

PROVIDENT FINANCIAL HOLDINGS INC
Form 10-K
September 13, 2006

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

(Mark one)

FORM 10-K

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

For the fiscal year ended June 30, 2006 **OR**

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

Commission File Number: 000-28304

PROVIDENT FINANCIAL HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization) 33-0704889

(I.R.S. Employer Identification Number)

3756 Central Avenue, Riverside, California
(Address of principal executive offices)

92506
(Zip Code)

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

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

Common Stock, par value \$.01 per share
(Title of Each Class)

The Nasdaq Stock Market LLC
(Name of Each Exchange on Which Registered)

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

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

YES NO

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

YES NO

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

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 (Check One):

Large accelerated filer Accelerated filer Non-accelerated filer

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

As of September 5, 2006, there were 6,945,140 shares of the Registrant's common stock issued and outstanding. The Registrant's common stock is listed on the Nasdaq Global Market of The Nasdaq Stock Market LLC under the symbol "PROV." The aggregate market value of the common stock held by nonaffiliates of the Registrant, based on the closing sales price of the Registrant's common stock as quoted on The Nasdaq Stock Market LLC on December 30, 2005, was \$179.5 million.

DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of the Annual Report to Shareholders are incorporated by reference into Part II.
2. Portions of the definitive Proxy Statement for the fiscal 2006 Annual Meeting of Shareholders ("Proxy Statement") are incorporated by reference into Part III.

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PART I

Item 1. Business

General

Provident Financial Holdings, Inc. (the "Corporation"), a Delaware corporation, was organized in January 1996 for the purpose of becoming the holding company for Provident Savings Bank, F.S.B. (the "Bank") upon the Bank's conversion from a federal mutual to a federal stock savings bank ("Conversion"). The Conversion was completed on June 27, 1996. At June 30, 2006, the Corporation had total assets of \$1.6 billion, total deposits of \$917.6 million and stockholders' equity of \$136.2 million. The Corporation has not engaged in any significant activity other than holding the stock of the Bank. Accordingly, the information set forth in this Annual Report on Form 10-K ("Form 10-K"), including financial statements and related data, relates primarily to the Bank and its subsidiaries.

The Bank, founded in 1956, is a federally chartered stock savings bank headquartered in Riverside, California. 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 ("FHLB") - San Francisco System since 1956.

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

The Bank's 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. Mortgage banking activities consist of the origination of single-family mortgage loans and consumer loans (second mortgages and equity lines of credit) for sale and for investment. Through its subsidiary, Provident Financial Corp, the Bank conducts real estate operations and prior to September 1, 2003 offered investment and insurance services. The Bank now offers investment and insurance services directly, rather than through its subsidiary. See "Subsidiary Activities" on page 29 of this Form 10-K. The Bank's revenues are derived principally from interest earned on its loan and investment portfolios, and fees generated through its community banking and mortgage banking activities.

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

Subsequent Events:

Cash dividend

On July 25, 2006, the Corporation announced a cash dividend of \$0.15 per share on the Corporation's outstanding shares of common stock for shareholders of record at the close of business on August 17, 2006, which was paid on September 8, 2006.

Completion of the sale of real estate

On July 31, 2006, the Corporation announced the completion of the sale of approximately six acres of land in Riverside, California. This transaction resulted in a pretax gain of \$2.3 million (approximately \$1.3 million net of statutory taxes).

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Market Area

The Bank is headquartered in Riverside, California and operates 11 full-service banking offices in Riverside County and one full-service banking office in San Bernardino County. Management considers Riverside and Western San Bernardino Counties to be the Bank's primary market for deposits. Through the operations of PBM, the Bank has expanded its retail lending market to include a larger portion of Southern California. As of June 30, 2006, there were 14 PBM loan production offices located in Los Angeles, Riverside, San Bernardino and San Diego Counties. PBM's loan production offices include two wholesale loan offices through which the Bank maintains a network of loan correspondents. Most of the Bank's business is conducted in the communities surrounding its full-service branches and loan production offices.

The large geographic area encompassing Riverside and San Bernardino Counties is referred to as the "Inland Empire." According to 2000 Census Bureau population statistics, Riverside and San Bernardino Counties have the sixth and fifth largest county populations in California, respectively. The Bank's market area consists primarily of suburban and urban communities. Western Riverside and San Bernardino Counties are relatively densely populated and are within the greater Los Angeles metropolitan area. The Inland Empire has enjoyed economic strength over the past several years. Many corporations are moving their offices and warehouses to the Inland Empire, which offers more affordable sites and more affordable housing for their employees. This trend has resulted in a significant improvement in real estate property values over the past several years. However, recent slowdowns in the housing market have effected the property values in the Inland Empire but have not resulted in the downturn seen in many parts of the country. The unemployment rate in the Inland Empire in June 2006 was at 5.0%, compared to 4.9% in California and 4.6% nationwide, according to U.S. Department of Labor, Bureau of Labor Statistics.

Competition

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

Personnel

As of June 30, 2006, the Bank had 323 full-time equivalent employees, which consisted of 266 full-time, 54 prime-time, 31 part-time and two temporary employees. The employees are not represented by a collective bargaining unit and the Bank believes that its relationship with employees is good.

Lending Activities

General.

The lending activity of the Bank is predominately comprised of the origination of conventional mortgage loans secured by single-family residential properties. The Bank also originates multi-family, commercial real estate, construction, commercial business, consumer and other loans for its portfolio. The Bank's net loans held for investment were \$1.26 billion at June 30, 2006, representing approximately 77.8% of consolidated total assets. This compares to \$1.13 billion, or 69.4% of consolidated total assets, at June 30, 2005.

