

PROVIDENT FINANCIAL HOLDINGS INC
Form 10-Q
May 09, 2007

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended **March 31, 2007**

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

For the transition period from _____ to _____

Commission File Number **000-28304**

PROVIDENT FINANCIAL HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

33-0704889
(I.R.S. Employer Identification No.)

3756 Central Avenue, Riverside, California 92506

(Address of principal executive offices and zip code)

(951) 686-6060

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes . No .

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

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Large accelerated filer []

Accelerated filer []

Non-accelerated filer []

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS

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

Title of class:
2007

As of May 4,

**Common stock, \$ 0.01 par value, per share
shares***

6,500,593

* Includes 243,468 shares held by the Employee Stock Ownership Plan that have not been released, committed to be released, or allocated to participant accounts; and 3,768 shares held by the Management Recognition Plan that have been awarded but not yet released to the participants.

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PROVIDENT FINANCIAL HOLDINGS, INC.

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PROVIDENT FINANCIAL HOLDINGS, INC.
Condensed Consolidated Statements of Financial Condition

(Unaudited)
Dollars in Thousands

	March 31, 2007	June 30, 2006
Assets		
Cash and due from banks	\$ 12,468	\$ 13,558
Federal funds sold	3,800	2,800
Cash and cash equivalents	16,268	16,358

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Investment securities - held to maturity (fair value \$27,741 and \$49,914, respectively)	28,031	51,031
Investment securities - available for sale, at fair value	137,009	126,158
Loans held for investment, net of allowance for loan losses of \$15,737 and \$10,307, respectively	1,390,457	1,262,997
Loans held for sale, at lower of cost or market	34,854	4,713
Receivable from sale of loans	94,500	99,930
Accrued interest receivable	7,785	6,774
Real estate held for investment, net	-	653
Real estate owned, net	932	-
Federal Home Loan Bank ("FHLB") - San Francisco stock	43,314	37,585
Premises and equipment, net	6,946	6,860
Prepaid expenses and other assets	9,938	9,411
Total assets	\$ 1,770,034	\$ 1,622,470
Liabilities and Stockholders' Equity		
Liabilities:		
Non interest-bearing deposits	\$ 46,990	\$ 48,776
Interest-bearing deposits	935,567	868,806
Total deposits	982,557	917,582
 Borrowings	 636,933	 546,211
Accounts payable, accrued interest and other liabilities	18,956	22,467
Total liabilities	1,638,446	1,486,260
 Commitments and Contingencies		
Stockholders' equity:		
Preferred stock, \$.01 par value (2,000,000 shares authorized; none issued and outstanding)	-	-
Common stock, \$.01 par value (15,000,000 shares authorized; 12,426,922 and 12,376,972 shares issued, respectively; 6,543,993 and 6,991,842 shares outstanding, respectively)	124	124
Additional paid-in capital	68,849	66,798
Retained earnings	148,688	142,867
Treasury stock at cost (5,882,929 and 5,385,130 shares, respectively)	(86,507)	(72,524)
Unearned stock compensation	(289)	(644)
Accumulated other comprehensive income (loss), net of tax	723	(411)
 Total stockholders' equity	 131,588	 136,210
 Total liabilities and stockholders' equity	 \$ 1,770,034	 \$ 1,622,470

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

PROVIDENT FINANCIAL HOLDINGS, INC.
Condensed Consolidated Statements of Operations

(Unaudited)
In Thousands, Except Per Share Information

	Quarter Ended		Nine Months Ended	
	March 31,		March 31,	
	2007	2006	2007	2006
Interest income:				
Loans receivable, net	\$ 23,725	\$ 19,214	\$ 68,684	\$ 57,250
Investment securities	1,828	1,676	5,381	5,214
FHLB - San Francisco stock	597	483	1,704	1,345
Interest-earning deposits	14	33	51	126
Total interest income	26,164	21,406	75,820	63,935
Interest expense:				
Checking and money market deposits	369	310	1,066	908
Savings deposits	724	741	2,039	2,483
Time deposits	6,963	4,361	19,227	12,450
Borrowings	7,441	4,803	21,562	14,967
Total interest expense	15,497	10,215	43,894	30,808
Net interest income, before provision for loan losses	10,667	11,191	31,926	33,127
Provision for loan losses	1,185	1,301	5,568	1,339
Net interest income, after provision for loan losses	9,482	9,890	26,358	31,788
Non-interest income:				
Loan servicing and other fees	462	503	1,426	1,937
Gain on sale of loans, net	2,306	2,655	8,717	10,404
Deposit account fees	525	542	1,557	1,586
Gain on sale of real estate, net	18	52	2,358	6,335
Other	368	466	1,289	1,322
Total non-interest income	3,679	4,218	15,347	21,584
Non-interest expense:				
Salaries and employee benefits	5,641	5,105	16,416	15,286
Premises and occupancy	801	655	2,330	2,166
Equipment	444	439	1,221	1,244
Professional	305	354	847	991
Sales and marketing	247	242	724	716
Other	1,154	1,247	3,529	3,561
Total non-interest expense	8,592	8,042	25,067	23,964
Income before income taxes	4,569	6,066	16,638	29,408
Provision for income taxes	2,031	2,666	7,347	12,692
Net income	\$ 2,538	\$ 3,400	\$ 9,291	\$ 16,716

Basic earnings per share	\$ 0.40	\$ 0.51	\$ 1.42	\$ 2.54
Diluted earnings per share	\$ 0.39	\$ 0.49	\$ 1.40	\$ 2.43
Cash dividends per share	\$ 0.18	\$ 0.15	\$ 0.51	\$ 0.43

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

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PROVIDENT FINANCIAL HOLDINGS, INC.
Condensed Consolidated Statements of Changes in Stockholders' Equity

(Unaudited)

Dollars in Thousands

For the Quarters Ended March 31, 2007 and 2006

	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Unearned Stock Compensation	Accumulated Other Compre- hensive Income	Total
	Shares	Amount	\$	\$	\$	\$	\$
Balance at January 1, 2007	6,697,023	\$ 124	\$ 67,988	\$ (81,677)	\$ (403)	\$ 473	\$ 133,858
Comprehensive income:							
Net income			2,538				2,538
Unrealized holding gain on securities available for sale, net of tax expense of \$181						250	250
Total comprehensive income							2,788
Purchase of treasury stock	(194,580)			(5,373)			(5,373)
Exercise of stock options	41,550	-	802				802
Amortization of restricted stock			56				56
Awards for restricted stock			(543)	543			-
Stock options expense			134				134
Tax benefit from non-qualified equity compensation			49				49
Allocations of contribution to ESOP (1)			363		68		431

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Prepayment of ESOP loan					46		46
Cash dividends				(1,203)			(1,203)
Balance at March 31, 2007	6,543,993	\$ 124	\$ 68,849	\$ 148,688	\$ (86,507)	\$ (289)	\$ 723

(1) Employee Stock Ownership Plan ("ESOP").

