturity distribution of the Company's mortgage-backed securities and the contractual maturity distribution of the Company's other debt securities classified as available-for-sale and held-to-maturity were:

	June 30, 2015				
	Available-for-sale		Held-to-maturity		Trading
(Dollars in thousands)	Amortized Cost	Fair Value	Carrying Amount	Fair Value	Fair Value
RMBS—U.S. agencies[1]					
Due within one year	$4,338	$4,243	$1,371	$1,430	$—
Due one to five years	13,270	13,043	5,299	5,534	—
Due five to ten years	10,508	10,439	6,123	6,388	—
Due after ten years	15,622	15,766	29,200	30,039	—
Total RMBS—U.S. agencies[1]	43,738	43,491	41,993	43,391	—
RMBS—Non-agency:					
Due within one year	5,119	5,505	23,553	23,344	—
Due one to five years	10,729	11,751	44,775	44,317	—
Due five to ten years	3,338	3,882	38,110	37,050	—
Due after ten years	4,613	5,495	41,148	40,171	—
Total RMBS—Non-agency	23,799	26,633	147,586	144,882	—
Other debt:					
Due within one year	11,269	11,362	971	1,075	—
Due one to five years	62,060	63,083	4,507	4,995	—
Due five to ten years	11,046	11,124	7,075	7,848	—
Due after ten years	7,572	7,668	23,423	26,132	7,832
Total other debt	91,947	93,237	35,976	40,050	7,832
Total	$159,484	$163,361	$225,555	$228,323	$7,832

[1] Residential mortgage-backed security (RMBS) distributions include impact of expected prepayments and other timing factors.

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4. LOANS & ALLOWANCE FOR LOAN LOSSES

For the Company's single family, commercial and multifamily loans, the allowance methodology takes into consideration the risk that the original borrower information may have adversely changed in two ways. First, in calculating the quantitative factor for the Company's general loan loss allowance, the actual loss experience is tracked and stratified by original LTV and year of origination. As a result, the Company uses relatively higher loss rates across the LTV bands for loans originated and purchased in years 2005 through 2008 compared to the same LTV ranges for loans originated before 2005 or after 2008. Second, the Company uses a number of qualitative factors to reflect additional risk. One qualitative loss factor is real estate valuation risk which is applied to each LTV band primarily based upon the year the real estate loan was originated or purchased. Based upon price appreciation indices, multifamily property values in years 2005 through 2008 experienced significant declines. As a result, the Company applies a relatively higher qualitative loss factor rate across the LTV bands for loans originated and purchased in years 2005 through 2008 compared to the same LTV ranges for loans originated or purchased before 2005 or after 2008.

For the Company's home equity loans, the allowance methodology takes into consideration the risk that the original borrower information may have adversely changed in two ways. First, in calculating the quantitative factor for the Company's general loan loss allowance, the actual loss experience is tracked and stratified by original combined LTV ("CLTV") of the first and second liens. As a result, the Company allocates higher loss rates in proportion to the greater the CLTV. Second, the Company uses a number of qualitative factors to reflect additional risk. The Company does not have any individual purchased home equity loans in its portfolio and given the limited time frame under which the Company originated home equity loans, 2006-2009, no additional risk allocation is used.

For the Company's single family – warehouse lines, the allowance methodology takes into consideration the structure of these loans, as they remain in the portfolio for a short period (usually less than a month) and have higher credit protection allocated compared to traditional single family originations. A matrix was created to reflect most current operating levels of capital and line usage, which calculates a loss rating to assign to each originator. The Company will continue to monitor these loans and the allocated allowance as more historical information is obtained.

For the Company's factoring loans, the allowance methodology takes into consideration the credit quality of the insurance company or state securing the loan. The Company obtains credit ratings for these entities through agencies such as AM Best and allocates an allowance allocation based on these ratings. The Company will continue to monitor these loans and the allocated allowance as more historical information is obtained.

For the Company's C&I leveraged loans and bridge loans, the allowance methodology incorporates a loan level grading system and risk adjusters. Industry loss rates are applied to determine the loss allowance for each of these loans based upon their internal grading. The loss rate is then subject to risk adjustments increasing or decreasing the base loss rate depending upon the health of the borrower's industry, the size of the company, or in the case of bridge loans, based upon the income generated by the property and the strength of the guarantor.

For the Company's recreational vehicle ("RV") / auto loan portfolio, the allowance methodology takes into consideration potential adverse changes to the borrower's financial condition since time of origination. The general loan loss reserves for RV / auto are stratified based upon borrower FICO scores. First, to account for potential deterioration of borrower's credit history since time of origination, due to downturn in the economy or other factors, the Company refreshes the FICO scores used to drive the allowance on a semi-annual basis. The Company believes that current borrower credit history is a better predictor of potential loss than that was used at time of origination. Second, the Company uses a number of qualitative factors to reflect additional risk.

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The following table sets forth the composition of the loan portfolio as of the dates indicated:

	At June 30,	
(Dollars in thousands)	2015	2014
Single family real estate secured:		
Mortgage	$2,980,795	$1,918,626
Home equity	3,604	12,690
Warehouse and other[1]	385,413	370,717
Multifamily real estate secured	1,185,531	978,511
Commercial real estate secured	61,403	24,061
Auto and RV secured	13,140	14,740
Factoring	122,200	118,945
Commercial & Industrial	248,584	152,619
Other	601	1,971
Total gross loans	5,001,271	3,592,880
Allowance for loan losses	(28,327)	(18,373)
Unaccreted discounts and loan fees	(44,326)	(41,666)
Total net loans	$4,928,618	$3,532,841

1. The balance of single family warehouse loans was $122,003 at June 30, 2015 and $92,920 at June 30, 2014. The remainder of the balance was attributable to single family lender finance loans.

The following table summarizes activity in the allowance for loan losses for the periods indicated:

	At June 30,		
(Dollars in thousands)	2015	2014	2013
Balance—beginning of period	$18,373	$14,182	$9,636
Provision for loan loss	11,200	5,350	7,550
Charged off	(1,561)	(1,591)	(3,907)
Recoveries	315	432	903
Balance—end of period	$28,327	$18,373	$14,182

The following table summarizes the composition of the impaired loans:

	At June 30,		
(Dollars in thousands)	2015	2014	2013
Non-performing loans—90+ days past due plus other non-accrual loans	$25,873	$16,390	$13,020
Troubled debt restructured loans—non-accrual	4,958	3,995	5,283
Troubled debt restructured loans—performing	217	2,379	3,538
Total impaired loans	$31,048	$22,764	$21,841

At June 30, 2015, the carrying value of impaired loans is net of write offs of $4,652. At June 30, 2015, $31,048 of impaired loans had no specific allowance allocations. The average carrying value of impaired loans was $29,967 and $20,850 for the fiscal years ended June 30, 2015 and 2014, respectively. The interest income recognized during the periods of impairment is insignificant for those loans impaired at June 30, 2015 or 2014. At June 30, 2015 and 2014, there were no loans still accruing past due 90 days or more, unless the Company received principal and interest from the servicer despite the borrower's delinquency. The Company considers the servicer's recovery of such advances in evaluating whether such loans should continue to accrue. A loan is considered impaired when, based on current information and events, it is probable that we will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors that we consider in determining impairment include payment status,

collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Impairment is measured on a loan-by-loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if repayment of the loan is expected from the sale of collateral.

The Company has allocated $2 and $4 of the allowance to customers whose loans have been restructured and were determined to be TDRs as of June 30, 2015 and 2014, respectively. The Company does not have any commitments to fund TDR loans at June 30, 2015.

At June 30, 2015 and 2014, approximately 66.36% and 61.65%, respectively, of the Company's real estate loans are collateralized by real property located in California and therefore exposed to economic conditions within this market region.

In the ordinary course of business, the Company has granted related party loans collateralized by real property to principal officers, directors and their affiliates. There were no new related party loans granted during the fiscal year ended June 30, 2015. During the fiscal year 2014, the Company originated two new related party loans in the amount of $1,585 and did not execute any interest rate modifications of existing loans. Total principal payments on related party loans were $325 and $296 during the years ended June 30, 2015 and 2014, respectively. At June 30, 2015 and 2014, these loans amounted to $10,543 and $10,868, respectively, and are included in loans held for investment. Interest earned on these loans was $111 and $141 during the years ended June 30, 2015 and 2014, respectively.

The Company's loan portfolio consists of approximately 11.74% fixed interest rate loans and 88.26% adjustable interest rate loans as of June 30, 2015. The Company's adjustable rate loans are generally based upon indices using U.S. Treasuries, London Interbank Offered Rate ("LIBOR"), and 11th District cost of funds.

At June 30, 2015 and 2014, purchased loans serviced by others were $132,976 or 2.66% and $150,786 or 4.20% respectively, of the loan portfolio.

Allowance for Loan Loss. We are committed to maintaining the allowance for loan losses at a level that is considered to be commensurate with estimated probable incurred credit losses in the portfolio. Although the adequacy of the allowance is reviewed quarterly, management performs an ongoing assessment of the risks inherent in the portfolio. While the Company believes that the allowance for loan losses is adequate at June 30, 2015, future additions to the allowance will be subject to continuing evaluation of estimated and known, as well as inherent, risks in the loan portfolio.

Allowance for Credit Loss Disclosures. The assessment of the adequacy of the Company's allowance for loan losses is based upon a number of quantitative and qualitative factors, including levels and trends of past due and nonaccrual loans, changes in the volume and mix of loans, collateral values and charge-off history.

The allowance for loan loss for the RV and auto loan portfolio at June 30, 2015 was determined by classifying each outstanding loan according to the original FICO score and providing loss rates. The Company had $12,687 of RV and auto loan balances subject to general reserves as follows: FICO score greater than or equal to 770: $2,882; 715 – 769: $4,408; 700 – 714: $1,150; 660 – 699: $2,323 and less than 660: $1,924.