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Loan Portfolio Analysis

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

	At June 30,									
	2006		2005		2004		2003		2002	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
(Dollars In Thousands)										
Mortgage loans:										
Single-family	\$ 828,091	61.16%	\$ 808,732	65.56%	\$620,087	65.48%	\$531,255	64.89%	\$431,900	65.80%
Multi-family	219,072	16.18	119,715	9.70	68,804	7.27	49,699	6.07	35,436	5.40
Commercial real estate	127,342	9.41	122,354	9.92	99,919	10.55	89,666	10.95	62,509	9.52
Construction	149,517	11.05	155,975	12.65	136,265	14.39	118,784	14.51	97,934	14.92
Total mortgage loans	1,324,022	97.80	1,206,776	97.83	925,075	97.69	789,404	96.42	627,779	95.64
Commercial business loans	12,911	0.95	15,268	1.24	13,770	1.45	22,489	2.75	24,024	3.66
Consumer loans	734	0.05	778	0.06	730	0.08	1,086	0.13	1,153	0.17
Other loans	16,244	1.20	10,767	0.87	7,371	0.78	5,724	0.70	3,455	0.53

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Total loans held for investment	1,353,911	100.00%	1,233,589	100.00%	946,946	100.00%	818,703	100.00%	656,411	100.00%
Undisbursed loan funds	(84,024)		(95,162)		(78,137)		(67,868)		(56,237)	
Deferred loan costs (fees)	3,417		2,693		1,340		602		(27)	
Unearned discounts	-		-		-		-		(14)	
Allowance for loan losses	(10,307)		(9,215)		(7,614)		(7,218)		(6,579)	
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Total loans held for investment, net	\$1,262,997		\$1,131,905		\$862,535		\$744,219		\$593,554	
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Loans held for sale, at lower of cost or market	\$ 4,713		\$ 5,691		\$ 20,127		\$ 4,247		\$ 1,747	
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Maturity of Loans Held for Investment

. The following table sets forth information at June 30, 2006 regarding the dollar amount of principal payments becoming contractually due during the periods indicated for loans held for investment. Demand loans, loans having no stated schedule of principal payments and no stated maturity, and overdrafts are reported as becoming due within one year. The table does not include any estimate of prepayments, which significantly shorten the average life of loans held for investment and may cause the Bank's actual principal payment experience to differ materially from that shown below.

	Within One Year	After One Year Through 3 Years	After 3 Years Through 5 Years	After 5 Years Through 10 Years	Beyond 10 Years	Total
<hr/>						
(In Thousands)						
Mortgage loans:						
Single-family	\$ 1,023	\$ 1,934	\$ 2,952	\$ 209,964	\$ 612,218	\$ 828,091
Multi-family	987	1,519	2,112	29,887	184,567	219,072
Commercial real estate	2,203	2,031	8,877	101,204	13,027	127,342
Construction	101,117	11,949	-	-	36,451	149,517
Commercial business loans	4,334	1,039	5,724	1,814	-	12,911

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Consumer loans	-	-	-	-	734	734
Other loans	9,108	7,136	-	-	-	16,244
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Total loans held for investment	\$ 118,772	\$ 25,608	\$ 19,665	\$ 342,869	\$ 846,997	\$ 1,353,911

The following table sets forth the dollar amount of all loans held for investment due after June 30, 2007 which have fixed and floating or adjustable interest rates.

	Fixed-Rate	Floating or Adjustable Rate
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(In Thousands)		
Mortgage loans:		
Single-family	\$ 5,082	\$ 821,986
Multi-family	2,586	215,499
Commercial real estate	7,528	117,611
Construction	-	48,400
Commercial business loans	5,005	3,572
Consumer loans	-	734
Other loans	1,786	5,350
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Total loans held for investment	\$ 21,987	\$ 1,213,152

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

Single-Family Mortgage Loans

. The Bank's predominant lending activity is the origination of loans secured by first mortgages on owner-occupied, single-family (one to four units) residences in the communities where the Bank has established full service branches and loan production offices. At June 30, 2006, total single-family loans held for investment increased to \$828.1 million, or 61.2% of the total loans held for investment from \$808.7 million, or

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65.6% of the total loans held for investment at June 30, 2005. The increase in the single-family loans in fiscal 2006 was primarily attributable to \$330.1 million of new loan originations, partly offset by loan prepayments.

The Bank's residential mortgage loans are generally underwritten and documented in accordance with guidelines established by major Wall Street firms, institutional loan buyers, Freddie Mac and Fannie Mae (collectively, "the secondary market"). All government insured loans are generally underwritten and documented in accordance with the guidelines established by the Department of Housing and Urban Development ("HUD") and the Veterans' Administration ("VA"). Loans are normally classified as either conforming (meeting agency criteria) or non-conforming (meeting an investor's criteria). These non-conforming loans are additionally classified as "A" or "Alt-A". The "A" loans are typically those that exceed agency loan limits but closely mirror agency criteria. The "Alt-A" loans are underwritten to expanded guidelines allowing a borrower with good credit a broader range of product choices. The "Alt-A" criteria includes interest-only loans, stated-income loans and greater than 30-year amortization loans.

The Bank offers closed-end, fixed-rate home equity loans that are secured by the borrower's primary residence. These loans do not exceed 100% of the appraised value of the residence and have terms of up to 15 years requiring monthly payments of principal and interest. At June 30, 2006, home equity loans amounted to \$2.0 million, or 0.2% of single-family loans as compared to \$2.4 million, or 0.3% of single-family loans at June 30, 2005. The Bank also offers secured lines of credit, which are generally secured by a second mortgage on the borrower's primary residence. Secured lines of credit have an interest rate that is typically one to two percentage points above the prime lending rate, as published in *The Wall Street Journal*, while the rate on unsecured lines of credit (overdraft protection) is typically ten percentage points above the prime lending rate. As of June 30, 2006 and 2005, the outstanding unsecured lines of credit were \$211,000 and \$212,000, respectively.

The Bank offers adjustable rate mortgage ("ARM") loans at rates and terms competitive with market conditions. Substantially all of the ARM loans originated by the Bank meet the underwriting standards of the secondary market. The Bank offers several ARM products, which adjust monthly, semi-annually, or annually after an initial fixed period ranging from one month to five years subject to a limitation on the annual increase of one to two percentage points and an overall limitation of three to six percentage points. The ARM loans in the Bank's loans held for investment utilize the London Interbank Offered Rate index ("LIBOR"), the FHLB eleventh district cost of funds index ("COFI"), the 12-month average Treasury index ("12 MAT") or the weekly average yield on one year U.S. Treasury securities adjusted to a constant maturity of the one year index ("CMT"), plus a margin of 2.00% to 3.25%. Loans based on the LIBOR constitute a majority of the Bank's loans held for investment. Currently, the Bank emphasizes products based on the one-year CMT and LIBOR, which respond more quickly to immediate changes in interest rates. The majority of the ARM loans held for investment, have three- or five-year fixed periods prior to the first adjustment ("3/1 or 5/1 hybrids"), and do not require principal amortization for up to 120 months. Loans of this type have embedded interest rate risk if interest rates should rise during the initial fixed rate period. To coincide with the Bank's 50th Anniversary, the Bank began offering 50-year single-family mortgage loans. As of June 30, 2006, the Bank had a total of 27 loans for \$11.0 million with a 50-year term.