	Common Stock Shares	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Unearned Stock Compensation	Accumulated Other Compre- hensive (Loss) Income	Total
Balance at January 1, 2006	6,823,796	\$ 120	\$ 61,200	\$ (67,486)	\$ (875)	\$ (210)	\$ 130,505
Comprehensive income:							
Net income			3,400				3,400
Unrealized holding gain on securities available for sale, net of tax expense of \$2						3	3
Total comprehensive income							3,403
Purchase of treasury stock	(21,590)			(634)			(634)
Exercise of stock options	286,800	3	2,027				2,030
Amortization of restricted stock			18				18
Stock options expense			101				101
Tax benefit from non-qualified equity compensation			2,028				2,028
Allocations of contribution to ESOP			378		68		446
Prepayment of ESOP loan					47		47
Cash dividends			(1,059)				(1,059)
Balance at March 31, 2006	7,089,006	\$ 123	\$ 65,752	\$ (68,120)	\$ (760)	\$ (207)	\$ 136,885

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

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PROVIDENT FINANCIAL HOLDINGS, INC.
Condensed Consolidated Statements of Changes in Stockholders' Equity

(Unaudited)

Dollars in Thousands

For the Nine Months Ended March 31, 2007 and 2006

	Common Stock Shares	Amount	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Unearned Stock Compensation	Accumulated Other Compre- hensive (Loss) Income	Total
Balance at July 1, 2006	6,991,842	\$ 124	\$ 66,798	\$ 142,867	(72,524)	\$ (644)	\$ (411)	\$ 136,210
Comprehensive income:								
Net income				9,291				9,291
Unrealized holding gain on securities available for sale, net of tax expense of \$821							1,134	<u>1,134</u>
Total comprehensive income								10,425
Purchase of treasury stock (1)	(497,799)				(14,526)			(14,526)
Exercise of stock options	49,950	-	1,003					1,003
Amortization of restricted stock			88					88
Awards for restricted stock			(543)		543			-
Stock options expense			272					272
Tax benefit from non-qualified equity compensation			81					81
Allocations of contribution to ESOP			1,150			203		1,353
Prepayment of ESOP loan						152		152
Cash dividends				(3,470)				(3,470)
Balance at March 31, 2007	6,543,993	\$ 124	\$ 68,849	\$ 148,688	(86,507)	\$ (289)	\$ 723	\$ 131,588

(1) Includes the repurchase of 1,696 shares of distributed restricted stock.

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	Common Stock		Additional Paid-In Capital	Retained Earnings	Treasury Stock	Unearned Stock Compensation	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount						
Balance at July 1, 2005	6,956,815	\$ 120	\$ 59,497	\$ 126,381	\$ (62,046)	\$ 1,272	\$ 309	\$ 122,989
Comprehensive income:								
Net income				16,716				16,716
Unrealized holding loss on securities available for sale, net of tax benefit of \$374							(516)	(516)
Total comprehensive income								16,200
Purchase of treasury stock (1)	(220,041)				(6,074)			(6,074)
Exercise of stock options	352,232	3	2,535					2,538
Reclass of unearned restricted stock			(155)			155		-
Amortization of restricted stock			75					75
Stock options expense			284					284
Tax benefit from non-qualified equity compensation			2,426					2,426
Allocations of contribution to ESOP			1,090			203		1,293
Prepayment of ESOP loan						154		154
Cash dividends				(3,000)				(3,000)
Balance at March 31, 2006	7,089,006	\$ 123	\$ 65,752	\$ 140,097	\$ (68,120)	\$ (760)	\$ (207)	\$ 136,885

(1) Includes the repurchase of 1,436 shares of distributed restricted stock.

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

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PROVIDENT FINANCIAL HOLDINGS, INC.
Condensed Consolidated Statements of Cash Flows

(Unaudited - In Thousands)

	Nine Months Ended March 31,	
	2007	2006
Cash flows from operating activities:		
Net income	\$ 9,291	\$ 16,716
Adjustments to reconcile net income to net cash (used for) provided by Operating activities:		
Depreciation and amortization	1,523	2,489
Provision for loan losses	5,568	1,339
Gain on sale of loans	(8,717)	(10,404)
Gain on sale of real estate	(2,358)	(6,335)
Stock compensation	1,597	1,490
FHLB - San Francisco stock dividend	(1,635)	(1,278)
Tax benefit from non-qualified equity compensation	(81)	(2,426)
Decrease in accounts payable and other liabilities	(5,507)	(2,173)
Increase in prepaid expense and other assets	(923)	(5,431)
Loans originated for sale	(938,123)	(946,106)
Proceeds from sale of loans and net change in receivable from sale of loans	920,070	1,031,132
Net cash (used for) provided by operating activities	(19,295)	79,013
Cash flows from investing activities:		
Net increase in loans held for investment	(132,822)	(56,266)
Maturity and call of investment securities held to maturity	23,000	1,100
Maturity and call of investment securities available for sale	7,201	-
Principal payments from mortgage-backed securities	29,188	39,501
Purchase of investment securities available for sale	(45,380)	-
Net proceeds from sale of real estate	4,145	15,562
Net purchase of FHLB - San Francisco stock	(4,094)	(465)
Purchase of premises and equipment	(818)	(508)
Net cash used for investing activities	(119,580)	(1,076)
Cash flows from financing activities:		
Net increase in deposits	64,975	13,592
Proceeds from (repayment of) borrowings, net	90,722	(91,026)
Exercise of stock options	1,003	2,538
Tax benefit from non-qualified equity compensation	81	2,426
Cash dividends	(3,470)	(3,000)
Treasury stock purchases	(14,526)	(6,074)
Net cash provided by (used for) financing activities	138,785	(81,544)
Net decrease in cash and cash equivalents	(90)	(3,607)
Cash and cash equivalents at beginning of period	16,358	25,902
Cash and cash equivalents at end of period	\$ 16,268	\$ 22,295

Supplemental information:

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Cash paid for interest	\$ 43,412	\$ 30,833
Cash paid for income taxes	\$ 7,750	\$ 14,200
Transfer of loans held for investment to loans held for sale	\$ -	\$ 18,472
Transfer of loans held for sale to loans held for investment	\$ 9,529	\$ 5,570
Real estate acquired in the settlement of loans	\$ 2,142	\$ -

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

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PROVIDENT FINANCIAL HOLDINGS, INC.

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2007

Note 1: Basis of Presentation

The unaudited interim condensed consolidated financial statements included herein reflect all adjustments which are, in the opinion of management, necessary to present a fair statement of the results of operations for the interim periods presented. All such adjustments are of a normal, recurring nature. The condensed consolidated financial statements at June 30, 2006 is derived from the audited consolidated financial statements of Provident Financial Holdings, Inc. and its wholly owned subsidiary, Provident Savings Bank, F.S.B. (the "Bank") (collectively, the "Corporation"). Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") with respect to interim financial reporting. It is recommended that these unaudited interim condensed consolidated financial statements be read in conjunction with the audited consolidated financial statements and notes thereto included in the Corporation's Annual Report on Form 10-K for the year ended June 30, 2006. The results of operations for the quarter and nine months ended March 31, 2007 are not necessarily indicative of results that may be expected for the entire fiscal year ending June 30, 2007.