The Company provides general loan loss reserves for mortgage loans based upon the size and class of the mortgage loan and the LTV at date of origination. The allowance for each class is determined by dividing the outstanding unpaid balance for each loan by the LTV and applying a loss rate. At June 30, 2015, the LTV groupings for each significant mortgage class were as follows:

The Company had $2,957,736 of single family mortgage portfolio loan balances subject to general reserves as follows:
LTV less than or equal to 60%: $1,606,203; 61% – 70%: $1,111,742; 71% – 80%: $239,584 and greater than 80%: $207.

The Company had $1,180,132 of multifamily mortgage portfolio loan balances subject to general reserves as follows: LTV less than or equal to 55%: $533,292; 56% – 65%: $367,910; 66% – 75%: $263,766; 76% – 80%: $15,164 and greater than 80%: $0. Based on historical performance, the Company divides the LTV analysis into two classes, separating purchased loans from the loans underwritten directly by the Company since multifamily loans originated by the Company experience lower estimated loss rates.

The Company originates and purchases mortgage loans with terms that may include repayments that are less than the repayments for fully amortizing loans, including interest only loans, option adjustable-rate mortgages, and other loan types that permit payments that

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may be smaller than interest accruals. The Companies lending guidelines for interest only loans are adjusted for the increased credit risk associated with these loans by requiring borrowers with such loans to borrow at LTVs that are lower than standard amortizing ARM loans and by calculating debt to income ratios for qualifying borrowers based upon a fully amortizing payment, not the interest only payment. The Company's Credit Committee monitors and performs reviews of interest only loans. Adverse trends reflected in the Company's delinquency statistics, grading and classification of interest only loans would be reported to management and the Board of Directors. As of June 30, 2015, the Company had $700.3 million of interest only loans and $4.0 million of option adjustable-rate mortgage loans. Through June 30, 2015, the net amount of deferred interest on these loan types was not material to the financial position or operating results of the Company.

The Company provides general loan loss reserves for its RV and automobile loans based upon the borrower's credit score at the time of origination and the Company's loss experience to date. The Company obtains updated credit scores for its RV and auto borrowers approximately every six months. The updated credit score will result in a higher or lower general loan loss allowance depending on the change in borrowers' FICO scores and the resulting shift in loan balances among the five FICO bands from which the Company measures and calculates its reserves. For the general loss reserve, the Company does not use individually updated credit scores or valuations for the real estate collateralizing its real estate loans, but does recalculate the LTV based upon principal payments made during each quarter.

The Company had $59,275 of commercial real estate loan balances subject to general reserves as follows: LTV less than or equal to 50%: $22,111; 51% – 60%: $24,975; 61% – 70%: $12,189; 71% – 80%: $0 and greater than 80%: $0. The Company's commercial secured portfolio consists of business loans well-collateralized by residential real estate. The Company's other portfolio consists of receivables factoring for businesses and consumers. The Company allocates its allowance for loan loss for these asset types based on qualitative factors which consider the value of the collateral and the financial position of the issuer of the receivables.
The following tables summarize activity in the allowance for loan losses by segment for the periods indicated:

	June 30, 2015									
	Single Family									
(Dollars in thousands)	Mortgage	Home Equity	Warehouse & Other	Multi-family real estate secured	Commercial real estate secured	Auto and RV secured	Factoring	Commercial & Industrial	Other	Total
Balance at July 1, 2014	$7,959	$134	$ 1,259	$3,785	$ 1,035	$812	$279	$ 3,048	$62	$18,373
Provision for loan loss	6,305	(1)	620	922	224	288	13	2,834	(5)	11,200
Charge-offs	(747)	(43)	—	(344)	(156)	(271)	—	—	—	(1,561)
Recoveries	147	32	—	—	—	124	—	—	12	315
Balance at June 30, 2015	$13,664	$122	$ 1,879	$4,363	$ 1,103	$953	$292	$ 5,882	$69	$28,327

	June 30, 2014									
	Single Family									
(Dollars in thousands)	Mortgage	Home Equity	Warehouse & Other	Multi-family real estate secured	Commercial real estate secured	Auto and RV secured	Factoring	Commercial & Industrial	Other	Total
	$4,812	$183	$ 1,250	$3,186	$ 1,378	$1,536	$201	$ 1,623	$13	$14,182

Balance at July 1, 2013										
Provision for loan loss	3,214	3	9	708	12	(142)	78	1,425	43	5,350
Charge-offs	(125)	(98)	—	(359)	(355)	(620)	—	—	(34)	(1,591)
Recoveries	58	46	—	250	—	38	—	—	40	432
Balance at June 30, 2014	$7,959	$134	$ 1,259	$3,785	$ 1,035	$812	$279	$ 3,048	$62	$18,373

	June 30, 2013									
	Single Family									
(Dollars in thousands)	Mortgage	Home Equity	Warehouse & Other	Multi-family real estate secured	Commercial real estate secured	Auto and RV secured	Factoring	Commercial & Industrial	Other	Total
Balance at July 1, 2012	$4,030	$192	$ 108	$2,558	$ 398	$2,159	$ 86	$ 102	$3	$9,636
Provision for loan loss	1,469	229	1,142	858	1,958	131	115	1,521	127	7,550
Charge-offs	(730)	(257)	—	(420)	(1,496)	(867)	—	—	(137)	(3,907)
Recoveries	43	19	—	190	518	113	—	—	20	903
Balance at June 30, 2013	$4,812	$183	$ 1,250	$3,186	$ 1,378	$1,536	$ 201	$ 1,623	$13	$14,182

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The following tables present our loans evaluated individually for impairment by portfolio class for the periods indicated:

(Dollars in thousands)	June 30, 2015 Unpaid Principal Balance	Principal Balance Adjustment	Unpaid Book Balance	Accrued Interest/Origination Fees	Recorded Investment	Related Allowance
With no related allowance recorded:						
Single family real estate secured:						
Mortgage						
In-house originated	$7,000	$657	$6,343	$ 129	$6,472	$—
Purchased	6,318	2,083	4,235	157	4,392	—
Multifamily real estate secured						
Purchased	2,569	921	1,648	—	1,648	—
Commercial real estate secured						
Purchased	3,662	1,534	2,128	254	2,382	—
Auto and RV secured						
In-house originated	1,097	815	282	13	295	—
With an allowance recorded:						
Single family real estate secured:						
Mortgage						
In-house originated	10,142	—	10,142	—	10,142	214
Purchased	2,339	—	2,339	9	2,348	45
Home equity						
In-house originated	9	—	9	—	9	1
Multifamily real estate secured						
In-house originated	3,430	—	3,430	43	3,473	2
Purchased	321	—	321	20	341	3
Auto and RV secured						
In-house originated	171	—	171	4	175	8
Total	$37,058	$6,010	$31,048	$ 629	$31,677	$273
As a % of total gross loans	0.74 %	0.12 %	0.62 %	0.01 %	0.63 %	0.01 %

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(Dollars in thousands)	June 30, 2014 Unpaid Principal Balance	Principal Balance Adjustment	Unpaid Book Balance	Accrued Interest/Origination Fees	Recorded Investment	Related Allowance
With no related allowance recorded:						
Single family real estate secured:						
Mortgage						
Purchased	$7,413	$2,189	$5,224	$ 223	$5,447	$—
Home equity						
In-house originated	88	83	5	9	14	—
Multifamily real estate secured						
Purchased	2,615	746	1,869	5	1,874	—
Commercial real estate secured						
Purchased	3,670	1,297	2,373	133	2,506	—
Auto and RV secured						
In-house originated	1,561	1,072	489	27	516	—
With an allowance recorded:						
Single family real estate secured:						
Mortgage						
In-house originated	4,074	—	4,074	22	4,096	14
Purchased	4,087	—	4,087	53	4,140	19
Home equity						
In-house originated	163	—	163	—	163	1
Multifamily real estate secured						
In-house originated	2,307	—	2,307	22	2,329	3
Purchased	125	—	125	—	125	1
Commercial real estate secured						
Purchased	2,003	—	2,003	2	2,005	38
Auto and RV secured						
In-house originated	45	—	45	1	46	1
Total	$28,151	$5,387	$22,764	$ 497	$23,261	$77
As a % of total gross loans	0.78 %	0.15 %	0.63 %	0.02 %	0.65 %	— %

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The following tables present the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment evaluation method:

	June 30, 2015									
	Single Family									
(Dollars in thousands)	Mortgage	Home Equity	Warehouse & Other	Multi-family real estate secured	Commercial real estate secured	Auto and RV secured	Factoring	Commercial & Industrial	Other	Total
Allowance for loan losses:										
Ending allowance balance attributable to loans:										
Individually evaluated for impairment	$259	$1	$—	$5	$—	$8	$—	$—	$—	$273
Collectively evaluated for impairment	13,405	121	1,879	4,358	1,103	945	292	5,882	69	28,054
Total ending allowance balance	$13,664	$122	$1,879	$4,363	$1,103	$953	$292	$5,882	$69	$28,327
Loans:										
Loans individually evaluated for impairment [1]	$23,059	$9	$—	$5,399	$2,128	$453	$—	$—	$—	$31,048
Loans collectively evaluated for impairment	2,957,736	3,595	385,413	1,180,132	59,275	12,687	122,200	248,584	601	4,970,223
Principal loan balance	2,980,795	3,604	385,413	1,185,531	61,403	13,140	122,200	248,584	601	5,001,271
Unaccreted discounts and loan fees	10,438	11	(83)	3,348	96	149	(57,223)	(1,062)	—	(44,326)
Accrued interest receivable	10,530	5	306	4,862	145	73	477	1,159	—	17,557
Total recorded investment in loans	$3,001,763	$3,620	$385,636	$1,193,741	$61,644	$13,362	$65,454	$248,681	$601	$4,974,502

[1] Loans evaluated for impairment include TDRs that have been performing for more than six months.