As of June 30, 2006, the Bank had \$95.4 million in mortgage loans that may be subject to negative amortization, of which \$20.7 million were single-family loans. This compared to \$105.7 million at June 30, 2005, of which \$14.3 million were single-family loans. Negative amortization involves a greater risk to the Bank, because during a period of high interest rates, the loan principal balance may increase by up to 115% of the original loan amount. However, the Bank believes that the risk of default is reduced by the stability provided by payment schedules and has historically found that its origination of negative amortization loans has not resulted in higher amounts of non-performing loans. Borrower demand for ARM loans versus fixed-rate mortgage loans is a function of the level of interest rates, the expectations of changes in the level of interest rates and the difference between the initial interest rates and fees charged for each type of loan. The relative amount of fixed-rate mortgage loans and ARM loans that can be originated at any time is largely determined by the demand for each in a given interest rate and competitive environment.

The retention of ARM loans, rather than fixed-rate loans, helps to reduce exposure to changes in interest rates. There are, however, unquantifiable credit risks resulting from the potential of increased interest charges to be paid by the customer as a result of increases in interest rates or the expiration of interest-only periods. It is possible that,

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during periods of rising interest rates, the risk of default on ARM loans may increase as a result of the increase in the required payment from the borrower. Furthermore, the risk of default may increase because ARM loans originated by the Bank occasionally provide, as a marketing incentive, for initial rates of interest below those rates that would apply if the adjustment index plus the applicable margin were initially used for pricing. Such loans are subject to increased risks of default or delinquency. Additionally, while ARM loans allow the Bank to decrease the sensitivity of its assets as a result of changes in interest rates, the extent of this interest sensitivity is limited by the periodic and lifetime interest rate adjustment limits. In addition to fully amortizing ARM loans, the Bank has interest-only ARM loans, which typically have a fixed interest rate for the first two to five years, followed by a periodic adjustable interest rate, coupled with an interest only payment of two to ten years, followed by a fully amortizing loan payment for the remaining term. As of June 30, 2006 and 2005, interest-only ARM loans were \$638.5 million and \$613.9 million, or 50.1% and 54.2%, respectively, of the loans held for investment. Furthermore, because loan indexes may not respond perfectly to market interest rates, upward adjustments on loans may occur more slowly than increases in the Bank's cost of interest-bearing liabilities, especially during periods of rapidly increasing interest rates. Because of these characteristics, the Bank has no assurance that yields on ARM loans will be sufficient to offset increases in the Bank's cost of funds.

The following table describes certain credit risk characteristics of the Corporation's single-family loans held for investment as of June 30, 2006:

(Dollars in Thousands)	Outstanding Balance	Weighted-Average FICO (1)	Weighted-Average LTV (2)	Weighted-Average Seasoning (3)
Interest only	\$ 638,494	730	75%	1.31 years
Stated income (4)	\$ 460,664	728	74%	1.41 years
FICO	\$ 35,906	642	71%	2.10 years
less than or equal to 660				
Over 30 year amortization	\$ 22,555	733	71%	2.39 years

- (1) The FICO score represents the credit worthiness of a borrower based on the borrower's credit history. A higher FICO score indicates a greater degree of creditworthiness.
- (2) LTV (loan-to-value) is the ratio calculated by dividing the original loan balance by the appraised value of the real estate collateral.
- (3) Seasoning describes the number of years since the funding date of the loan.
- (4) Stated income is defined as a borrower provided level of income which is not subject to verification during the loan origination process.

The Bank's lending policy generally limits loan amounts for conventional first trust deed loans to 97% of the appraised value or purchase price of a property, whichever is lower. Higher loan-to-value ratios are available on certain government-insured programs. The Bank generally requires private mortgage insurance on first trust deed residential loans with loan-to-value ratios exceeding 80% at the time of origination.

Multi-Family and Commercial Real Estate Mortgage Loans

. At June 30, 2006, multi-family mortgage loans were \$219.1 million and commercial real estate loans were \$127.3 million, or 16.2% and 9.4%, respectively, of the loans held for investment. Consistent with its strategy to diversify the composition of loans held for investment, the Bank has made the origination and purchase of multi-family and commercial real estate loans a priority. At June 30, 2006, the Bank had 261 multi-family and 158 commercial real estate loans in loans held for investment.

Multi-family mortgage loans originated by the Bank are predominately adjustable rate loans, including 3/1 and 5/1 hybrids, with a term to maturity of 10 to 30 years based on a 25- to 30-year amortization schedule. Commercial real estate loans originated by the Bank are also predominately adjustable rate loans, including 3/1 and 5/1 hybrids, with a term to maturity of 10 years and a 25-year amortization schedule. Rates on multi-family and commercial real estate ARM loans generally adjust monthly, quarterly, semi-annually or annually at a specific margin over the respective interest rate index, subject to annual payment caps and life-of-loan interest rate caps. At June 30, 2006, \$161.7 million, or 73.8%, of the Bank's multi-family loans were secured by five to 36 unit projects and were primarily located in Los Angeles, Orange, Riverside, San Bernardino and San Diego Counties. The Bank's commercial real estate loan portfolio generally consists of loans secured by small office buildings, light industrial centers, mini warehouses and small retail centers, primarily located in Southern California. The Bank originates

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multi-family and commercial real estate loans in amounts typically ranging from \$350,000 to \$4.0 million. At June 30, 2006, the Bank had 54 commercial real estate and multi-family loans with principal balances greater than \$1.5 million totaling \$136.4 million, all of which were performing in accordance with their terms as of June 30, 2006. Independent appraisers, engaged by the Bank, perform appraisals on properties that secure multi-family and commercial real estate loans. Underwriting of multi-family and commercial real estate loans includes a thorough analysis of the cash flows generated by the property to support the debt service and the financial resources, experience and income level of the borrowers.