Note 2: Recent Accounting Pronouncements

Statement of Financial Accounting Standards ("SFAS" or "Statement") No. 159:

In February 2007, the Financial Accounting Standards Board ("FASB") issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities-Including an amendment of FASB Statement No. 115." This Statement permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This Statement is expected to expand the use of fair value measurement, which is consistent with the Board's long-term measurement objectives for accounting for financial instruments. This Statement is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. The Management has not determined the impact, if any, of this Statement on the Corporation's financial condition, results of operations, or cash flows.

SFAS No. 157:

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." This Statement defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Management has not determined the impact, if any, of this Statement on the Corporation's financial condition, results of operations, or cash flows.

SEC Staff Accounting Bulletin No. 108

In September 2006, the SEC issued Staff Accounting Bulletin No. 108, "Quantifying Financial Misstatements," which expresses the Staff's views regarding the process of quantifying financial statement misstatements. Registrants are required to quantify the impact of correcting all misstatements, including both the carryover and reversing effects of prior year misstatements, on the current year financial statements. The techniques most commonly used in practice to accumulate and quantify misstatements are generally referred to as the "rollover" (current year statement of operations perspective) and "iron curtain" (year-end consolidated statement of financial condition perspective) approaches. The financial statements would require adjustment when either approach results in quantifying a misstatement that is material, after considering all relevant quantitative and qualitative factors. The Corporation does not expect this guidance to have a material effect on the Corporation's financial condition, results of operations, or cash flows.

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FASB Interpretation No. 48 ("FIN 48"):

In July 2006 the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes," which supplements SFAS No. 109, "Accounting for Income Taxes," by defining the confidence level that a tax position must meet in order to be recognized in the financial statements. The interpretation requires that the tax effects of a position be recognized only if it is "more-likely-than-not" to be sustained based solely on its technical merits as of the reporting date. The more-likely-than-not threshold represents a positive assertion by management that a company is entitled to the economic benefits of a tax position. If a tax position is not considered more-likely-than-not to be sustained based solely on technical merits, no benefits of the position are to be recognized. Moreover, the more-likely-than-not threshold must continue to be met in each reporting period to support continued recognition of a benefit. The interpretation also requires enterprises to make explicit disclosures about uncertainties in their income tax positions, including a detailed roll forward of tax benefits taken that do not qualify for financial statement recognition. FIN 48 is effective for fiscal years beginning after December 15, 2006. It is not anticipated that adoption will have a material impact on the Corporation's financial condition, results of operations, or cash flows.

Note 3: Earnings Per Share and Stock-Based Compensation

Earnings Per Share:

Basic earnings per share ("EPS") excludes dilution and is computed by dividing income available to common shareholders by the weighted-average number of shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that would then share in the earnings of the entity. The following table provides the basic and diluted EPS computations for the quarters and nine months ended March 31, 2007 and 2006, respectively.

(In Thousands, Except Per Share Information)	For the Quarter Ended March 31,		For the Nine Months Ended March 31,	
	2007	2006	2007	2006
Numerator:				
Net income - numerator for basic earnings per share and diluted earnings per share - income available to common stockholders				
Denominator:	\$ 2,538	\$ 3,400	\$ 9,291	\$ 16,716
Denominator for basic earnings per share: Weighted-average shares	6,392	6,645	6,524	6,592
Effect of dilutive securities: Stock option dilution	110	232	122	284

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Restricted stock dilution	4	4	3	7
Denominator for diluted earnings per share:				
Adjusted weighted-average shares and assumed conversions	6,506	6,881	6,649	6,883
Basic earnings per share	\$ 0.40	\$ 0.51	\$ 1.42	\$ 2.54
Diluted earnings per share	\$ 0.39	\$ 0.49	\$ 1.40	\$ 2.43

SFAS No. 123R, "Share-Based Payment," requires companies to recognize in the statement of operations the grant-date fair value of stock options and other equity-based compensation issued to employees and directors. Effective July 1, 2005, the Corporation adopted SFAS No. 123R using the modified prospective method under which the provisions of SFAS No. 123R are applied to new awards and to awards modified, repurchased or cancelled after June 30, 2005 and to awards outstanding on June 30, 2005 for which requisite service has not yet been rendered.

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The adoption of SFAS No. 123R resulted in incremental stock-based compensation expense and is solely related to issued and unvested stock option grants. The incremental stock-based compensation expense for the third quarter ended March 31, 2007 and 2006 was \$134,000 and \$101,000, respectively. For the nine months ended March 31, 2007 and 2006, the incremental stock-based compensation expense was \$272,000 and \$284,000, respectively. For the first nine months of fiscal 2007 and 2006, cash provided by operating activities decreased by \$81,000 and \$2.4 million, respectively, and cash provided by financing activities increased by an identical amount, respectively, related to excess tax benefits from stock-based payment arrangements. These amounts are reflective of the tax benefit for stock options exercised and restricted stock distributions during the respective periods.

Note 4: Operating Segment Reports

The Corporation operates in two business segments: community banking through the Bank and mortgage banking through Provident Bank Mortgage ("PBM"), a division of the Bank. The following tables set forth condensed statements of operations and total assets for the Corporation's operating segments for the quarters and nine months ended March 31, 2007 and 2006, respectively (in thousands).

	For the Quarter Ended March 31, 2007		
	Provident Bank	Provident Bank Mortgage	Consolidated Totals
Net interest income (loss), after provision for loan losses	\$ 9,634	\$ (152)	\$ 9,482
Non-interest income:			
Loan servicing and other fees (1)	(9)	471	462
Gain on sale of loans, net	42	2,264	2,306
Deposit account fees	525	-	525
Gain on sale of real estate, net	18	-	18
Other	364	4	368
Total non-interest income	940	2,739	3,679

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Non-interest expense:

Salaries and employee benefits	3,542	2,099	5,641
Premises and occupancy	548	253	801
Operating and administrative expenses	1,119	1,031	2,150
Total non-interest expense	5,209	3,383	8,592
Income (loss) before taxes	\$ 5,365	\$ (796)	\$ 4,569
Total assets, end of period	\$ 1,639,150	\$ 130,884	\$ 1,770,034

(1) Includes an inter-company charge of \$350 credited to PBM by the Bank during the period to compensate PBM for originating loans held for investment by the Bank.

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For the Quarter Ended March 31, 2006

	Provident Bank	Provident Bank Mortgage	Consolidated Totals
Net interest income, after provision for loan losses	\$ 9,535	\$ 355	\$ 9,890

Non-interest income:

Loan servicing and other fees (1)	(49)	552	503
Gain on sale of loans, net (2)	88	2,567	2,655
Deposit account fees	542	-	542
Gain on sale of real estate, net	52	-	52
Other	466	-	466
Total non-interest income	1,099	3,119	4,218

Non-interest expense:

Salaries and employee benefits	2,985	2,120	5,105
Premises and occupancy	404	251	655
Operating and administrative expenses	1,271	1,011	2,282
Total non-interest expense	4,660	3,382	8,042
Income before taxes	\$ 5,974	\$ 92	\$ 6,066
Total assets, end of period	\$ 1,481,685	\$ 81,610	\$ 1,563,295

(1) Includes an inter-company charge of \$410 credited to PBM by the Bank during the period to compensate PBM for originating loans held for investment by the Bank.

(2) Includes an inter-company charge of \$26 credited to PBM by the Bank during the period to compensate PBM for servicing fees on loans sold on a servicing retained basis.