(Dollars in thousands)	June 30, 2014 Single Family Mortgage	Home Equity	Warehouse & Other	Multi-family real estate secured	Commercial real estate secured	Auto and RV secured	Factoring	Commercial & Industrial	Other	Total
Allowance for loan losses:										
Ending allowance balance attributable to loans:										
Individually evaluated for impairment	$33	$1	$—	$4	$38	$1	$—	$—	$—	$77
Collectively evaluated for impairment	7,926	133	1,259	3,781	997	811	279	3,048	62	18,296
Total ending allowance balance	$7,959	$134	$1,259	$3,785	$1,035	$812	$279	$3,048	$62	$18,373
Loans:										
Loans individually evaluated for impairment [1]	$13,385	$168	$—	$4,301	$4,376	$534	$—	$—	$—	$22,764
Loans collectively evaluated for impairment	1,905,241	12,522	370,717	974,210	19,685	14,206	118,945	152,619	1,971	3,570,116
Principal loan balance	1,918,626	12,690	370,717	978,511	24,061	14,740	118,945	152,619	1,971	3,592,880
Unaccreted discounts and loan fees	7,138	(11)	(2,055)	2,336	(37)	215	(48,546)	(706)	—	(41,666)
Accrued interest receivable	5,947	39	433	3,704	45	74	163	825	—	11,230
Total recorded investment in loans	$1,931,711	$12,718	$369,095	$984,551	$24,069	$15,029	$70,562	$152,738	$1,971	$3,562,444

[1] Loans evaluated for impairment include TDRs that have been performing for more than six months.

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Credit Quality Disclosure. Non-performing loans consisted of the following as of the dates indicated:

	At June 30,	
(Dollars in thousands)	2015	2014
Nonaccrual loans:		
Single Family Real Estate Secured:		
Mortgage		
In-house originated	$16,485	$4,073
Purchased	6,357	8,323
Home Equity		
In-house originated	9	168
Multifamily Real Estate Secured		
In-house originated	3,430	2,307
Purchased	1,969	1,995
Commercial Real Estate Secured		
Purchased	2,128	2,985
Total nonaccrual loans secured by real estate	30,378	19,851
Auto and RV Secured	453	534
Total nonperforming loans	$30,831	$20,385
Nonperforming loans to total loans	0.62 %	0.57 %

The increase in non-performing loans as a percentage of total loans is primarily the result of two single family residential loans that were placed on non-performing status during the second fiscal quarter of 2015 and remained non-performing through the quarter ended June 30, 2015. Approximately 16.08% of our non-performing loans at June 30, 2015 were considered TDRs, compared to 19.60% at June 30, 2014. Borrowers who make timely payments after TDRs are considered non-performing for at least six months.

Generally, after six months of timely payments, those TDRs are reclassified from the non-performing loan category to performing and any previously deferred interest income is recognized. Approximately 74.09% of the Bank’s non-performing loans are single family first mortgages already written down to 58.10% in aggregate, of the original appraisal value of the underlying properties. Generally these loans have experienced longer delays completing the foreclosure process due to the poor servicing practices of one of our seller servicers.

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The following tables provide the outstanding unpaid balance of loans that are performing and non-performing by portfolio class as of the dates indicated:

	June 30, 2015									
	Single Family									
(Dollars in thousands)	Mortgage	Home Equity	Warehouse & Other	Multi-family real estate secured	Commercial real estate secured	Auto and RV secured	Factoring	Commercial & Industrial	Other	Total
Performing	$2,957,953	$3,595	$385,413	$1,180,132	$59,275	$12,687	$122,200	$248,584	$601	$4,970,440
Non-performing	22,842	9	—	5,399	2,128	453	—	—	—	30,831
Total	$2,980,795	$3,604	$385,413	$1,185,531	$61,403	$13,140	$122,200	$248,584	$601	$5,001,271

	June 30, 2014									
	Single Family									
(Dollars in thousands)	Mortgage	Home Equity	Warehouse & Other	Multi-family real estate secured	Commercial real estate secured	Auto and RV secured	Factoring	Commercial & Industrial	Other	Total
Performing	$1,906,230	$12,522	$370,717	$974,209	$21,076	$14,206	$118,945	$152,619	$1,971	$3,572,495
Non-performing	12,396	168	—	4,302	2,985	534	—	—	—	20,385
Total	$1,918,626	$12,690	$370,717	$978,511	$24,061	$14,740	$118,945	$152,619	$1,971	$3,592,880

The Company divides loan balances when determining general loan loss reserves between purchases and originations as follows:

	June 30, 2015								
	Single Family Real Estate Secured: Mortgage			Multifamily Real Estate Secured			Commercial Real Estate Secured		
(Dollars in thousands)	Origination	Purchase	Total	Origination	Purchase	Total	Origination	Purchase	Total
Performing	$2,869,119	$88,834	$2,957,953	$1,048,266	$131,866	$1,180,132	$46,577	$12,698	$59,275
Non-performing	16,485	6,357	22,842	3,430	1,969	5,399	—	2,128	2,128
Total	$2,885,604	$95,191	$2,980,795	$1,051,696	$133,835	$1,185,531	$46,577	$14,826	$61,403

	June 30, 2014								
	Single Family Real Estate Secured: Mortgage			Multifamily Real Estate Secured			Commercial Real Estate Secured		
(Dollars in thousands)	Origination	Purchase	Total	Origination	Purchase	Total	Origination	Purchase	Total
Performing	$1,797,526	$108,704	$1,906,230	$816,682	$157,527	$974,209	$6,164	$14,912	$21,076
Non-performing	4,073	8,323	12,396	2,307	1,995	4,302	—	2,985	2,985
Total	$1,801,599	$117,027	$1,918,626	$818,989	$159,522	$978,511	$6,164	$17,897	$24,061

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From time to time the Company modifies loan terms temporarily for borrowers who are experiencing financial stress. These loans are performing and accruing and will generally return to the original loan terms after the modification term expires.

During the temporary period of modification, the company classifies these loans as performing TDRs that consisted of the following as of the dates indicated:

	June 30, 2015									
	Single Family									
(Dollars in thousands)	Mortgage	Home Equity	Warehouse & Other	Multi-family real estate secured	Commercial real estate secured	Auto and RV secured	Factoring	Commercial & Industrial	Other	Total
Performing loans temporarily modified as TDR	$217	$—	$—	$—	$ —	$—	$—	$ —	$—	$217
Non-performing loans	22,842	9	—	5,399	2,128	453	—	—	—	30,831
Total impaired loans	$23,059	$9	$—	$5,399	$ 2,128	$453	$—	$ —	$—	$31,048

	Year Ended June 30, 2015									
	Single Family									
(Dollars in thousands)	Mortgage	Home Equity	Warehouse & Other	Multi-family real estate secured	Commercial real estate secured	Auto and RV secured	Factoring	Commercial & Industrial	Other	Total
Interest income recognized on performing TDRs	$17	$—	$—	$—	$ 20	$—	$—	$ —	$—	$37
Average balances of performing TDRs	$500	$—	$—	$—	$ 278	$—	$—	$ —	$—	$778
Average balances of impaired loans	$21,106	$51	$—	$5,320	$ 3,028	$462	$—	$ —	$—	$29,967

	June 30, 2014									
	Single Family									
(Dollars in thousands)	Mortgage	Home Equity	Warehouse & Other	Multi-family real estate secured	Commercial real estate secured	Auto and RV secured	Factoring	Commercial & Industrial	Other	Total
Performing loans temporarily	$989	$—	$—	$—	$ 1,390	$—	$—	$ —	$—	$2,379

modified as TDR										
Non-performing loans	12,396	168	—	4,301	2,986	534	—	—	—	20,385
Total impaired loans	$13,385	$168	$—	$4,301	$ 4,376	$534	$—	$ —	$—	$22,764

	Year Ended June 30, 2014									
	Single Family									
(Dollars in thousands)	Mortgage	Home Equity	Warehouse & Other	Multi-family real estate secured	Commercial real estate secured	Auto and RV secured	Factoring	Commercial & Industrial	Other	Total
Interest income recognized on performing TDRs	$39	$—	$—	$—	$ 80	$—	$—	$ —	$—	$119
Average balances of performing TDRs	$1,003	$32	$—	$542	$ 1,407	$456	$—	$ —	$—	$3,440
Average balances of impaired loans	$10,957	$60	$—	$5,021	$ 3,900	$898	$9	$ —	$5	$20,850

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(Dollars in thousands)	June 30, 2013 Single Family Mortgage	Home Equity	Warehouse & Other	Multi-family real estate secured	Commercial real estate secured	Auto and RV secured	Factoring	Commercial & Industrial	Other	Total
Performing loans temporarily modified as TDR	$1,019	$20	$—	$1,623	$ —	$876	$—	$ —	$—	$3,538
Non-performing loans	11,353	37	—	2,882	3,559	472	—	—	—	18,303
Total impaired loans	$12,372	$57	$—	$4,505	$ 3,559	$1,348	$—	$ —	$—	$21,841

(Dollars in thousands)	Year Ended June 30, 2013 Single Family Mortgage	Home Equity	Warehouse & Other	Multi-family real estate secured	Commercial real estate secured	Auto and RV secured	Factoring	Commercial & Industrial	Other	Total
Interest income recognized on performing TDRs	$41	$1	$—	$121	$ —	$73	$—	$ —	$—	$236
Average balances of performing TDRs	$1,461	$29	$—	$1,059	$ —	$1,032	$—	$ —	$—	$3,581
Average balances of impaired loans	$13,272	$98	$—	$5,250	$ 2,878	$1,858	$—	$ —	$11	$23,367

Interest recognized on performing loans temporarily modified as TDRs was $37, $119, and $236 for the years ended June 30, 2015, 2014 and 2013 respectively. The average balances of performing TDRs and non-performing loans was $778 and $29,967 for the year ended June 30, 2015, $3,440 and $20,850 for the year ended June 30, 2014 and $3,581 and $23,367 for the year ending June 30, 2013, respectively.