Multi-family and commercial real estate loans afford the Bank an opportunity to receive higher interest rates than those generally available from single-family mortgage loans. However, loans secured by such properties are generally greater in amount, more difficult to evaluate and monitor and are more susceptible to default as a result of general economic conditions and, therefore, involve a greater degree of risk than single-family residential mortgage loans. Because payments on loans secured by multi-family and commercial properties are often dependent on the successful operation and management of the properties, repayment of such loans may be impacted by adverse conditions in the real estate market or the economy. The multi-family and commercial real estate loans are primarily located in Los Angeles, Orange, Riverside, San Bernardino and San Diego Counties. Although there has been continued improvement in the real estate market, there is no assurance that the current market value of the properties securing these loans equals or exceeds the outstanding loan balance. At June 30, 2006, the Bank did not have any non-accrual multi-family or commercial real estate loans or any multi-family or commercial real estate loans that were 60 days or more past due.

Construction Mortgage Loans.

Given favorable economic conditions and increased residential housing demand in its primary market area, the Bank actively originates two types of residential construction loans: short-term construction loans and construction/permanent loans. At June 30, 2006, the Bank's construction loans (gross of undisbursed loan funds) were \$149.5 million, or 11.0% of loans held for investment, a decrease of \$6.5 million, or 4.1%, during fiscal 2006. Undisbursed loan funds at June 30, 2006 and 2005 were \$75.3 million and \$95.2 million, respectively. As of June 30, 2006, the largest construction loan was made to a single borrower (50% purchased participation) with a total commitment of \$8.5 million and an outstanding balance of \$683,000. The loan was made to provide the construction funding to build a condominium project located in North Hollywood, California, and is performing in accordance with the terms and conditions of the promissory note.

The composition of the Bank's construction loan portfolio is as follows:

At June 30,	
2006	2005

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	Amount	Percent	Amount	Percent
(Dollars In Thousands)				
Short-term construction	\$ 110,726	74.06%	\$ 122,573	78.59%
Construction/permanent	38,791	25.94	33,402	21.41
	\$ 149,517	100.00%	\$ 155,975	100.00%

Short-term construction loans include three types of loans: custom construction, tract construction, and speculative construction. Additionally, the Bank makes short-term (18 to 36 month) lot loans to facilitate land acquisition prior to the start of construction. The Bank also provides construction financing for multi-family and commercial real estate properties.

Custom construction loans are made to individuals who, at the time of application, have a contract executed with a builder to construct their residence. Custom construction loans are generally originated for a term of 12 months, with adjustable interest rates at the prime lending rate plus a margin and with loan-to-value ratios of up to 80% of the appraised value of the completed property. The owner secures long-term permanent financing at the completion of construction. At June 30, 2006, custom construction loans were \$53.3 million, with undisbursed loan funds of \$26.7 million.

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The Bank makes tract construction loans to subdivision builders. These subdivisions are usually financed and built in phases. A thorough analysis of market trends and demand within the area are reviewed for feasibility. The Bank prefers originating tract construction loans for affordable and median-priced housing. Generally, significant presales are required prior to commencement of construction. Tract construction may include the building and financing of model homes under a separate loan. The terms for tract construction loans range from 12 to 18 months with interest rates floating from 1.0% to 2.0% above the prime lending rate. At June 30, 2006, tract construction loans were \$32.8 million, with undisbursed loan funds of \$21.7 million.

Speculative construction loans are made to home builders and are termed "speculative" because the home builder does not have, at the time of loan origination, a signed contract with a home buyer who has a commitment for permanent financing with either the Bank or another lender for the finished home. The home buyer may be identified during or after the construction period. The builder may be required to debt service the speculative construction loan for a significant period of time after the completion of construction until the homebuyer is identified. At June 30, 2006, speculative construction loans were \$33.4 million, with undisbursed loan funds of \$9.9 million.

Construction/permanent loans automatically roll from the construction to the permanent phase. The construction phase of a construction/permanent loan generally lasts nine to 12 months and the interest rate charged is generally floating at prime or above and with a loan-to-value ratio of up to 80% of the appraised value of the completed property.

Construction loans under \$1.0 million are approved by Bank personnel specifically designated to approve construction loans. The Bank's Loan Committee, comprised of the Chief Executive Officer, Chief Lending Officer, Chief Financial Officer, Senior Vice President - PBM, and Vice President - Commercial Real Estate Loans, approves all construction loans over \$1.0 million. Prior to approval of any construction loan, an independent fee appraiser inspects the site and the Bank reviews the existing or proposed improvements, identifies the market for the proposed project, and analyzes

the pro forma data and assumptions on the project. In the case of a tract or speculative construction loan, the Bank reviews the experience and expertise of the builder. After the Bank expresses an interest in the project, the application is processed, which includes obtaining credit reports, financial statements and tax returns on the borrowers and guarantors, an independent appraisal of the project, and any other expert report necessary to evaluate the proposed project. In the event of cost overruns, the Bank requires the borrower to deposit their own funds into a loan-in-process account, which the Bank disburses consistent with the completion of the subject property pursuant to a revised disbursement schedule.

The construction loan documents require that construction loan proceeds be disbursed in increments as construction progresses. Disbursements are based on periodic on-site inspections by independent fee inspectors and Bank personnel. At inception, the Bank also requires borrowers to deposit funds into the loan-in-process account covering the difference between the actual cost of construction and the loan amount. The Bank regularly monitors the construction loan portfolio, economic conditions and housing inventory. The Bank's property inspectors perform periodic property inspections. The Bank believes that the internal monitoring system helps reduce many of the risks inherent in its construction loans.

Construction loans afford the Bank the opportunity to achieve higher interest rates and fees with shorter terms to maturity than its single-family mortgage loans. Construction loans, however, are generally considered to involve a higher degree of risk than single-family mortgage loans because of the inherent difficulty in estimating both a property's value at completion of the project and the cost of the project. The nature of these loans is such that they are generally more difficult to evaluate and monitor. If the estimate of construction cost proves to be inaccurate, the Bank may be required to advance funds beyond the amount originally committed to permit completion of the project. If the estimate of value upon completion proves to be inaccurate, the Bank may be confronted with a project whose value is insufficient to assure full repayment. Projects may also be jeopardized by disagreements between borrowers and builders and by the failure of builders to pay subcontractors. Loans to builders to construct homes for which no purchaser has been identified carry additional risk because the payoff for the loan depends on the builder's ability to sell the property prior to the time that the construction loan matures. The Bank has sought to address these risks by adhering to strict underwriting policies, disbursement procedures and monitoring practices. In

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addition, because the Bank's construction lending is in its primary market area, changes in the local or regional economy and real estate market could adversely affect the Bank's construction loan portfolio.