For the Nine Months Ended March 31, 2007

	Provident Bank	Provident Bank Mortgage	Consolidated Totals
Net interest income, after provision for loan losses	\$ 26,283	\$ 75	\$ 26,358

Non-interest income:

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Loan servicing and other fees (1)	(525)	1,951	1,426
Gain on sale of loans, net (2)	169	8,548	8,717
Deposit account fees	1,557	-	1,557
Gain on sale of real estate, net	2,358	-	2,358
Other	1,283	6	1,289
Total non-interest income	4,842	10,505	15,347
Non-interest expense:			
Salaries and employee benefits	10,042	6,374	16,416
Premises and occupancy	1,577	753	2,330
Operating and administrative expenses	3,068	3,253	6,321
Total non-interest expense	14,687	10,380	25,067
Income before taxes	\$ 16,438	\$ 200	\$ 16,638
Total assets, end of period	\$ 1,639,150	\$ 130,884	\$ 1,770,034

(1) Includes an inter-company charge of \$1.5 million credited to PBM by the Bank during the period to compensate PBM for originating loans held for investment by the Bank.

(2) Includes an inter-company charge of \$14 credited to PBM by the Bank during the period to compensate PBM for servicing fees on loans sold on a servicing retained basis.

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For the Nine Months Ended March 31, 2006

	Provident Bank	Provident Bank Mortgage	Consolidated Totals
Net interest income, after provision for loan losses	\$ 30,052	\$ 1,736	\$ 31,788
Non-interest income:			
Loan servicing and other fees (1)	(1,179)	3,116	1,937
Gain on sale of loans, net (2)	402	10,002	10,404
Deposit account fees	1,586	-	1,586
Gain on sale of real estate, net	6,335	-	6,335
Other	1,321	1	1,322
Total non-interest income	8,465	13,119	21,584
Non-interest expense:			
Salaries and employee benefits	9,470	5,816	15,286
Premises and occupancy	1,427	739	2,166
Operating and administrative expenses	3,532	2,980	6,512
Total non-interest expense	14,429	9,535	23,964
Income before taxes	\$ 24,088	\$ 5,320	\$ 29,408
Total assets, end of period	\$ 1,481,685	\$ 81,610	\$ 1,563,295

(1) Includes an inter-company charge of \$2.4 million credited to PBM by the Bank during the period to compensate PBM for originating loans held for investment by the Bank.

(2) Includes an inter-company charge of \$128 credited to PBM by the Bank during the period to compensate PBM for servicing fees on loans sold on a servicing retained basis.

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Note 5: Derivative and Other Financial Instruments with Off-Balance Sheet Risks

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

As of March 31, 2007 and June 30, 2006, the Corporation had commitments to extend credit (on loans to be held for investment and loans to be held for sale) of \$67.6 million and \$86.8 million, respectively.

	March 31, 2007	June 30, 2006
Commitments (In Thousands)		
Undisbursed loan funds - Construction loans	\$ 36,573	\$ 84,024
Undisbursed lines of credit - Single-family loans	3,976	6,824
Undisbursed lines of credit - Commercial business loans	14,367	10,545
Undisbursed lines of credit - Consumer loans	1,528	1,633
Commitments to extend credit on loans to be held for investment	15,309	20,858
Total	\$ 71,753	\$ 123,884

In accordance with SFAS No. 133 and interpretations of the Derivatives Implementation Group of the FASB, the fair value of the commitments to extend credit on loans to be held for sale, forward loan sale agreements and put option contracts are recorded at fair value on the balance sheet, and are included in other assets or other liabilities. The Corporation does not apply hedge accounting to its derivative financial instruments; therefore, all changes in fair value are recorded in earnings. The net impact of derivative

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financial instruments on the consolidated statements of operations during the quarters ended March 31, 2007 and 2006 was a gain of \$133,000 and a loss of \$54,000, respectively. For the nine months ended March 31, 2007 and 2006, the net impact of derivative financial instruments on the consolidated statements of operations was a gain of \$302,000 and a gain of \$328,000, respectively.

	March 31, 2007		June 30, 2006		March 31, 2006	
	Amount	Fair Value	Amount	Fair Value	Amount	Fair Value
Derivative Financial Instruments (In Thousands)						
Commitments to extend credit						
on loans to be held for sale (1)	\$ 52,274	\$ 86	\$ 65,970	\$ (192)	\$ 40,854	\$ (39)
Forward loan sale agreements	44,500	55	35,500	(94)	22,500	57
Put option contracts	13,500	50	9,000	53	7,000	64

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Total	\$ 110,274	\$ 191	\$ 110,470	\$ (233)	\$ 70,354	\$ 82
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(1) Net of 34.4 percent at March 31, 2007, 31.0 percent at June 30, 2006 and 31.6 percent at March 31, 2006 of commitments, which may not fund.

Note 6: Subsequent Events

On April 26, 2007, the Board of Directors of the Bank declared a cash dividend of \$3.25 million to the Corporation, which was paid on April 27, 2007.

On April 26, 2007, the Corporation announced a cash dividend of \$0.18 per share on the Corporation's outstanding shares of common stock for shareholders of record as of the close of business on May 21, 2007, payable on June 14, 2007.

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

General

Provident Financial Holdings, Inc., a Delaware corporation, was organized in January 1996 for the purpose of becoming the holding company of Provident Savings Bank, F.S.B. upon the Bank's conversion from a federal mutual to a federal stock savings bank ("Conversion"). The Conversion was completed on June 27, 1996. At March 31, 2007, the Corporation had total assets of \$1.77 billion, total deposits of \$982.6 million and total stockholders' equity of \$131.6 million. The Corporation has not engaged in any significant activity other than holding the stock of the Bank. Accordingly, the information set forth in this report, including financial statements and related data, relates primarily to the Bank and its subsidiaries.

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

The Bank's business consists of community banking activities and mortgage banking activities. Community banking activities primarily consist of accepting deposits from customers within the communities surrounding the Bank's full service offices and investing those funds in single-family loans, multi-family loans, commercial real estate loans, construction loans, commercial business loans, consumer loans and other real estate loans. The Bank also offers business checking accounts, other business banking services, and services loans for others. Mortgage banking activities consist of the origination and sale of mortgage and consumer loans secured primarily by single-family residences. The Bank's revenues are derived principally from interest on its loans and investment securities and fees generated through its community banking and mortgage banking activities. There are various risks inherent in the Bank's

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business including, among others, the general business environment, interest rates, the California real estate market, the demand for loans, the prepayment of loans, the repurchase of sold loans to investors, competitive conditions between banks and non-bank financial services providers, regulatory changes, and other risks.

The Corporation, from time to time, may repurchase its common stock as a way to enhance the Corporation's earnings per share. The Corporation evaluates the repurchase of its common stock when the market price of the stock is lower than its book value and/or the Corporation believes that the current market price is not commensurate with its current

and future earnings potential. Consideration is also given to the Corporation's liquidity, regulatory capital requirements and future capital needs based on the Corporation's current business plan. The Corporation's Board of Directors authorizes each stock repurchase program, the duration of which is typically one year. Once the stock repurchase program is authorized, management may repurchase the Corporation's common stock from time to time in the open market or in privately negotiated transactions, depending upon market conditions and the factors described above. On January 23, 2007, the Corporation announced that its Board of Directors authorized the repurchase of up to five percent of its outstanding common stock, or approximately 333,365 shares, over a one-year period. For additional information regarding the Corporation's repurchases during the quarter ended March 31, 2007, see Part II, Item 2 - "Unregistered Sales of Equity Securities and Use of Proceeds" on page 38.