The Company's loan modifications included Single Family, Multifamily and Commercial loans of which included one or a combination of the following: a reduction of the stated interest rate or delinquent property taxes that were paid by the Bank and either repaid by the borrower over a one-year period or capitalized and amortized over the remaining life of the loan. The Company's loan modifications also included RV loans in which borrowers were able to make interest-only payments for a period of six months to one year which then reverted back to fully amortizing.

The following tables present the loans modified as TDRs during the period indicated:

(Dollars in thousands)	Year Ended June 30, 2015	2014	2013
Single family real estate secured:			

Mortgage			
In-house originated	$36	$—	$—
Purchased	—	211	832
Multifamily real estate secured			
Purchased	—	—	1,342
Commercial real estate secured			
Purchased	—	—	1,455
Total TDR loans secured by real estate	$36	$211	$3,629
Other	—	—	—
Total loans modified as TDRs	$36	$211	$3,629

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The following tables present loans by class modified as troubled debt restructurings that occurred during the periods indicated:

	Year Ended June 30, 2015		
(Dollars in thousands)	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings:			
Single family real estate secured:			
Mortgage			
In-house originated	1	$36	$36
Total	1	$36	$36

	Year Ended June 30, 2014		
(Dollars in thousands)	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings:			
Single family real estate secured:			
Mortgage			
Purchased	2	$211	$211
Total	2	$211	$211

	Year Ended June 30, 2013		
(Dollars in thousands)	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings:			
Single family real estate secured:			
Mortgage			
Purchased	3	$832	$832
Multifamily real estate secured			
Purchased	1	1,342	1,342
Commercial real estate secured			
Purchased	1	1,455	1,455
Total	5	$3,629	$3,629

The Company had no loans modified as TDRs within the previous twelve months for which there was a payment default for the fiscal years ended June 30, 2015 and June 30, 2014, respectively. The Company defines a payment default as 90 days past due.

Credit Quality Indicators. The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans as to credit risk. The Company uses the following definitions for risk ratings.

Pass. Loans classified as pass are well protected by the current net worth and paying capacity of the obligor or by the fair value, less cost to acquire and sell, of any underlying collateral in a timely manner.

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Special Mention. Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

Substandard. Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.
Doubtful. Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

The Company reviews and grades loans following a continuous loan review process, featuring coverage of all loan types and business lines at least quarterly. Continuous reviewing provides more effective risk monitoring because it immediately tests for potential impacts caused by changes in personnel, policy, products or underwriting standards.

The following tables present the composition of our loan portfolio by credit quality indicator as of the dates indicated:

	June 30, 2015									
(Dollars in thousands)	Pass		Special Mention		Substandard		Doubtful		Total	
Single family real estate secured:										
Mortgage										
In-house originated	$2,855,637		$11,256		$18,711		$—		$2,885,604	
Purchased	87,256		216		7,719		—		95,191	
Home equity										
In-house originated	3,473		—		131		—		3,604	
Warehouse and other										
In-house originated	375,588		9,825		—		—		385,413	
Multifamily real estate secured										
In-house originated	1,036,718		10,926		4,052		—		1,051,696	
Purchased	127,839		3,470		2,526		—		133,835	
Commercial real estate secured										
In-house originated	46,577		—		—		—		46,577	
Purchased	9,947		2,444		2,435		—		14,826	
Auto and RV secured										
In-house originated	12,630		19		491		—		13,140	
Factoring	122,200		—		—		—		122,200	
Commercial & Industrial	239,415		9,169		—		—		248,584	
Other	601		—		—		—		601	
Total	$4,917,881		$47,325		$36,065		$—		$5,001,271	
As of % of gross loans	98.3	%	1.0	%	0.7	%	—	%	100.0	%

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(Dollars in thousands)	June 30, 2014 Pass	Special Mention	Substandard	Doubtful	Total
Single family real estate secured:					
Mortgage					
In-house originated	$1,784,694	$11,083	$5,822	$—	$1,801,599
Purchased	104,457	3,030	9,540	—	117,027
Home equity					
In-house originated	4,035	30	168	—	4,233
Purchased	8,457	—	—	—	8,457
Warehouse and other					
In-house originated	370,717	—	—	—	370,717
Multifamily real estate secured					
In-house originated	796,119	16,068	6,802	—	818,989
Purchased	150,534	2,896	6,092	—	159,522
Commercial real estate secured					
In-house originated	6,164	—		—	6,164
Purchased	13,211	—	4,686	—	17,897
Auto and RV secured					
In-house originated	13,943	145	652	—	14,740
Factoring	118,945	—	—	—	118,945
Commercial & Industrial	152,619	—	—	—	152,619
Other	1,971	—	—	—	1,971
Total	$3,525,866	$33,252	$33,762	$—	$3,592,880
As of % of gross loans	98.1 %	0.9 %	1.0 %	— %	100.0 %

The Company considers the performance of the loan portfolio and its impact on the allowance for loan losses. The Company also evaluates credit quality based on the aging status of its loans.

The following tables provide the outstanding unpaid balance of loans that are past due 30 days or more by portfolio class as of the dates indicated:

(Dollars in thousands)	June 30, 2015 30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total
Single family real estate secured:				
Mortgage				
In-house originated	$1,275	$2,876	$11,450	$15,601
Purchased	472	—	3,371	3,843
Home equity				
In-house originated	130	—	—	130
Multifamily real estate secured				
In-house originated	244	—	791	1,035
Purchased	—	—	321	321
Commercial real estate secured				
Purchased	782	—	382	1,164
Auto and RV secured				
In-house originated	271	125	67	463
Total	$3,174	$3,001	$16,382	$22,557
As a % of gross loans	0.06 %	0.06 %	0.33 %	0.45 %

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(Dollars in thousands)	June 30, 2014 30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total
Single family real estate secured:				
Mortgage				
In-house originated	$4,519	$489	$2,660	$7,668
Purchased	1,468	390	3,661	5,519
Home equity				
In-house originated	21	—	—	21
Multifamily real estate secured				
In-house originated	291	—	293	584
Purchased	—	—	125	125
Commercial real estate secured				
Purchased	—	—	383	383
Auto and RV secured				
In-house originated	177	—	64	241
Factoring	48	—	—	48
Commercial & Industrial	—	328	—	328
Total	$6,524	$1,207	$7,186	$14,917
	0.18 %	0.04 %	0.20 %	0.42 %

5. FURNITURE, EQUIPMENT AND SOFTWARE

A summary of the cost and accumulated depreciation and amortization for leasehold improvements, furniture, equipment and software is as follows:

(Dollars in thousands)	At June 30, 2015	2014
Leasehold improvements	$1,508	$1,513
Furniture and fixtures	3,767	3,028
Computer hardware and equipment	7,105	5,220
Software	7,160	4,792
Total	19,540	14,553
Less accumulated depreciation and amortization	(10,989)	(7,846)
Furniture, equipment and software — net	$8,551	$6,707

Depreciation and amortization expense for the years ended June 30, 2015, 2014 and 2013 amounted to $3,273, $2,874, and $1,904, respectively.

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6. DEPOSITS

Deposit accounts are summarized as follows:

	At June 30, 2015		2014	
(Dollars in thousands)	Amount	Rate[1]	Amount	Rate[1]
Non-interest bearing	$309,339	— %	$186,786	— %
Interest bearing:				
Demand	1,224,308	0.48 %	1,129,535	0.63 %
Savings	2,126,792	0.67 %	935,973	0.73 %
	3,351,100	0.60 %	2,065,508	0.67 %
Time deposits:				
Under $100,000	70,369	1.26 %	107,294	1.23 %
$100,000 or more[2]	721,109	2.06 %	681,948	1.67 %
Total time deposits	791,478	1.99 %	789,242	1.61 %
Total interest bearing[2]	4,142,578	0.87 %	2,854,750	0.93 %
Total deposits	$4,451,917	0.81 %	$3,041,536	0.88 %

1. Based on weighted-average stated interest rates at end of period.
2. The total interest-bearing includes brokered deposits of $661.9 million and $404.8 million as of June 30, 2015 and June 30, 2014, respectively, of which $356.3 million and $275.4 million, respectively, are time deposits classified as $100,000 or more.

The scheduled maturities of time deposits are as follows:

(Dollars in thousands)	At June 30, 2015
Within 12 months	$373,999
13 to 24 months	73,118
25 to 36 months	36,991
37 to 48 months	4,605
49 to 60 months	71,212
Thereafter	231,553
Total	$791,478

At June 30, 2015 and 2014, the Company had deposits from principal officers, directors and their affiliates in the amount of $4,458 and $907, respectively.

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7. ADVANCES FROM THE FEDERAL HOME LOAN BANK

At June 30, 2015 and 2014, the Company’s fixed-rate FHLB advances had interest rates that ranged from 0.24% to 5.62% with a weighted average of 1.36% and ranged from 0.18% to 5.62% with a weighted average of 0.97%, respectively.

Fixed-rate advances from FHLB are scheduled to mature as follows:

	At June 30,					
	2015			2014		
(Dollars in thousands)	Amount	Weighted-Average Rate		Amount	Weighted-Average Rate	
Within one year	$323,000	0.45	%	$555,000	0.32	%
After one but within two years	95,000	1.24	%	15,000	2.46	%
After two but within three years	30,000	2.80	%	115,000	1.36	%
After three but within four years	135,000	2.03	%	30,000	2.80	%
After four but within five years	55,000	1.79	%	135,000	2.03	%
After five years	115,000	2.65	%	60,000	2.58	%
Total	$753,000	1.36	%	$910,000	0.97	%

At June 30, 2015, a total of $5.0 million of FHLB advances include agreements that allow the FHLB, at its option, to put the advances back to the Company after specified dates. Under the terms of the putable advances, the Company could be required to repay all of the principal and accrued interest before the maturity date. The weighted-average remaining contractual maturity period of the $5.0 million in advances is 2.58 years and the weighted average remaining period before such advances could be put to the Company is 0.07 years.