Participation Loan Purchases and Sales.

In an effort to expand productivity and diversify risk, the Bank purchases loan participations, which allows for greater geographic distribution of the Bank's loans and increases loan production volume. The Bank is aggressively networking with other lenders to purchase participating interests in multi-family, commercial real estate and tract construction loans. The Bank generally purchases between 50% and 100% of the total loan amount. When the Bank purchases a participation loan, the lead lender will usually retain a servicing fee, thereby decreasing the loan yield. This servicing fee is primarily offset by a reduction in operating expenses to the Bank. All properties serving as collateral for loan participations are inspected by Bank personnel prior to being approved by the Loan Committee and the Bank relies upon the same underwriting criteria required for those loans originated by the Bank.

The Bank also sells participating interests in loans when it has been determined that it is beneficial to diversify the Bank's risk. Participation sales enable the Bank to maintain acceptable loan concentrations and comply with the Bank's loans to one borrower policy. Generally, selling a participating interest in a loan increases the yield to the Bank on the portion of the loan that is retained.

Commercial Business Loans

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. The Bank has a Business Banking Department that primarily serves businesses located within the Inland Empire. Commercial business loans allow the Bank to diversify its lending and increase the average loan portfolio yield. As of June 30, 2006, commercial business loans were \$12.9 million, or 0.9% of loans held for investment. These loans represent unsecured lines of credit and term loans secured by business assets.

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

Commercial business loans involve greater risk than residential mortgage loans and involve risks that are different from those associated with residential and commercial real estate loans. Real estate loans are generally considered to be collateral based lending with loan amounts based on predetermined loan to collateral values and liquidation of the underlying real estate collateral is viewed as the primary source of repayment in the event of borrower default. Although commercial business loans are often collateralized by equipment, inventory, accounts receivable or other business assets including real estate, the liquidation of collateral in the event of a borrower default is often an insufficient source of repayment because accounts receivable may not be collectable and inventories and equipment may be obsolete or of limited use, among other things. Accordingly, the repayment of a commercial business loan depends primarily on the creditworthiness of the borrower (and any guarantors), while liquidation of collateral is secondary and oftentimes an insufficient source of repayment. During fiscal 2006, the Bank recognized \$41,000 in charge-offs on four commercial business loans to one borrower. At June 30, 2006, no commercial business loans were accounted for on a non-accrual basis.

Consumer and Other Loans.

At June 30, 2006, the Bank's consumer loans were \$734,000, or 0.1%, of the Bank's loans held for investment, a decrease of \$44,000, or 5.7%, during fiscal 2006. The Bank offers open-ended lines of credit on either a secured or unsecured basis. The Bank offers secured savings lines of credit which have an interest rate that is four percentage points above the FHLB Eleventh District COFI, which adjusts monthly. Secured savings lines of credit at June 30, 2006 and 2005 were \$523,000 and \$566,000, respectively, and are included in consumer loans.

Consumer loans potentially have a greater risk than residential mortgage loans, particularly in the case of loans that are unsecured. Consumer loan collections are dependent on the borrower's continuing financial stability, and thus are more likely to be adversely affected by job loss, illness or personal bankruptcy. Furthermore, the application of

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various federal and state laws, including federal and state bankruptcy and insolvency laws, may limit the amount that can be recovered on such loans. At June 30, 2006, the Bank had no consumer loans accounted for on a non-accrual basis.

Other loans, which primarily consist of land loans, were \$16.2 million, or 1.2%, of the Bank's loans held for investment, an increase of \$5.5 million, or 50.9%, during fiscal 2006. The Bank makes land loans, primarily lot loans, to accommodate borrowers who intend to build on the land within a specified period of time. The majority of these land loans are for the construction of single-family residences; however, the Bank may make short-term loans on a limited basis for the construction of commercial properties. The terms generally require a fixed rate with maturity between 18 to 36 months.

Mortgage Banking Activities

General.

Mortgage banking involves the origination and sale of single-family mortgage and consumer loans (second mortgages and equity lines of credit) for the purpose of generating gains on sale of loans and fee income on the origination of loans. PBM also originates single-family and consumer loans for investment. Given current pricing in the mortgage markets, the Bank generally sells the majority of its loans on a servicing-released basis. Generally, the level of loan sale activity and, therefore, its contribution to the Bank's profitability depends on maintaining a sufficient volume of loan originations. Changes in the level of interest rates and the local economy affect the number of loans originated by the Bank and, thus, the amount of loan sales, net interest income and loan fees earned. Originations of loans during fiscal 2006, 2005 and 2004 were \$1.53 billion, \$1.77 billion and \$1.50 billion, respectively. PBM originated \$326.9 million, \$513.6 million and \$409.4 million in fiscal 2006, 2005 and 2004, respectively, of loans held for investment.

Loan Solicitation and Processing.

The Bank's mortgage banking operations consist of both wholesale and retail loan originations. The Bank's wholesale loan production utilizes a network of approximately 1,600 loan brokers approved by the Bank who originate and submit loans at a markup over the Bank's daily published price. Wholesale loans originated for sale in fiscal 2006, 2005 and 2004 were \$840.5 million, \$872.2 million and \$617.5 million, respectively. The Bank maintains regional wholesale lending offices in Rancho Cucamonga and San Diego, California.

The Bank's retail loan production utilizes loan officers, underwriters and processors employed by PBM. The Bank's loan officers generate retail loan originations primarily through referrals from realtors, builders, employees and customers. As of June 30, 2006, PBM operated retail offices within the Bank's facilities in Rancho Mirage, Riverside and Temecula and stand-alone retail loan production offices in Carlsbad, Corona, Diamond Bar, Glendora, Huntington Beach, La Quinta, Riverside, Torrance and Vista, all in Southern California. Generally, the cost of retail operations exceeds the cost of wholesale operations as a result of the additional employees needed for retail operations. However, the revenue per mortgage for retail originations is generally higher since the origination fees are retained by the Bank. Retail loans originated for sale in fiscal 2006, 2005 and 2004 were \$363.6 million, \$391.8 million and \$475.2 million, respectively. The decrease in retail loan originations during fiscal 2006 was primarily attributable to a decline in the refinance market, partly offset by larger market coverage resulting from new PBM loan production offices.