The Corporation began to distribute quarterly cash dividends in the quarter ended September 30, 2002. On January 23, 2007, the Corporation announced a quarterly cash dividend of \$0.18 per share for the Corporation's shareholders of record at the close of business on February 16, 2007, which was paid on March 12, 2007. Future declarations or payments of dividends will be subject to the consideration of the Corporation's Board of Directors, which will take into account the Corporation's financial condition, results of operations, tax considerations, capital requirements, industry standards, economic conditions and other factors, including the regulatory restrictions which affect the payment of dividends by the Bank to the Corporation. On January 23, 2007, the Board of Directors of the Bank declared a \$3.25 million cash dividend to the Corporation, which was paid on January 26, 2007. Under Delaware law, dividends may be paid either out of surplus or, if there is no surplus, out of net profits for the current fiscal year and/or the preceding fiscal year in which the dividend is declared.

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

Safe-Harbor Statement

Certain matters in this Quarterly Report on Form 10-Q for the quarter ended March 31, 2007 constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements relate to, among others, expectations of the business environment in which the Corporation operates, projections of future performance, perceived opportunities in the market, potential future credit experience, and statements regarding the Corporation's mission and vision. These forward-looking statements are based upon management expectations, and may, therefore, involve risks and uncertainties. The Corporation's actual results, performance, or achievements may differ materially from those suggested, expressed, or implied by forward-looking statements as a result of a wide range of factors including, but not limited to, the general business environment, interest rates, the California real estate market, the demand for loans, the repurchase of sold loans to investors, competitive conditions between banks and non-bank financial services providers, regulatory changes, fraud, and other risks disclosed herein or detailed in the Corporation's reports filed with the SEC, including the Annual Report on Form 10-K for the fiscal year ended June 30, 2006. Forward-looking statements are effective only as of the date that they are made and the Corporation assumes no obligation to update forward-looking information.

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Critical Accounting Policies

The discussion and analysis of the Corporation's financial condition and results of operations are based upon the Corporation's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires

management to make estimates and judgments that affect the reported amounts of assets and liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities at the date of the financial statements. Actual results may differ from these estimates under different assumptions or conditions.

Accounting for the allowance for loan losses involves significant judgment and assumptions by management, which have a material impact on the carrying value of net loans. Management considers this accounting policy to be a critical accounting policy. The allowance is based on two principles of accounting: (i) SFAS No. 5, "Accounting for Contingencies," which requires that losses be accrued when they are probable of occurring and can be estimated; and (ii) SFAS No. 114, "Accounting by Creditors for Impairment of a Loan," and SFAS No. 118, "Accounting by Creditors for Impairment of a Loan-Income Recognition and Disclosures," which require that losses be accrued based on the differences between the value of collateral, present value of future cash flows or values that are observable in the secondary market and the loan balance. The allowance has three components: (i) a formula allowance for groups of homogeneous loans, (ii) a specific valuation allowance for identified problem loans and (iii) an unallocated allowance. Each of these components is based upon estimates that can change over time. The formula allowance is based primarily on historical experience and as a result can differ from actual losses incurred in the future. The history is reviewed at least quarterly and adjustments are made as needed. Various techniques are used to arrive at specific loss estimates, including historical loss information, discounted cash flows and fair market value of collateral. The use of these techniques is inherently subjective and the actual losses could be greater or less than the estimates. For further details, see "Comparison of Operating Results for the Quarters and Nine Months Ended March 31, 2007 and 2006 - Provision for Loan Losses" on page 23 of this Form 10-Q.

Interest is generally not accrued on any loan when its contractual payments are more than 90 days delinquent. In addition, interest is not recognized on any loan where management has determined that collection is not reasonably assured. A non-accrual loan may be restored to accrual status when delinquent principal and interest payments are brought current and future monthly principal and interest payments are expected to be collected.

SFAS No. 133, "Accounting for Derivative Financial Instruments and Hedging Activities," requires that derivatives of the Corporation be recorded in the consolidated financial statements at fair value. Management considers this accounting policy to be a critical accounting policy. The Bank's derivatives are primarily the result of its mortgage banking activities in the form of commitments to extend credit, commitments to sell loans and option contracts to mitigate the risk of the commitments. Estimates of the percentage of commitments to extend credit on loans to be held for sale that may not fund are based upon historical data and current market trends. The fair value adjustments of the derivatives are recorded in the consolidated statements of operations with offsets to other assets or other liabilities in the consolidated statements of financial condition.

Executive Summary and Operating Strategy

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

Community banking operations primarily consist of accepting deposits from customers within the communities surrounding its full service offices and investing those funds in single-family, multi-family, commercial real estate, construction, commercial business, consumer and other loans. Additionally, certain

fees are collected from depositors for services provided to them such as non-sufficient fund fees, deposit account service charges, ATM fees, IRA/KEOGH fees, safe deposit box fees, travelers check fees, and wire transfer fees, among others. The primary source of income in community banking is net interest income, which is the difference between the interest income produced by loans and investment securities, and the interest expense produced by interest-bearing deposits and borrowed funds. During the next three years the Corporation intends to increase the community banking business by growing total assets; restructure the earning assets by decreasing the percentage of investment securities to total assets and increasing the percentage of loans held for investment to total assets; decrease the concentration of single-family mortgage loans within its loans held for investment; and increase the concentration of multi-family, commercial real estate and commercial business loans. In the nine months ended March 31, 2007, the Corporation deemphasized construction lending as a result of the softening in the housing market. In addition, over time, the Corporation also intends to increase deposits as a percentage of interest-bearing liabilities and to increase the number of checking and savings accounts. This strategy is intended to improve core revenue through a higher net interest margin and ultimately, coupled with the growth of the Corporation, an increase in net interest income.

Mortgage banking operations primarily consist of the origination and sale of mortgage loans secured by single-family residences. The primary sources of income in mortgage banking are gain on sale of loans and certain fees collected from borrowers in connection with the loan origination process. During the next three years, the Corporation intends to concentrate on high margin mortgage banking products such as Alt-A fixed rate, Alt-A adjustable rate and second trust deed loans. The Alt-A loans are underwritten to expanded guidelines allowing a borrower with good credit a broader range of product choices. The "Alt-A" choices include interest-only loans, stated-income loans and greater than 30-year amortization loans. The Bank believes that it can increase its loan sale margin from the levels experienced during the quarter ended March 31, 2007, although the current mortgage banking environment remains highly competitive, which may result in short-term pressure on the loan sale margin.