The Company’s advances from the FHLB were collateralized by certain real estate loans with an aggregate unpaid balance of $2,568,575 and $1,889,405 at June 30, 2015 and 2014, respectively, by the Company’s investment in capital stock of the FHLB of San Francisco and by its investment in mortgage-backed securities. Generally, each advance is payable in full at its maturity date with a prepayment penalty for fixed and adjustable rate advances.

The maximum amounts advanced at any month-end during the period from the FHLB were $1,075,000, $910,000, and $590,417 during the years ended June 30, 2015, 2014, and 2013, respectively. At June 30, 2015, the Company is fully collateralized and had $1,584,729 available immediately for advances from the FHLB for terms up to ten years.

8. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

The Company has sold securities under various agreements to repurchase for total proceeds of $35,000. The repurchase agreements have fixed interest rates between 3.75% and 4.75%, weighted average rate of 4.38%, and scheduled maturities between April 2017 and December 2017. Under these agreements, the Company may be required to repay the $35,000 and repurchase its securities before the scheduled maturity if the issuer requests repayment on scheduled quarterly call dates. The weighted-average remaining contractual maturity period is 2.11 years and the weighted average remaining period before such repurchase agreements could be called is 0.14 years.

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9. JUNIOR SUBORDINATED DEBENTURES AND OTHER BORROWINGS

Junior Subordinated Debentures. On December 13, 2004, the Company entered into an agreement to form an unconsolidated trust which issued $5,000 of trust preferred securities in a transaction that closed on December 16, 2004. The net proceeds from the offering were used to purchase $5,155 of junior subordinated debentures ("Debentures") of the Company with a stated maturity date of February 23, 2035. The Debentures are the sole assets of the trust. The trust preferred securities are mandatorily redeemable upon maturity, or upon earlier redemption as provided in the indenture. The Company has the right to redeem the Debentures in whole (but not in part) on or after specific dates, at a redemption price specified in the indenture plus any accrued but unpaid interest through the redemption date. Interest accrues at the rate of three-month LIBOR plus 2.4% (with LIBOR at 2.68% as of June 30, 2015), with interest paid quarterly starting February 16, 2005.

The Bank has the ability to borrow short-term from the Federal Reserve Bank Discount Window. At June 30, 2015 and 2014 there were no amounts outstanding and the available borrowings from this source were $8,705 and $16,582, respectively. The 2015 available borrowings would be collateralized by consumer loans and mortgage-backed securities totaling $11,321 and $13,938, respectively. The Bank has additional unencumbered collateral that could be pledged to the Federal Reserve Bank Discount Window to increase borrowing liquidity.

The Bank has federal funds lines of credit with two major banks totaling $35.0 million. At June 30, 2015 and 2014 the Bank had no outstanding balances on these lines.

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10. INCOME TAXES

The provision for income taxes is as follows:

(Dollars in thousands)	At June 30, 2015	2014	2013
Current:			
Federal	$49,801	$31,069	$24,875
State	17,192	9,284	7,653
	66,993	40,353	32,528
Deferred:			
Federal	(7,015)	(1,645)	(3,585)
State	(1,803)	(395)	(1,033)
	(8,818)	(2,040)	(4,618)
Total	$58,175	$38,313	$27,910

The differences between the statutory federal income tax rate and the effective tax rates are summarized as of:

	At June 30, 2015	2014	2013
Statutory federal tax rate	35.00 %	35.00 %	35.00 %
Increase (decrease) resulting from:			
State taxes—net of federal tax benefit	6.81 %	6.67 %	7.29 %
Cash surrender value	(0.04)%	(0.07)%	(0.09)%
Tax credits	(0.24)%	(0.20)%	(0.69)%
Non-taxable income	(0.58)%	(0.56)%	(0.79)%
Other	0.35 %	(0.20)%	0.20 %
Effective tax rate	41.30 %	40.64 %	40.92 %

The components of the net deferred tax asset are as follows:

(Dollars in thousands)	At June 30, 2015	2014
Deferred tax assets:		
Allowance for loan losses and charge-offs	$13,047	$8,398
State taxes	2,581	973
Stock-based compensation expense	1,397	885
Unrealized net losses on securities	6,905	7,899
Deferred bonus / vacation	416	495
Securities impaired	10,903	9,633
Deferred loan fees	60	—
Total deferred tax assets	35,309	28,283
Deferred tax liabilities:		
Deferred loan fees	—	(467)
FHLB stock dividend	(1,180)	(1,171)
Other assets—prepaids	(632)	(427)
Depreciation	(542)	(973)
Total deferred tax liabilities	(2,354)	(3,038)
Net deferred tax asset	$32,955	$25,245

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The Company establishes a valuation allowance if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. As of June 30, 2015 and 2014, the Company believes that it will have sufficient earnings to realize its deferred tax asset and has not provided an allowance.
The following is a reconciliation of the beginning and ending amount of unrecognized tax positions for the periods presented:

(Dollars in thousands)	2015	2014	2013
Balance at July 1	$293	$1,122	$78
Additions – current year tax positions	135	55	678
Additions – prior year tax positions	568	30	568
Reductions – prior year tax positions	(217)	(914)	(202)
Total liability for unrecognized tax positions at June 30	$779	$293	$1,122

The Company is subject to federal income tax and income tax of state taxing authorities. The Company’s federal income tax returns for the years ended June 30, 2012, 2013, and 2014 and its state taxing authorities income tax returns for the years ended June 30, 2011, 2012, 2013 and 2014 are open to audit under the statutes of limitations by the Internal Revenue Service and state taxing authorities.

11. STOCKHOLDERS’ EQUITY

Common Stock. Changes in common stock issued and outstanding were as follows:

	At June 30,					
	2015		2014		2013	
	Issued	Outstanding	Issued	Outstanding	Issued	Outstanding
Beginning of year:	15,423,822	14,451,900	14,638,229	13,733,325	12,321,578	11,512,536
Common stock issued through option exercise or exchange	86,350	44,063	55,532	55,532	27,135	27,135
Common stock issued through public offering	949,089	949,089	560,301	560,301	200,000	200,000
Common stock issued through preferred stock conversion	—	—	—	—	1,855,411	1,855,411
Common stock issued through grants of restricted stock units	129,850	73,699	169,760	102,742	234,105	138,243
End of year:	16,589,111	15,518,751	15,423,822	14,451,900	14,638,229	13,733,325

On March 11, 2013, the Company entered into an At-the-Market (ATM) Equity Distribution Agreement with each of Raymond James & Associates, Inc., JMP Securities LLC, Liquidnet, Inc., and Sandler O’Neill + Partners L.P. (the “Distribution Agents”) pursuant to which we may issue and sell through the Distribution Agents from time to time shares of our common stock in at the market offerings with an aggregate offering price of up to $50,000 (the “ATM Offering”). The sales of shares of our common stock under the Equity Distribution Agreement are to be made in “at the market” offerings as defined in Rule 415 of the Securities Act of 1933, as amended, including sales made directly on the NASADAQ Global Select Market (the principal existing trading market for our common stock), or sales made through a market maker or any other trading market for our common stock, or (with prior consent) in privately negotiated transactions at negotiated prices.

The aggregate compensation payable to the Distribution Agents under the Distribution Agreement is 2.5% of the gross sales price of the shares sold under the agreement. The Company has also agreed to reimburse the Distribution Agents for up to $125 of their expenses and have provided the Distribution Agents with customary indemnification rights.

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In fiscal year 2013, the Company commenced sales of common stock through the ATM Offering. The details of the shares of common stock sold through the ATM Offering through June 30, 2014 are as follows (dollars in thousands, except per share data):

Distribution Agent	Month	Weighted Average Per Share Price	Number of Shares Sold	Net Proceeds	Compensation to Distribution Agent
Raymond James & Associates	March 2013	$35.25	200,000	$6,874	$176
Raymond James & Associates	October 2013	$70.53	49,580	$3,409	$87
Raymond James & Associates	November 2013	$72.37	147,820	$10,431	$267
Raymond James & Associates	December 2013	$79.30	38,599	$2,984	$77
Raymond James & Associates	January 2014	$80.39	90,000	$7,054	$181
Raymond James & Associates	February 2014	$81.51	49,608	$3,942	$101
Sandler O'Neill & Partners, L.P.	May 2014	$77.83	124,000	$9,409	$241
Sandler O'Neill & Partners, L.P.	June 2014	$78.52	60,694	$4,647	$119

As of June 30, 2014, the total gross sales the Company completed under the ATM Offering was $50,000.

On July 22, 2014, we entered into an At-the-Market (“ATM”) Equity Distribution Agreement with Keefe, Bruyette & Woods, Inc., Raymond James & Associates, Inc. and Sterne, Agee & Leach, Inc. (the “Distribution Agents”) pursuant to which we may issue and sell through the Distribution Agents from time to time shares of our common stock in at the market offerings with an aggregate offering price of up to $50,000 (the “ATM Offering”). The sales of shares of our common stock under the Equity Distribution Agreement are to be made in “at the market” offerings as defined in Rule 415 of the Securities Act of 1933, as amended, including sales made directly on the NASDAQ Global Select Market (the principal existing trading market for our common stock), or sales made through a market maker or any other trading market for our common stock, or (with our prior consent) in privately negotiated transactions at negotiated prices.

The aggregate compensation payable to the Distribution Agents under the Distribution Agreement is 2.5% of the gross sales price of the shares sold under the agreement. The Company has also agreed to reimburse the Distribution Agents for up to $75 of their expenses and have provided the Distribution Agents with customary indemnification rights.