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

Loan Commitments and Rate Locks.

The Bank issues commitments for residential mortgage loans conditioned upon the occurrence of certain events. Such commitments are made with specified terms and conditions. Interest rate locks are generally offered to prospective borrowers for up to a 60-day period. The borrower may lock in the rate at any time from application until the time they wish to close the loan. Occasionally, borrowers obtaining financing on new home developments are offered rate locks for up to 120 days from application. The Bank's outstanding commitments to originate loans to be held for sale were \$66.0 million at June 30, 2006 (see Note 15 of the Notes to Consolidated Financial Statements contained in Item 8 of this Form 10-K). When the Bank issues a

commitment to a borrower, there is a risk to the Bank that a rise in interest rates will reduce the value of the mortgage before it can be closed and sold. To control the interest rate risk caused by mortgage banking activities, the Bank uses forward loan sale agreements and over-the-counter put option contracts related to mortgage-backed securities (see "Derivative Activities" on page 13 of this Form 10-K).

Loan Origination and Other Fees.

The Bank may receive origination points and loan fees. Origination points are a percentage of the principal amount of the mortgage loan, which is charged to a borrower for funding a loan. The amount of points charged by the Bank ranges from 0% to 2%. Current accounting standards require points and fees received for originating loans held for investment (net of certain loan origination costs) to be deferred and amortized into interest income over the contractual life of the loan. Origination fees and costs for loans originated for sale are deferred until the related loans are sold. Net deferred fees or costs associated with loans that are prepaid or sold are recognized as income or expense at the time of prepayment or sale. At June 30, 2006, the Bank had \$3.4 million of unamortized deferred loan origination costs (net) in loans held for investment.

Loan Originations, Sales and Purchases.

The Bank's mortgage originations include conventional loans as well as loans insured by the FHA and VA. Except for loans originated as held for investment, loans originated through mortgage banking activities are intended for eventual sale into the secondary market. As such, these loans must meet the origination and underwriting criteria established by the final investors. The Bank sells a large percentage of the mortgage loans that it originates as whole loans to institutional investors. The Bank also sells conventional whole loans to Fannie Mae, Freddie Mac and FHLB - San Francisco through their purchase programs (see "Derivative Activities" on page 13 of this Form 10-K).

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

	Year Ended June 30,		
	2006	2005	2004
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(In Thousands)			
Loans originated for sale:			
Retail originations	\$ 380,409	\$ 397,057	\$ 484,411
Wholesale originations	857,397	888,780	626,988
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Total loans originated for sale (1)	1,237,806	1,285,837	1,111,399
Loans sold:			
Servicing released	(1,242,093)	(1,232,682)	(905,532)
Servicing retained	(19,348)	(81,711)	(221,279)
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Total loans sold (2)	(1,261,441)	(1,314,393)	(1,126,811)

Loans originated for investment:
Mortgage loans:

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Single-family (3)	330,092	513,588	409,373
Multi-family	28,868	26,332	24,592
Commercial real estate	32,630	41,605	32,044
Construction	104,923	127,472	125,779
Commercial business loans	1,930	7,370	2,229
Consumer loans	-	8	-
Other loans	14,324	6,750	5,241
<hr/>			
Total loans originated for investment	512,767	723,125	599,258
Loans purchased for investment:			
Mortgage loans:			
Multi-family	93,605	34,092	8,000
Commercial real estate	-	1,768	3,698
Construction	14,964	24,113	26,028
Commercial business loans	900	-	-
Other loans	2,250	1,250	-
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Total loans purchased for investment	111,719	61,223	37,726
Mortgage loan principal repayments	(476,228)	(482,869)	(477,654)
Real estate acquired in settlement of loans	(411)	-	-
Increase (decrease) in other items, net (4)	5,902	(17,989)	(9,722)
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Net increase in loans held for investment and loans held for sale	\$ 130,114	\$ 254,934	\$ 134,196
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(1) Primarily comprised of PBM loans originated for sale, totaling \$1.20 billion, \$1.26 billion and \$1.09 billion, respectively.

(2) Primarily comprised of PBM loans sold, totaling \$1.22 billion, \$1.27 billion and \$1.10 billion, respectively.

(3) Primarily comprised of PBM loans originated for investment, totaling \$326.9 million, \$513.6 million and \$409.4 million, respectively.

(4) Includes net changes in undisbursed loan funds, deferred loan fees or costs and allowance for loan losses.

Mortgage loans sold to institutional investors generally are sold without recourse other than standard representations and warranties. Most mortgage loans sold to Freddie Mac and Fannie Mae are sold on a non-recourse basis and foreclosure losses are generally the responsibility of the purchaser and not the Bank, except in the case of VA loans

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used to form Government National Mortgage Association ("GNMA") pools, which are subject to limitations on the VA's loan guarantees. The amount subject to this limitation is immaterial.

Loans sold by the Bank to the FHLB - San Francisco under its Mortgage Partnership Finance ("MPF") program also have a recourse provision. The FHLB - San Francisco absorbs the first four basis points of loss, and a credit scoring process is used to calculate the recourse amount to the Bank. All losses above this calculated recourse amount are the responsibility of the FHLB - San Francisco. In consideration of the obligation of the Bank to accept the recourse liability, the FHLB - San Francisco pays the Bank a credit enhancement fee on a monthly basis. As of June 30, 2006,

the Bank serviced \$201.6 million of loans under this program and has established a recourse reserve of \$222,000. To date, no losses have been experienced.

Occasionally, the Bank is required to repurchase loans sold to Freddie Mac, Fannie Mae, FHLB - San Francisco or institutional investors if it is determined that such loans do not meet the credit requirements of the investor, or if one of the parties involved in the loan misrepresented pertinent facts, committed fraud, or if such loans were 30 days past due within 120 days of the loan funding date. During the year ended June 30, 2006, the Bank repurchased \$2.0 million of single-family mortgage loans as compared to \$962,000 in fiscal 2005 and \$79,000 in fiscal 2004.