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

There are a number of risks associated with the business activities of the Corporation, many of which are beyond the Corporation's control, including: changes in accounting principles and changes in regulation, among others. The Corporation attempts to mitigate many of these risks through prudent banking practices such as interest rate risk management, credit risk management, operational risk management, and liquidity management. The current economic environment presents heightened risk for the Corporation primarily with respect to rising short-term interest rates and an increased concern that current real estate values are unsustainable. Rising short-term interest rates have led to a flatter yield curve placing pressure on the Corporation's net interest margin since the Corporation's assets are generally priced at the intermediate or long end of the yield curve and interest-bearing liabilities are generally priced at the short end of the yield curve. Falling real estate values may lead to higher loan losses since the majority of the Corporation's loans are secured by real estate located within California. Significant declines in California real estate values may inhibit the Corporation's ability to recover on defaulted loans by selling the underlying real estate.

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Off-Balance Sheet Financing Arrangements and Contractual Obligations

The following table summarizes the Corporation's contractual obligations at March 31, 2007 and the effect these obligations are expected to have on the Corporation's liquidity and cash flows in future periods (in thousands):

	Payments Due by Period				
1 year or less	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years		Total

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Operating lease obligations	\$ 1,095	\$ 1,553	\$ 500	\$ 100	\$ 3,248
Time deposits	423,832	215,603	4,855	-	644,290
FHLB - San Francisco advances	356,721	143,044	162,044	22,876	684,685
FHLB - San Francisco letter of credit	1,500	-	-	-	1,500
Total	\$ 783,148	\$ 360,200	\$ 167,399	\$ 22,976	\$ 1,333,723

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

Comparison of Financial Condition at March 31, 2007 and June 30, 2006

Total assets increased \$147.6 million, or nine percent, to \$1.77 billion at March 31, 2007 from \$1.62 billion at June 30, 2006. The increase was primarily attributable to an increase in loans held for investment.

Total investment securities decreased \$12.2 million, or seven percent, to \$165.0 million at March 31, 2007 from \$177.2 million at June 30, 2006. The decrease was primarily the result of \$30.2 million maturing and \$29.2 million of scheduled and accelerated principal payments on mortgage-backed securities, partly offset by the purchase of \$45.4 million of investment securities in the first nine months of fiscal 2007. The Bank evaluates individual investment securities quarterly for other-than-temporary declines in the market value. The Bank believes there are no other-than-temporary impairments at March 31, 2007, therefore, no impairment losses have been recorded as of March 31, 2007.

Loans held for investment increased \$127.5 million, or 10 percent, to \$1.39 billion at March 31, 2007 from \$1.26 billion at June 30, 2006. During the first nine months of fiscal 2007, the Bank originated \$360.2 million of loans held for investment, \$193.5 million, or 54 percent, were "preferred loans" (multi-family, commercial real estate, construction and commercial business loans), which includes the purchase of \$117.5 million of loans. The loans purchased in the first nine months of fiscal 2007 are secured by real estate located primarily in California (property inspections were performed on those loans above \$400,000) and all loans were underwritten by the Corporation prior to purchase (using the same underwriting criteria as an originated loan). Total loan principal payments during the first nine months of fiscal 2007 were \$275.8 million, compared to \$375.5 million during the first nine months of fiscal 2006. The balance of preferred loans increased to \$547.2 million, or 39 percent of loans held for investment at March 31, 2007, as compared to \$433.7 million, or 34 percent of loans held for investment at June 30, 2006. Purchased loans serviced by others at March 31, 2007 were \$170.2 million, or 12 percent of loans held for investment, compared to \$102.7 million, or eight percent of loans held for investment at June 30, 2006.

Receivable from the sale of loans decreased \$5.4 million, or five percent, to \$94.5 million at March 31, 2007 from \$99.9 million at June 30, 2006. The decrease was attributable to the timing differences between loan sale and loan sale settlement dates.

Total deposits increased \$65.0 million, or seven percent, to \$982.6 million at March 31, 2007 from \$917.6 million at June 30, 2006. This increase was primarily attributable to an increase of \$91.2 million in time deposits, partly offset by a decrease of \$26.2 million in transaction accounts. The decrease in transaction accounts and the increase in time deposits was primarily attributable to the increase in short-term interest rates resulting in depositors switching to time deposits.

Borrowings, which consisted primarily of FHLB - San Francisco advances, increased \$90.7 million, or 17 percent, to \$636.9 million at March 31, 2007 from \$546.2 million at June 30, 2006. The increase in borrowings was primarily the result of the increase in loans held for investment, partly offset by the increase in deposits. The weighted-average maturity of the Bank's existing FHLB - San Francisco advances was approximately 20 months (16 months, if put options are exercised by FHLB - San Francisco) at March 31, 2007 as compared to the weighted-average maturity of 30 months (24 months, if put options are exercised by FHLB - San Francisco) at June 30, 2006.

Total stockholders' equity decreased \$4.6 million, or three percent, to \$131.6 million at March 31, 2007, from \$136.2 million at June 30, 2006, primarily as a result of common stock repurchases and the quarterly cash dividends paid during the first nine months of fiscal 2007, which was partly offset by the net income and stock option exercises during the first nine months of fiscal 2007. During the first nine months of fiscal 2007, a total of 49,950 stock options with an average strike price of \$20.09 per share were exercised. Also, a total of 496,103 shares of common stock were repurchased during the first nine months of fiscal 2007 under the existing stock repurchase programs at an average price of \$29.18 per share. As of March 31, 2007, the May 2006 stock repurchase program was completed and 49 percent of the authorized shares of the January 2007 stock repurchase program were purchased, leaving 168,491 shares available for future repurchase. During the first nine months of fiscal 2007, the Corporation also repurchased 1,696 shares of restricted stock in lieu of distribution to employees (to satisfy the minimum income tax required to be withheld from employees) at an average price of \$29.88 per share. The total cash dividend paid to the Corporation's shareholders in the first nine months of fiscal 2007 was \$3.5 million.

Comparison of Operating Results for the Quarters and Nine Months Ended March 31, 2007 and 2006

The Corporation's net income for the third quarter ended March 31, 2007 was \$2.5 million, a decrease of \$862,000, from \$3.4 million during the same quarter of fiscal 2006. This decrease was primarily attributable to a decrease in net interest income, a decrease in non-interest income and higher operating expenses, partly offset by a decrease in provision for loan losses. For the nine months ended March 31, 2007, the Corporation's net income was \$9.3 million, down \$7.4 million, from \$16.7 million during the same period of fiscal 2006. This decrease was primarily a result of the decrease in net interest income, an increase in provision for loan losses, a decrease in non-interest income and an increase in operating expenses.

The Corporation's net interest income before the provision for loan losses decreased by \$524,000, or five percent, to \$10.7 million for the quarter ended March 31, 2007 from \$11.2 million during the comparable period of fiscal 2006. This decrease was the result of a lower net interest margin, partly offset by higher average earning assets. The net interest margin decreased to 2.50 percent in the third quarter of fiscal 2007, down 50 basis points from 3.00 percent for the same period of fiscal 2006. The decrease in the net interest margin during the third quarter of fiscal 2007 was primarily attributable to the increase in the average cost of funds, which was more than the increase in the average yield of earning assets. The average balance of earning assets increased \$214.4 million, or 14 percent, to \$1.71 billion in the third quarter of fiscal 2007 from \$1.49 billion in the comparable period of fiscal 2006. For the nine months ended March 31, 2007, net interest income before the provision for loan losses was \$31.9 million, down \$1.2 million, or four percent, from \$33.1 million during the same period of fiscal 2006. This decrease was the result of a lower net interest margin, partly offset by higher average earning assets. The net interest margin decreased to 2.56 percent in the first nine months of fiscal 2007, down 33 basis points from 2.89 percent during the same period of fiscal 2006. The average balance of earning assets increased \$134.6 million, or nine percent, to \$1.66 billion in the first nine months of fiscal 2007 from \$1.53 billion in the comparable period of fiscal 2006.