In August 2014, we commenced sales of common stock through the ATM Offering. The details of the shares of common stock sold through the ATM Offering through January 31, 2015 are as follows (dollars in thousands, except per share data):

Distribution Agent	Month	Weighted Average Per Share Price	Number of Shares Sold	Net Proceeds	Compensation to Distribution Agent
Keefe, Bruyette & Woods, Inc.	August 2014	$78.72	44,417	$3,409	$87
Keefe, Bruyette & Woods, Inc.	September 2014	$74.58	236,800	$17,218	$441
Keefe, Bruyette & Woods, Inc.	October 2014	$70.22	50,000	$3,423	$88
Keefe, Bruyette & Woods, Inc.	November 2014	$78.30	130,000	$9,924	$254
Keefe, Bruyette & Woods, Inc.	December 2014	$78.76	66,800	$5,130	$132
Keefe, Bruyette & Woods, Inc.	January 2015	$81.38	121,570	$9,646	$248

As of January 31, 2015, the total gross sales were $50,000 and completed this offering.

On February 23, 2015, we entered into an ATM Equity Distribution Agreement with FBR Capital Markets & Co., Sterne, Agee & Leach, Inc. and Raymond James & Associates, Inc. (the “2015 Distribution Agents”) pursuant to which we may issue and sell through the 2015 Distribution Agents from time to time shares of our common stock in at the market offerings with an aggregate offering price of up to $50,000 (the “2015 ATM Offering”). The sales of shares of our common stock under the Equity Distribution Agreement are to be made in “at the market” offerings as defined in Rule 415 of the Securities Act of 1933, as amended, including sales made directly on the NASDAQ Global Select

Market (the principal existing trading market for our common stock), or sales made through a market maker or any other trading market for our common stock, or (with our prior consent) in privately negotiated transactions at negotiated prices.
The aggregate compensation payable to the 2015 Distribution Agents under the Distribution Agreement will not exceed 2.5% of the gross sales price of the shares sold under the agreement. We have also agreed to reimburse the 2015 Distribution Agents for up to $75 in their expenses through September 30, 2015 and up to $25 thereafter and have provided the 2015 Distribution Agents with customary indemnification rights.

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In February 2015, we commenced sales of common stock through the 2015 ATM Offering. The details of the shares of common stock sold through the 2015 ATM Offering through June 30, 2015 are as follows (dollars in thousands, except per share data):

Distribution Agent	Month	Weighted Average Per Share Price	Number of Shares Sold	Net Proceeds	Compensation to Distribution Agent
FBR Capital Markets & Co.	February 2015	$90.71	10,000	$884	$23
FBR Capital Markets & Co.	March 2015	$93.50	129,632	$11,818	$303
FBR Capital Markets & Co.	April 2015	$92.41	66,272	$5,971	$153
FBR Capital Markets & Co.	May 2015	$94.77	30,700	$2,837	$73
FBR Capital Markets & Co.	June 2015	$98.77	62,898	$6,057	$155

As of June 30, 2015, the total gross sales were $28,300 and the remaining amount of common stock we have available under the 2015 ATM offering to sell was $21,700.

Convertible Preferred Stock. On October 28, 2003, the Company commenced a private placement of Series A-6% Cumulative Nonparticipating Perpetual Preferred Stock (the “Series A preferred stock”). The rights, preferences and privileges of the Series A preferred stock were established in a certificate filed by the Company with the State of Delaware on October 27, 2003, and generally include the holder’s right to a six percent (6%) per annum cumulative dividend payable quarterly and the Company’s right to redeem some or all of the remaining 515 shares at $10,000 face value outstanding shares. The holder’s right to convert to the Company’s common stock expired on January 1, 2009.

During the fiscal year ended June 30, 2004, the Company issued $6,750 of Series A preferred stock, convertible through January 1, 2009, representing 675 shares at $10,000 face value, less issuance costs of $113. Before the expiration of the conversion right, holders of the Series A converted 160 shares of Series A preferred to common stock. The Company has declared dividends to holders of its Series A preferred stock totaling $309 for each of the years ended June 30, 2015, 2014, and 2013, respectively.

On September 11, 2012, the Company mandatorily converted the outstanding 20,132 shares of the Series B non-cumulative perpetual convertible preferred stock (“the series B preferred stock”). The Series B preferred stock was converted into 1,246,571 shares of our common stock, which reflects an approximate initial conversion price of $16.15 per share of our common stock, plus cash in lieu of fractional shares.

On various dates beginning on October 11, 2012, the Company entered into subscription agreements (the “Subscription Agreements”) with various institutional and individual accredited investors under which the Company sold an aggregate of 1,857 shares of its 6.0% Series C Non-Cumulative Perpetual Convertible Preferred Stock, par value $0.01 per share (the “Series C Preferred Stock”) for a purchase price of $10,000 per share or an aggregate of $18,570, with net proceeds after expenses of approximately $18,544. The terms of the Series C Preferred Stock are more fully described in the Certificate of Designations filed by the Company with the Secretary of State of the State of Delaware on October 11, 2012 designating the rights, preferences and privileges of the Series C Preferred Stock (the “Certificate of Designations”).

On April 24, 2013, the Company completed the mandatory conversion of the Company’s 1,857 shares of the Series C preferred stock. The Series C preferred stock was converted into 608,840 shares of common stock, which reflects an approximate initial conversion price of $30.50 per share of our common stock, plus cash in lieu of fractional shares.

12. STOCK-BASED COMPENSATION

The Company has three equity incentive plans, the 2014 Stock Incentive Plan (“2014 Plan”), the 2004 Stock Incentive Plan (“2004 Plan”) and the 1999 Stock Option Plan (collectively, the “Plans”), which provide for the granting of non-qualified and incentive stock options, restricted stock and restricted stock units, stock appreciation rights and other awards to employees, directors and consultants.

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1999 Stock Option Plan. In July 1999, the Company's Board of Directors approved the 1999 Stock Option Plan and in August 2001, the Company's shareholders approved an amendment to the 1999 Plan such that 15% of the outstanding shares of the Company would always be available for grants under the 1999 Plan. The 1999 Plan is designed to encourage selected employees and directors to improve operations and increase profits, to accept or continue employment or association with the Company through participation in the growth in the value of the common stock. The 1999 Plan requires that option exercise prices be not less than fair market value per share of common stock on the option grant date for incentive and nonqualified options. The options issued under the 1999 Plan generally vest between three and five years. Option expiration dates are established by the plan administrator but may not be later than 10 years after the date of the grant.

In November 2007, the shareholders of the Company approved the termination of the 1999 Plan. No new option awards will be made under the 1999 Plan and the outstanding awards under the 1999 Plan will continue to be subject to the terms and conditions of the 1999 Plan. As of June 30, 2014 there were no longer any outstanding stock options under the 1999 plan.

2004 Stock Incentive Plan. In October 2004, the Company's Board of Directors and the stockholders approved the 2004 Plan. In November 2007, the 2004 Plan was amended and approved by the Company's stockholders. The maximum number of shares of common stock available for issuance under the 2004 Plan is 14.8% of the Company's outstanding common stock measured from time to time. In addition, the number of shares of the Company's common stock reserved for issuance will also automatically increase by an additional 1.5% on the first day of each of four fiscal years starting July 1, 2007. With the stockholders approving the 2014 Plan in October 2014, no further awards will be made under the 2004 Plan and the 2004 Plan will remain in effect only so long as awards made thereunder remain outstanding.

2014 Stock Incentive Plan. In September and October 2014, the Company's Board of Directors and stockholders approved the 2014 Plan, respectively. The maximum number of shares of common stock available for issuance under the 2014 Plan is 920,000.

Stock Options. A summary of stock option activity under the Plans during the periods indicated is presented below:

	Number of Shares [1]		Weighted-Average Exercise Price Per Share
Outstanding—June 30, 2012	190,117		$8.93
Granted	—		—
Exercised	(27,135	)	9.59
Converted	—		—
Canceled	(500	)	11.00
Outstanding—June 30, 2013	162,482		$8.81
Granted	—		—
Exercised	(55,532	)	9.00
Converted	—		—
Canceled	—		—
Outstanding—June 30, 2014	106,950		$8.71
Granted	—		—
Exercised	(86,350	)	9.04
Converted	—		—
Canceled	—		—
Outstanding—June 30, 2015	20,600		$7.35
Options exercisable—June 30, 2013	162,482		$8.81

Options exercisable—June 30, 2014	106,950	$8.71
Options exercisable—June 30, 2015	20,600	$7.35

[1] All options outstanding are vested.

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The following table summarizes information as concerning currently outstanding and exercisable options:

June 30, 2015

Options Outstanding			Options Exercisable	
Exercise Prices	Number Outstanding	Weighted- Average Remaining Contractual Life (Years)	Number Exercisable	Weighted-Average Exercise Price
$7.35	20,600	1.1	20,600	$7.35

The aggregate intrinsic value of options outstanding and options exercisable under the Plans at June 30, 2015 was $2,026. The aggregate intrinsic value of options exercised or converted during the years ended June 30, 2015, 2014 and 2013 was $7,834, $4,021 and $929, respectively.

Restricted Stock and Restricted Stock Units. During the fiscal year ended June 30, 2013, the Company's Board of Directors granted 181,483 restricted stock units to employees and directors. The chief executive officer received 64,000 restricted stock units, which vest ratably on each of the four fiscal year ends after the issue date. All other restricted stock unit awards granted during the year ended June 30, 2013, vest over three years, one-third on each anniversary of the grant date and 213,355 shares were vested and issued and 30,305 shares were canceled as of June 30, 2013.

During the fiscal year ended June 30, 2014, the Company's Board of Directors granted 132,944 restricted stock units to employees and directors. The chief executive officer received 72,000 restricted stock units, which vest ratably on each of the four fiscal year ends after the issue date. All other restricted stock unit awards granted during the year ended June 30, 2014, vest over three years, one-third on each anniversary of the grant date and 169,760 shares were vested and issued and 25,230 shares were canceled as of June 30, 2014.

During the fiscal year ended June 30, 2015, the Company's Board of Directors granted 193,956 restricted stock units to employees and directors. The chief executive officer received 72,000 restricted stock units, which vest ratably on each of the four fiscal year ends after the issue date. All other restricted stock unit awards granted during the year ended June 30, 2015, vest over three years, one-third on each anniversary of the grant date and 129,850 shares were vested and issued and 16,776 shares were canceled as of June 30, 2015.