Derivative Activities

. Mortgage banking involves the risk that a rise in interest rates will reduce the value of a mortgage before it can be sold. This type of risk occurs when the Bank commits to an interest rate lock on a borrower's application during the origination process and interest rates increase before the loan can be sold. Such interest rate risk also arises when mortgages are placed in the warehouse (i.e., held for sale) without locking in an interest rate for their eventual sale in the secondary market. The Bank seeks to control or limit the interest rate risk caused by mortgage banking activities. The two methods used by the Bank to help reduce interest rate risk from its mortgage banking activities are forward loan sale agreements and the purchase of over-the-counter put option contracts related to mortgage-backed securities. At various times, depending on loan origination volume and management's assessment of projected loan fallout, the Bank may reduce or increase its derivative positions.

Under forward loan sale agreements, usually with Fannie Mae, Freddie Mac, FHLB - San Francisco or institutional investors, the Bank is obligated to sell certain dollar amounts of mortgage loans that meet specific underwriting and legal criteria before the expiration of the commitment period. These terms include the maturity of the individual loans, the yield to the purchaser, the servicing spread to the Bank (if servicing is retained) and the maximum principal amount of the individual loans. Forward loan sales protect loan sale prices from interest rate fluctuations that may occur from the time the interest rate of the loan is established to the time of its sale. The amount of and delivery date of the forward loan sale commitments are based upon management's estimates as to the volume of loans that will close and the length of the origination commitment. Forward loan sales do not provide complete interest-rate protection, however, because of the possibility of fallout (i.e., the failure to fund) during the origination process. Differences between the estimated volume and timing of loan originations and the actual volume and timing of loan originations can expose the Bank to significant losses. If the Bank is not able to deliver the mortgage loans during the appropriate delivery period, the Bank may be required to pay a non-delivery fee or repurchase the delivery commitments at current market prices. Similarly, if the Bank has too many loans to deliver, the Bank must execute additional forward loan sale commitments at current market prices, which may be unfavorable to the Bank. Generally, the Bank seeks to maintain forward loan sale agreements equal to the closed loans held for sale plus those applications that the Bank has rate locked and/or committed to close, adjusted by the projected fallout. The ultimate accuracy of such projections will directly bear upon the amount of interest rate risk incurred by the Bank. For the year ended June 30, 2006, the Bank had a net gain of \$71,000 attributable to the underlying derivative financial instruments. At June 30, 2006, the Bank had outstanding commitments to sell loans of \$35.5 million and commitments to originate loans to be held for sale of \$66.0 million (see Note 15 of the Notes to Consolidated Financial Statements contained in Item 8 of this Form 10-K).

In order to reduce the interest rate risk associated with commitments to originate loans that are in excess of forward loan sale commitments, the Bank purchases over-the-counter put or call option contracts on government sponsored enterprise mortgage-backed securities. At June 30, 2006, the Bank had \$9.0 million in put-option contracts outstanding, which provided \$6.4 million of coverage.

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The activities described above are managed continually as markets change; however, there can be no assurance that the Bank will be successful in its effort to eliminate the risk of interest rate fluctuations between the time origination commitments are issued and the ultimate sale of the loan. The Bank employs a risk management firm to conduct daily

analysis, report the Bank's interest rate risk position with respect to its loan origination and sale activities, and to advise the Bank on interest rate movements and interest rate risk management strategies. The Bank's interest rate risk management activities are conducted in accordance with a written policy that has been approved by the Bank's Board of Directors which covers objectives, functions, instruments to be used, monitoring and internal controls. The Bank does not enter into option positions for trading or speculative purposes and does not enter into option contracts that could generate a financial obligation beyond the initial premium paid. The Bank does not apply hedge accounting to its derivative financial instruments; therefore, all changes in fair value are recorded in earnings.

Loan Servicing

The Bank receives fees from a variety of institutional investors in return for performing the traditional services of collecting individual loan payments. At June 30, 2006, the Bank was servicing \$239.7 million of loans for others, a decline from \$275.1 million at June 30, 2005. The decrease was primarily attributable to loan prepayments, which were larger than new loans sold on a servicing-retained basis. To the extent loans were sold on a servicing-retained basis, the majority were sold to the FHLB - San Francisco under the MPF program. Loan servicing includes processing payments, accounting for loan funds and collecting and paying real estate taxes, hazard insurance and other loan-related items such as private mortgage insurance. When the Bank receives the gross mortgage payment from individual borrowers, it remits to the investor a predetermined net amount based on the loan sale agreement for that mortgage.

Servicing assets are amortized in proportion to and over the period of the estimated net servicing income and are carried at the lower of cost or fair value. The fair value of servicing assets is determined by calculating the present value of the estimated net future cash flows consistent with contractually specified servicing fees. The Corporation periodically evaluates servicing assets for impairment, which is measured as the excess of cost over fair value. This review is performed on a disaggregated basis, based on loan type and interest rate. Generally, loan servicing becomes more valuable when interest rates rise and less valuable when interest rates decline. In estimating fair values at June 30, 2006 and 2005, the Corporation used a Constant Prepayment Rate ("CPR") of 5.19% and 10.37%, respectively, and a weighted-average discount rate of 9.01% and 9.01%, respectively. At June 30, 2006 and 2005, a valuation reserve of \$0 and \$82,000, respectively, was established against the servicing assets. In aggregate, servicing assets had a carrying value of \$1.4 million and a fair value of \$2.2 million at June 30, 2006, compared to a carrying value of \$1.7 million and a fair value of \$2.0 million at June 30, 2005.

Rights to future income from serviced loans that exceed contractually specified servicing fees are recorded as interest-only strips. Interest-only strips are carried at fair value, utilizing the same assumptions used to calculate the value of the underlying servicing assets, with any unrealized gain or loss, net of tax, recorded as a component of accumulated other comprehensive income (loss). Interest-only strips had a fair value of \$584,000, gross unrealized gains of \$259,000 and an amortized cost of \$325,000 at June 30, 2006, compared to a fair value of \$526,000, gross unrealized gains of \$145,000 and an amortized cost of \$381,000 at June 30, 2005.

Delinquencies and Classified Assets

Delinquent Loans

. When a mortgage loan borrower fails to make a required payment when due, the Bank initiates collection procedures. If the Bank is unsuccessful at curing the delinquency, a property inspection is performed between the 45th day and 60th day of delinquency. In most cases, delinquencies are cured promptly; however, if by the 90th day of delinquency, or sooner if the borrower is chronically delinquent, and all reasonable means of obtaining the payment have been exhausted, foreclosure proceedings, according to the terms of the security instrument and applicable law, are initiated. Interest income is reduced by the full amount of accrued and uncollected interest on such loans.