The Corporation's efficiency ratio increased to 60 percent in the third quarter of fiscal 2007 from 52 percent in the same period of fiscal 2006. For the nine months ended March 31, 2007 and 2006, the efficiency ratio was 53 percent and 44 percent, respectively. The increase was primarily attributable to the lower gain on sale of real estate of \$2.3 million recognized in the first quarter of fiscal 2007 as compared to \$6.3 million for the second quarter of fiscal 2006.

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Return on average assets for the quarter ended March 31, 2007 decreased 31 basis points to 0.58 percent from 0.89 percent in the same period last year. For the nine months ended March 31, 2007 and 2006, the return on average assets was 0.73 percent and 1.41 percent, respectively, a decrease of 68 basis points.

Return on average equity for the quarter ended March 31, 2007 decreased to 7.60 percent from 10.17 percent for the same period last year. For the nine months ended March 31, 2007, the return on average equity decreased to 9.12 percent from 17.28 percent for the same period last year.

Diluted earnings per share for the quarter ended March 31, 2007 were \$0.39, a decrease of 20 percent from \$0.49 for the quarter ended March 31, 2006. For the nine months ended March 31, 2007 and 2006, diluted earnings per share were \$1.40 and \$2.43, respectively, a decrease of 42 percent.

Interest Income.

Total interest income increased by \$4.8 million, or 22 percent, to \$26.2 million for the third quarter of fiscal 2007 from \$21.4 million in the same quarter of fiscal 2006. This increase was primarily the result of a higher average balance of earning assets and a higher average earning asset yield. The average yield on earning assets during the third quarter of fiscal 2007 was 6.13 percent, 40 basis points higher than the average yield of 5.73 percent during the same period of fiscal 2006.

Loan interest income increased \$4.5 million, or 23 percent, to \$23.7 million in the quarter ended March 31, 2007 from \$19.2 million for the same quarter of fiscal 2006. This increase was attributable to a higher average loan balance and a higher average loan yield. The average balance of loans outstanding, including receivable from sale of loans and loans held for sale, increased \$235.0 million, or 19 percent, to \$1.5 billion during the third quarter of fiscal 2007 from \$1.3 billion during the same quarter of fiscal 2006. The average loan yield during the third quarter of fiscal 2007 increased 25 basis points to 6.36 percent from 6.11 percent during the same quarter last year. The increase in the average loan yield was primarily attributable to mortgage loans originated with higher interest rates, the upward repricing of adjustable rate loans during the period and a higher percentage of preferred loans, which generally have a higher yield.

Interest income from investment securities increased \$152,000, or nine percent, to \$1.8 million during the quarter ended March 31, 2007 from \$1.7 million during the same quarter of fiscal 2006. This increase was primarily a result of an increase in average yield, partly offset by a decrease in the average balance. The average balance of investment securities decreased \$23.0 million, or 12 percent, to \$172.5 million in the third quarter of fiscal 2007 from \$195.5 million in the same quarter of fiscal 2006. During the third quarter of fiscal 2007, the Bank purchased \$3.5 million of investment securities and \$10.1 million matured, while \$10.7 million of principal payments were received on mortgage-backed securities ("MBS"). The average yield on the investment securities increased 81 basis points to 4.24 percent during the quarter ended March 31, 2007 from 3.43 percent during the quarter ended March 31, 2006. The increase in the average yield of investment securities was primarily a result of the new purchases with a higher average yield (5.16 percent versus the average yield of 4.24 percent) and the maturities with an average yield of 2.63 percent. The discount amortization in the third quarter of fiscal 2007 was \$6,000, compared to the premium amortization of \$38,000 in the same quarter of fiscal 2006.

FHLB - San Francisco stock dividends increased by \$114,000, or 24 percent, to \$597,000 in the third quarter of fiscal 2007 from \$483,000 in the same period of fiscal 2006. This increase was attributable to a higher average yield and a higher average balance. The average yield on FHLB - San Francisco stock increased 55 basis points to 5.55 percent during the third quarter of fiscal 2007 from 5.00 percent during the same period last year. The average balance of FHLB - San Francisco stock increased \$4.4 million to \$43.0 million during the third quarter of fiscal 2007 from \$38.6 million during the same period of fiscal 2006. The increase in FHLB - San Francisco stock was in accordance with the borrowing requirements of the FHLB - San Francisco.

For the nine months ended March 31, 2007, total interest income increased by \$11.9 million, or 19 percent, to \$75.8 million for the first nine months of fiscal 2007 from \$63.9 million in the same period of fiscal 2006. This increase was primarily the result of a higher average balance of earning assets and a higher average earning asset yield. The average yield on earning assets during the first nine months of fiscal 2007 was 6.08 percent, 50 basis points higher than the average yield of 5.58 percent during the same period of fiscal 2006.

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Loan interest income increased \$11.4 million, or 20 percent, to \$68.7 million in the nine months ended March 31, 2007 from \$57.3 million for the same period of fiscal 2006. This increase was attributable to a higher average loan balance and a higher average loan yield. The average balance of loans outstanding, including receivable from sale of loans and loans held for sale, increased \$164.1 million, or 13 percent, to \$1.4 billion during the first nine months of fiscal 2007 from \$1.3 billion during the same period of fiscal 2006. The average loan yield during the first nine months of fiscal 2007 increased 37 basis points to 6.35 percent from 5.98 percent during the same period last year. The increase in the average loan yield was primarily attributable to mortgage loans originated with higher interest rates, the upward repricing of adjustable rate loans during the period and a higher percentage of preferred loans, which generally have a higher yield. The average loan yield was reduced by an interest income reversal of \$446,000 resulting from loans placed on non-accrual status during the nine months ended March 31, 2007.

Interest income from investment securities increased \$167,000 to \$5.4 million during the nine months ended March 31, 2007 from \$5.2 million during the same period of fiscal 2006. This increase was primarily a result of an increase in average yield, partly offset by a decrease in the average balance. The average balance of investment securities decreased \$28.9 million, or 14 percent, to \$180.1 million in the first nine months of fiscal 2007 from \$209.0 million in the same period of fiscal 2006. During the first nine months of fiscal 2007, \$45.4 million of investment securities were purchased and \$30.2 million matured, while \$29.2 million of principal payments were received on MBS. The average yield on the investment securities increased 65 basis points to 3.98 percent during the nine months ended March 31, 2007 from 3.33 percent during the nine months ended March 31, 2006. The increase in the average yield of investment securities was primarily a result of the new purchases with a higher average yield (5.28 percent versus the average yield of 3.98 percent), the maturities with an average yield of 2.55 percent and a decline in the accelerated principal payments on MBS with a corresponding reduction to the MBS premium amortization. The accelerated premium amortization in the first nine months of fiscal 2007 declined by \$204,000 to \$21,000 as compared to \$225,000 in the same period of fiscal 2006.