The Company's income before income taxes and net income for the years ended June 30, 2015, 2014 and 2013 included stock compensation expense of $6,648, $4,358 and $3,297, respectively. The income tax benefit was $2,746, $1,771 and $1,349, respectively. The Company recognizes compensation expense based upon the grant-date fair value divided by the vesting and the service period between each vesting date. At June 30, 2015, expense related to stock option grants has been fully recognized.

At June 30, 2015 unrecognized compensation expense related to non-vested awards aggregated to $16,118 and is expected to be recognized in future periods as follows:

(Dollars in thousands)	Stock Award Compensation Expense
For the fiscal year ended June 30:	
2016	$7,465
2017	5,831
2018	2,822
Total	$16,118

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The following table presents the status and changes in restricted stock units grants for the periods indicated:

		Restricted Stock Unit Shares	Weighted-Average Grant-Date Fair Value
Non-vested balance at June 30, 2012		360,662	$13.20
	Granted	181,483	28.83
	Vested	(213,355)	13.32
	Canceled	(30,305)	18.01
Non-vested balance at June 30, 2013		298,485	$22.13
	Granted	132,944	59.91
	Vested	(169,760)	23.37
	Canceled	(25,230)	34.41
Non-vested balance at June 30, 2014		236,439	$41.17
	Granted	193,959	79.94
	Vested	(129,850)	40.44
	Canceled	(16,776)	56.53
Non-vested balance at June 30, 2015		283,772	$68.05

The total fair value of shares vested during the years ended June 30, 2015, 2014 and 2013 was $11,907, $12,211 and $8,070, respectively.

13. EARNINGS PER SHARE

The following table presents the calculation of basic and diluted EPS:

	At June 30,		
(Dollars in thousands, except per share data)	2015	2014	2013
Earnings Per Common Share			
Net income	$82,682	$55,956	$40,291
Preferred stock dividends	(309)	(309)	(835)
Net income attributable to common shareholders	$82,373	$55,647	$39,456
Average common shares issued and outstanding	14,984,961	14,039,809	12,758,381
Average unvested restricted stock grant and RSU shares	309,516	328,015	398,265
Total qualifying shares	15,294,477	14,367,824	13,156,646
Earnings per common share	$5.39	$3.87	$3.00
Diluted Earnings Per Common Share			
Net income attributable to common shareholders	$82,373	$55,647	$39,456
Preferred stock dividends to dilutive convertible preferred	—	—	533
Dilutive net income attributable to common shareholders	$82,373	$55,647	$39,989
Average common shares issued and outstanding	15,294,477	14,367,824	13,156,646
Dilutive effect of stock options	56,614	74,868	88,519
Dilutive effect of convertible preferred stock	—	—	574,247
Total dilutive common shares issued and outstanding	15,351,091	14,442,692	13,819,412
Diluted earnings per common share	$5.37	$3.85	$2.89

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14. COMMITMENTS AND CONTINGENCIES

Operating Leases. The Company leases office space under an operating lease agreement scheduled to expire in June 2020. The Company pays property taxes, insurance and maintenance expenses related to this lease. Rent expense for the years ended June 30, 2015, 2014, and 2013 was $2,806, $2,111, and $1,644, respectively.

Pursuant to the terms of these non-cancelable lease agreements in effect at June 30, 2015, future minimum lease payments are as follows:

(Dollars in thousands)	Future minimum lease payments
2016	$2,673
2017	3,292
2018	3,654
2019	3,821
2020	3,993
Thereafter	—
Total	$17,433

15. OFF-BALANCE-SHEET ACTIVITIES

Credit-Related Financial Instruments. The Company is a party to credit-related financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments are commitments to extend credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets.

The Company's exposure to credit loss is represented by the contractual amount of these commitments. The Company follows the same credit policies in making commitments as it does for on-balance-sheet instruments.

At June 30, 2015, we had fixed and variable rate commitments to originate or purchase loans with an aggregate outstanding principal balance of $68,030 and $143,995 for total commitments to originate of $212,025. For June 30, 2015, our fixed rate commitments to originate had a weighted-average rate of 3.81%. For June 30, 2014, we had fixed and variable rate commitments to originate or purchase loans with an aggregate outstanding principal balance of $40,529 and $133,513 for total commitments to originate of $174,042. For June 30, 2014, our fixed rate commitments to originate had a weighted average rate of 4.06%. At June 30, 2015, we also had fixed and variable rate commitments to sell loans with an aggregate outstanding principal balance of $77,188 and $11,446 for total commitments to sell of $88,634. For June 30, 2014, we had fixed and variable rate commitments to sell of $45,090 and $9,832 for total commitments to sell of $54,922. At June 30, 2015 and 2014, 64.8% and 26.3% of the commitments to originate loans are matched with commitments to sell related to conforming single family loans classified as held for sale, respectively.

Commitments to extend credit are agreements to lend to a customer so long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The commitments for equity lines of credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Company, is based on management's credit evaluation of the customer.

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16. MINIMUM REGULATORY CAPITAL REQUIREMENTS

The Company and Bank are subject to regulatory capital adequacy requirements promulgated by federal bank regulatory agencies. Failure by the Company or Bank to meet minimum capital requirements could result in certain mandatory and discretionary actions by regulators that could have a material adverse effect on the consolidated financial statements. The Federal Reserve establishes capital requirements for the Company and the OCC has similar requirements for the Bank. The following tables present regulatory capital information for the Company and Bank. Information presented for June 30, 2015, reflects the Basel III capital requirements that became effective January 1, 2015 for both the Company and Bank. Prior to January 1, 2015, the Bank was subject to capital requirements under Basel I and there were no capital requirements for the Company. Under these capital requirements and the regulatory framework for prompt corrective action, the Company and Bank must meet specific capital guidelines that involve quantitative measures of the Company and Bank’s assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Company’s and Bank’s capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weightings and other factors.

Quantitative measures established by regulation require the Company and Bank to maintain certain minimum capital amounts and ratios. Federal bank regulators require the Company and Bank maintain minimum ratios of core capital to adjusted average assets of 4.0%, common equity tier 1 capital to risk-weighted assets of 4.5%, tier 1 capital to risk-weighted assets of 6.0% and total risk-based capital to risk-weighted assets of 8.0%. At June 30, 2015, the Company and Bank met all the capital adequacy requirements to which they were subject. At June 30, 2015, the Company and Bank were “well capitalized” under the regulatory framework for prompt corrective action. To be “well capitalized,” the Company and Bank must maintain minimum leverage, common equity tier 1 risk-based, tier 1 risk-based and total risk-based capital ratios of at least 5.0%, 6.5%, 8.0% and 10.0%, respectively. Management believes that no conditions or events have occurred since June 30, 2015 that would materially adversely change the Company’s and Bank’s capital classifications. From time to time, we may need to raise additional capital to support the Company’s and Bank’s further growth and to maintain their “well capitalized” status.

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The Bank's capital amounts, capital ratios and capital requirements were as follows:

	June 30, 2015								
	Actual			For Capital Adequacy Purposes			To Be Well-Capitalized Under Prompt Corrective Action Provisions		
(Dollars in thousands)	Amount	Ratio		Amount	Ratio		Amount	Ratio	
Bank									
Tier 1 leverage (core) capital (to adjusted average assets)	$522,891	9.25	%	$226,168	4.00	%	$282,710	5.00	%
Common equity tier 1 capital (to risk weighted assets)	$522,891	14.58	%	$161,332	4.50	%	$233,035	6.50	%
Tier 1 capital (to risk-weighted assets)	$522,891	14.58	%	$215,109	6.00	%	$286,812	8.00	%
Total capital (to risk-weighted assets)	$551,218	15.38	%	$286,812	8.00	%	$358,515	10.00	%

	June 30, 2014								
	Actual			For Capital Adequacy Purposes			To Be Well-Capitalized Under Prompt Corrective Action Provisions		
(Dollars in thousands)	Amount	Ratio		Amount	Ratio		Amount	Ratio	
Bank									
Tier 1 leverage (core) capital (to adjusted tangible assets)	$382,441	8.66	%	$176,639	4.00	%	$220,799	5.00	%
Tier 1 capital (to risk-weighted assets)	$382,441	14.42	%	N/A	N/A		$159,181	6.00	%
Total capital (to risk-weighted assets)	$400,814	15.11	%	$212,241	8.00	%	$265,302	10.00	%
Tangible capital (to tangible assets)	$382,441	8.66	%	$66,240	1.50	%	N/A	N/A	

The Company's capital amounts, capital ratios and capital requirements were as follows:

	June 30, 2015								
	Actual			For Capital Adequacy Purposes			To Be Well-Capitalized Under Prompt Corrective Action Provisions		
(Dollars in thousands)	Amount	Ratio		Amount	Ratio		Amount	Ratio	
Company									
Tier 1 leverage (core) capital (to adjusted average assets)	$542,924	9.59	%	$226,404	4.00	%	$283,005	5.00	%
Tier 1 capital (to risk-weighted assets)	$537,861	14.98	%	$161,614	4.50	%	$233,443	6.50	%
Total capital (to risk-weighted assets)	$542,924	15.12	%	$215,486	6.00	%	$287,315	8.00	%
Tangible capital (to tangible assets)	$571,251	15.91	%	$287,315	8.00	%	$359,143	10.00	%

Beginning January 1, 2016, Basel III implements a requirement for all banking organizations to maintain a capital conservation buffer above the minimum risk-based capital requirements in order to avoid certain limitations on capital distributions, stock repurchases and discretionary bonus payments to executive officers. The capital conservation buffer will be exclusively composed of common equity tier 1 capital, and it applies to each of the three risk-based capital ratios but not the leverage ratio. On January 1, 2016, the Company and Bank will be expected to comply with the capital conservation buffer requirement, which will increase the three risk-based capital ratios by 0.625% each year through 2019, at which point, the common equity tier 1 risk based, tier 1 risk-based and total risk-based capital ratios will be 7.0%, 8.5% and 10.5%, respectively. If the capital conservation buffer were in effect at June 30, 2015, the Company and Bank would exceed the requirement.

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17. EMPLOYMENT AGREEMENTS AND EMPLOYEE BENEFIT PLANS

Employment Agreements. On May 26, 2011, the Company entered into an Amended and Restated Employment Agreement (the "Agreement") with Mr. Gregory Garrabrants as President and Chief Executive Officer of the Company. The Agreement, effective as of May 26, 2011, amends and restates that employment agreement between the Company and Mr. Garrabrants on October 22, 2007. The term of the Employment Agreement runs through June 30, 2015. Under the Agreement, after July 1, 2011, Mr. Garrabrants will receive an annual base salary of $375. Contingent upon shareholder approval, the Agreement also provides for, an Annual Cash Incentive Award based upon five performance objectives set by the Company which will be individually measured at the end of each fiscal year and could aggregate to an amount between 0% and 105% of Mr. Garrabrants' base salary and an Annual Restricted Stock Unit Award equal to 40,000 shares of common stock multiplied by a factor ranging from 0 to 3 based upon the Company's annual return on average common equity, annual asset growth and certain monthly-agreed qualitative factors established by the Company. Upon termination of the Employment Agreement by the Company "without cause" or by Mr. Garrabrants for "good reason" (as such terms are defined in the Employment Agreement), Mr. Garrabrants will be entitled to (a) an amount in cash equal to two times his base salary, (b) a pro-rated portion of his target annual cash incentive award, (c) accelerated vesting of his equity incentive awards outstanding, including restricted stock unit awards, (d) at the Company's election, either a pro-rated portion of his annual restricted stock unit award based upon the Company's return on equity, or an equivalent amount in cash, and (e) continuation of health benefits for up to twelve months.

On April 22, 2010, the Company and Andrew J. Micheletti, the Company's Executive Vice President and Chief Financial Officer, entered into a material definitive agreement entitled First Amended Employment Agreement (the "Amended Agreement"). Mr. Micheletti's original employment agreement was effective July 1, 2003, and the Amended Agreement replaces the original agreement effective July 1, 2009. The Amended Agreement adds two achievement-based awards; an annual cash bonus target of 30% of current salary based upon specific performance measurements and provides a return on equity benefit of 15,000 shares of the Company's common stock. The return on equity benefit is based upon the Company's achievement of certain levels of return on equity as calculated at the end of each fiscal year. The annual award of common stock units under the return on equity benefit will vest over three years and each year the 15,000 share base award will be adjusted down or up by a series of multiplication factors (ranging from 0, up to 3.4 times) depending on the level of return on equity the Company achieves in each fiscal year. Both the cash bonus and the return on equity benefits require approval by the Board of Directors and the Chief Executive Officer annually under the Amended Agreement. These benefits replaced the deferred compensation and pre-tax net income benefits established in Mr. Micheletti's original agreement in 2003.

401(k) Plan. The Company has a 401(k) plan whereby substantially all of its employees may participate in the plan. Employees may contribute up to 15% of their compensation subject to certain limits based on federal tax laws. The Company expects to implement an employer matching program whereby employer contributions are made to the 401(k) plan. For the 401(k) plan year ending December 31, 2015, the Company plans to make employer contributions in an amount equal to 50% of the first 8% of an employee's designated deferral of their eligible compensation. For the fiscal year ended June 30, 2015, 2014, and 2013 expense attributable to the plan amounted to $110, $1, and $7, respectively.

Deferred Compensation Plans. Effective August 1, 2003, the Company adopted the Bank of Internet USA Nonqualified Deferred Compensation Plans ("Deferred Compensation Plans") which cover designated key management employees and directors who elect to participate. The Deferred Compensation Plans allow eligible employees and directors to elect to defer up to 100% of their compensation, including commissions, bonuses and director fees. Although the Deferred Compensation Plans provide that the Company may make discretionary contributions to a participant's account, no such discretionary contributions have been made through June 30, 2015. Participant deferrals are fully vested at all times, and discretionary contributions, if any, will be subject to a vesting schedule specified by the Company. Participants in the Deferred Compensation Plans may elect to invest their accounts in either of two accounts: (1) which earns interest based upon the prime rate; or (2) which mirrors the performance of the book value of the Company's common stock. The Compensation Committee of the Board of Directors administrates the Deferred Compensation Plans. At June 30, 2015 and 2014, there was $0 and $0 deferred in connection with the Deferred Compensation Plans.

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18. PARENT-ONLY CONDENSED FINANCIAL INFORMATION

The following BofI Holding, Inc. (Parent company only) financial information should be read in conjunction with the consolidated financial statements of the Company and the other notes to the consolidated financial statements:

BofI Holding, Inc.

CONDENSED BALANCE SHEETS

	At June 30,	
(Dollars in thousands)	2015	2014
ASSETS		
Cash and cash equivalents	$22,729	$3,049
Loans	39	34
Investment securities	204	88
Other assets	6,155	4,184
Due from subsidiary	3	86
Investment in subsidiary	513,701	372,074
Total assets	$542,831	$379,515
LIABILITIES AND STOCKHOLDERS' EQUITY		
Junior subordinated debentures	$5,155	$5,155
Accrued interest payable	14	15
Accounts payable and accrued liabilities	4,136	3,567
Total liabilities	9,305	8,737
Stockholders' equity	533,526	370,778
Total liabilities and stockholders' equity	$542,831	$379,515

BofI Holding, Inc.

STATEMENTS OF INCOME

	Year Ended June 30,		
(Dollars in thousands)	2015	2014	2013
Interest income	$111	$82	$130
Interest expense	143	143	151
Net interest (expense) income	(32)	(61)	(21)
Provision for loan losses	—	—	—
Net interest (expense) income, after provision for loan losses	(32)	(61)	(21)
Non-interest income (loss)	(9)	(3)	(112)
Non-interest expense	4,678	3,218	2,532
Income (loss) before dividends from subsidiary and equity in undistributed income of subsidiary	(4,719)	(3,282)	(2,665)
Dividends from subsidiary	—	2,600	1,300
Equity in undistributed earnings of subsidiary	87,401	56,638	41,656
Net income	$82,682	$55,956	$40,291
Comprehensive income	$83,649	$56,390	$34,926

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BofI Holding, Inc.
STATEMENT OF CASH FLOWS

(Dollars in thousands)	Year Ended June 30, 2015	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$82,682	$55,956	$40,291
Adjustments to reconcile net income to net cash used in operating activities:			
Accretion of discounts on securities	(69)	(41)	(70)
Impairment charge on securities	9	56	113
Accretion of discounts on loans	(12)	(12)	(10)
Stock-based compensation expense	6,648	4,358	3,297
Tax effect from exercise of common stock options and vesting of restricted stock grants	(5,526)	(4,856)	(2,332)
Equity in undistributed earnings of subsidiary	(85,368)	(72,296)	(41,693)
Decrease (increase) in other assets	(1,972)	(2,400)	(442)
Increase (decrease) in other liabilities	(3,702)	(616)	(8)
Net cash provided by (used in) operating activities	(7,310)	(19,851)	(854)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from principal repayments on loans	7	9	5
Investment in subsidiary	(55,000)	(42,073)	(20,000)
Net cash used in investing activities	(54,993)	(42,064)	(19,995)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of convertible preferred stock—Series B & C	—	—	18,544
Proceeds from exercise of common stock options	781	500	260
Proceeds from issuance of common stock	75,985	41,576	6,765
Tax effect from exercise of common stock options and vesting of restricted stock grants	5,526	4,856	2,332
Cash dividends on preferred stock	(309)	(309)	(1,137)
Net cash provided by (used in) financing activities	81,983	46,623	26,764
NET CHANGE IN CASH AND CASH EQUIVALENTS	19,680	(15,292)	5,915
CASH AND CASH EQUIVALENTS—Beginning of year	3,049	18,341	12,426
CASH AND CASH EQUIVALENTS—End of year	$22,729	$3,049	$18,341

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19. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

	Quarters Ended in Fiscal Year 2015			
(Dollars in thousands)	June 30,	March 31,	December 31,	September 30,
Interest and dividend income	$67,567	$62,911	$59,081	$54,805
Interest expense	12,273	12,246	10,970	9,930
Net interest income	55,294	50,665	48,111	44,875
Provision for loan losses	2,900	2,900	2,900	2,500
Net interest income after provision for loan losses	52,394	47,765	45,211	42,375
Non-interest income	10,278	8,366	6,697	5,249
Non-interest expense	20,752	20,343	18,937	17,446
Income before income taxes	41,920	35,788	32,971	30,178
Income tax expense	17,525	14,714	13,599	12,337
Net income	$24,395	$21,074	$19,372	$17,841
Net income attributable to common stock	$24,318	$20,997	$19,294	$17,764
Basic earnings per share	$1.55	$1.35	$1.27	$1.20
Diluted earnings per share	$1.54	$1.35	$1.26	$1.20
	Quarters Ended in Fiscal Year 2014			
(Dollars in thousands)	June 30,	March 31,	December 31,	September 30,
Interest and dividend income	$50,142	$45,163	$41,227	$36,346
Interest expense	9,646	9,500	8,400	8,236
Net interest income	40,496	35,663	32,827	28,110
Provision for loan losses	2,250	1,600	1,000	500
Net interest income after provision for loan losses	38,246	34,063	31,827	27,610
Non-interest income	4,723	5,212	5,543	6,976
Non-interest expense	15,766	14,347	15,304	14,514
Income before income taxes	27,203	24,928	22,066	20,072
Income tax expense	11,193	10,318	8,912	7,890
Net income	$16,010	$14,610	$13,154	$12,182
Net income attributable to common stock	$15,933	$14,533	$13,077	$12,104
Basic earnings per share	$1.09	$1.00	$0.92	$0.85
Diluted earnings per share	$1.09	$1.00	$0.91	$0.85