FHLB - San Francisco stock dividends increased by \$359,000, or 27 percent, to \$1.7 million in the first nine months of fiscal 2007 from \$1.3 million in the same period of fiscal 2006. This increase was attributable to a higher average yield and a higher average balance. The average yield on FHLB - San Francisco stock increased 89 basis points to 5.56 percent during the first nine months of fiscal 2007 from 4.67 percent during the same period last year. The average balance of FHLB - San Francisco stock increased \$2.5 million to \$40.9 million during the first nine months of fiscal 2007 from \$38.4 million during the same period of fiscal 2006. The increase in FHLB - San Francisco stock was in accordance with the borrowing requirements of the FHLB - San Francisco.

Interest Expense.

Total interest expense for the quarter ended March 31, 2007 was \$15.5 million as compared to \$10.2 million for the same period of fiscal 2006, an increase of \$5.3 million, or 52 percent. This increase was primarily attributable to an increase in the average cost and a higher average balance of interest-bearing liabilities. The average cost of interest-bearing liabilities was 3.95 percent during the quarter ended March 31, 2007, up 93 basis points from 3.02 percent during the same period of fiscal 2006. The average balance of interest-bearing liabilities, principally deposits and borrowings, increased \$219.5 million, or 16 percent, to \$1.6 billion during the third quarter of fiscal 2007 from

\$1.4 billion during the same period of fiscal 2006.

Interest expense on deposits for the quarter ended March 31, 2007 was \$8.1 million as compared to \$5.4 million for the same period of fiscal 2006, an increase of \$2.7 million, or 50 percent. The increase in interest expense on deposits was primarily attributable to a higher average cost and a higher average balance. The average cost of deposits increased to 3.42 percent during the quarter ended March 31, 2007 from 2.40 percent during the same quarter of fiscal 2006, an increase of 102 basis points. The increase in the average cost of deposits, primarily in time deposits, was attributable to the general rise in short-term interest rates. The average balance of deposits increased \$40.3 million, or four percent, to \$955.3 million during the quarter ended March 31, 2007 from \$915.0 million during the same period of fiscal 2006. The average balance of transaction accounts decreased by \$74.0 million, or 17 percent, to \$362.2 million in the quarter ended March 31, 2007 from \$436.2 million in the quarter ended March 31, 2006. The average balance of time deposits increased by \$114.4 million, or 24 percent, to \$593.2 million in the quarter ended March 31, 2007 as compared to \$478.8 million in the quarter ended March 31, 2006. The increase in time deposits is primarily attributable to the time deposit marketing campaign and depositors switching from

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transaction accounts to time deposits. The average balance of transaction account deposits to total deposits in the third quarter of fiscal 2007 was 38 percent, compared to 48 percent in the same period of fiscal 2006.

Interest expense on borrowings, which consisted primarily of FHLB - San Francisco advances, for the quarter ended March 31, 2007 increased \$2.6 million, or 54 percent, to \$7.4 million from \$4.8 million for the same period of fiscal 2006. The increase in interest expense on borrowings was primarily a result of a higher average cost and a higher average balance. The average cost of borrowings increased to 4.74 percent for the quarter ended March 31, 2007 from 4.26 percent in the same quarter of fiscal 2006, an increase of 48 basis points. The increase in the average cost of borrowings was the result of higher short-term interest rates. The average balance of borrowings increased \$179.3 million, or 39 percent, to \$636.1 million during the quarter ended March 31, 2007 from \$456.8 million during the same period of fiscal 2006.

For the nine months ended March 31, 2007, total interest expense was \$43.9 million as compared to \$30.8 million for the same period of fiscal 2006, an increase of \$13.1 million, or 43 percent. This increase was primarily attributable to an increase in the average cost and a higher average balance of interest-bearing liabilities. The average cost of interest-bearing liabilities was 3.79 percent during the nine months ended March 31, 2007, up 89 basis points from 2.90 percent during the same period of fiscal 2006. The average balance of interest-bearing liabilities, principally time deposits and borrowings, increased \$125.8 million, or nine percent, to \$1.5 billion during the first nine months of fiscal 2007 from \$1.4 billion during the same period of fiscal 2006.

Interest expense on deposits for the nine months ended March 31, 2007 was \$22.3 million as compared to \$15.8 million for the same period of fiscal 2006, an increase of \$6.5 million, or 41 percent. The increase in interest expense on deposits was primarily attributable to a higher average cost, partly offset by a lower average balance. The average cost of deposits increased 94 basis points to 3.20 percent during the nine months ended March 31, 2007 from 2.26 percent during the same period of fiscal 2006. The increase in the average cost of deposits, primarily in time deposits, was attributable to the general rise in short-term interest rates. The average balance of deposits decreased \$7.6 million, or one percent, to \$928.2 million during the nine months ended March 31, 2007 from \$935.8 million during the same period of fiscal 2006. The average balance of transaction accounts decreased by \$87.3 million, or 19 percent, to \$370.0 million in the nine months ended March 31, 2007 from \$457.3 million in the nine months ended March 31, 2006. The average balance of time deposits increased by \$79.8 million, or 17 percent, to \$558.3 million in the nine months ended March 31, 2007 as compared to \$478.5 million in the nine months ended March 31, 2006. The increase in time deposits is primarily attributable to the time deposit marketing campaign and depositors switching from

transaction accounts to time deposits. The average balance of transaction account deposits to total deposits in the first nine months of fiscal 2007 was 40 percent, compared to 49 percent in the same period of fiscal 2006.

Interest expense on borrowings, which consisted primarily of FHLB - San Francisco advances, for the nine months ended March 31, 2007 increased \$6.6 million, or 44 percent, to \$21.6 million from \$15.0 million for the same period of fiscal 2006. The increase in interest expense on borrowings was primarily a result of a higher average cost and a higher average balance. The average cost of borrowings increased 53 basis points to 4.69 percent for the nine months ended March 31, 2007 from 4.16 percent in the same period of fiscal 2006. The increase in the average cost of borrowings was the result of higher short-term interest rates. The average balance of borrowings increased \$133.3 million, or 28 percent, to \$612.8 million during the nine months ended March 31, 2007 from \$479.5 million during the same period of fiscal 2006.

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The following table depicts the average balance sheets for the quarters and nine months ended March 31, 2007 and 2006, respectively:

Average Balance Sheets

(Dollars in thousands)

	Quarter Ended March 31, 2007			Quarter Ended March 31, 2006		
	Average Balance	Interest	Yield/ Cost	Average Balance	Interest	Yield/ Cost
Interest-earning assets:						
Loans receivable, net (1)	\$ 1,492,046	\$ 23,725	6.36%	\$ 1,257,084	\$ 19,214	6.11%
Investment securities	172,503	1,828	4.24%	195,457	1,676	3.43%
FHLB - San Francisco stock	43,004	597	5.55%	38,638	483	5.00%
Interest-earning deposits	1,099	14	5.10%	3,089	33	4.27%
Total interest-earning assets	1,708,652	26,164	6.13%	1,494,268	21,406	5.73%
Non interest-earning assets	38,157			41,979		