A loan is generally placed on non-accrual status when its contractual payments are more than 90 days delinquent. In addition, interest income is not recognized on any loan where management has determined that collection is not

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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.

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The following table sets forth delinquencies in the Bank's loans held for investment as of the dates indicated.

	At June 30,											
	2006				2005				2004			
	60 - 89 Days		90 Days or More		60 - 89 Days		90 Days or More		60 - 89 Days		90 Days or More	
	Principal Number of Loans	Balance of Loans	Principal Number of Loans	Balance of Loans	Principal Number of Loans	Balance of Loans	Principal Number of Loans	Balance of Loans	Principal Number of Loans	Balance of Loans	Principal Number of Loans	Balance of Loans
(In Thousands) Mortgage loans:												
Single-family	-	\$ -	5	\$ 1,320	-	\$ -	5	\$ 655	-	\$ -	6	\$ 1,044
Construction	-	-	1	1,313	-	-	-	-	-	-	-	-
Commercial business loans	-	-	-	-	-	-	4	41	-	-	1	32
Consumer loans	-	-	-	-	-	-	-	-	1	-	1	-
Total	-	\$ -	6	\$ 2,633	-	\$ -	9	\$ 696	1	\$ -	8	\$ 1,076

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The following table sets forth information with respect to the Bank's non-performing assets and restructured loans, net of specific loan loss reserves, within the meaning of Statement of Financial Accounting Standards ("SFAS" or "Statement") No. 15, "Accounting by Debtors and Creditors for Troubled Debt Restructurings," at the dates indicated.

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At June 30,

	2006	2005	2004	2003	2002
(Dollars In Thousands)					
Loans accounted for on a non-accrual basis:					
Mortgage loans:					
Single-family	\$ 1,215	\$ 590	\$ 1,044	\$ 1,309	\$ 1,163
Construction	1,313	-	-	-	-
Commercial business loans	-	-	41	32	-
Consumer loans	-	-	-	161	156
Total	2,528	590	1,085	1,502	1,319
Accruing loans which are contractually past due 90 days or more					
	-	-	-	-	-
Total of non-accrual and 90 days past due loans	2,528	590	1,085	1,502	1,319
Foreclosed real estate, net	-	-	-	523	313
Total non-performing assets	\$ 2,528	\$ 590	\$ 1,085	\$ 2,025	\$ 1,632
Restructured loans	\$ -	\$ -	\$ -	\$ -	\$ 1,401
Non-accrual and 90 days or more past due loans as a percentage of loans held for investment, net	0.20%	0.05%	0.13%	0.20%	0.22%
Non-accrual and 90 days or more past due loans as a percentage of total assets	0.16%	0.04%	0.08%	0.12%	0.13%
Non-performing assets as a percentage of total assets	0.16%	0.04%	0.08%	0.16%	0.16%

The Bank assesses loans individually and identifies impairment when the accrual of interest has been discontinued, loans have been restructured or management has serious doubts about the future collectibility of principal and interest, even though the loans are currently performing. Factors considered in determining impairment include, but are not limited to, expected future cash flows, the financial condition of the borrower and current economic conditions. The Bank measures each impaired loan based on the fair value of its collateral and charges off those loans or portions of loans deemed uncollectable.

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As of June 30, 2006, total non-performing assets were \$2.5 million which was comprised of five loans, including one tract construction loan of \$1.3 million which was subsequently paid off in July 2006.

Foregone interest income, which would have been recorded for the year ended June 30, 2006 had the impaired loans been current in accordance with their original terms, amounted to \$113,000, which interest income was not included in the results of operations for the year ended June 30, 2006.

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Foreclosed and Investment Real Estate.

Real estate acquired by the Bank as a result of foreclosure or by deed-in-lieu of foreclosure is classified as foreclosed real estate until it is sold. When property is acquired, it is recorded at the lower of its cost, which is the unpaid principal balance of the related loan plus foreclosure costs, or market value less the cost of sale. Subsequent declines in value are charged to operations. At June 30, 2006, the Bank had no foreclosed real estate.

Investment real estate is carried at the lower of cost or fair market value. All costs associated with disposition are considered in the determination of fair value. The Corporation owned one property, totaling \$653,000, at June 30, 2006, which is held by a wholly owned subsidiary. At June 30, 2005, the Corporation owned two properties, totaling \$9.9 million, which were held by a wholly owned subsidiary. In November 2005, the Corporation sold one of the properties, a commercial building, for a pre-tax gain of \$6.3 million (approximately \$3.6 million net of statutory taxes).

Asset Classification.

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

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

	At June 30,	
	2006	2005
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(Dollars In Thousands)		
Special mention assets	\$ 3,663	\$ 4,706
Substandard assets	5,661	4,047
<hr/>		
Total	\$ 9,324	\$ 8,753

Total classified assets as a percentage of total assets	0.57%	0.54%
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The Bank's classified assets increased \$571,000, or 6.5%, to \$9.3 million at June 30, 2006 from \$8.8 million at June 30, 2005. This increase was primarily attributable to an increase in substandard assets, partly offset by a reduction in special mention assets. As of June 30, 2006, special mention assets were comprised of two single-family loans (\$490,000), four commercial real estate loans (\$2.2 million), one construction loan (\$491,000) and two commercial business loans (\$476,000); and substandard assets were comprised of 10 single-family loans (\$3.1 million), three commercial real estate loans (\$748,000), two construction loans (\$1.7 million) and three commercial business loans (\$131,000).

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As set forth below, assets classified as special mention and substandard as of June 30, 2006 included 27 loans totaling approximately \$9.3 million.

	Number of Loans	Special Mention	Substandard	Total
(Dollars In Thousands)				
Mortgage loans:				
Single-family	12	\$ 490	\$ 3,083	\$ 3,573
Commercial real estate	7	2,206	748	2,954
Construction	3	491	1,699	2,190
Commercial business loans	5	476	131	607
Total	27	\$ 3,663	\$ 5,661	\$ 9,324

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

Allowance for Loan Losses.

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

Bank's operations.

The Bank has established a methodology for the determination of the provision for loan losses. The methodology is set forth in a formal policy and takes into consideration the need for an overall allowance for loan losses as well as specific allowances that are tied to individual loans. The Bank's methodology for assessing the appropriateness of the allowance consists of several key elements, which include the formula allowance, specific allowance for identified problem loans and unallocated allowance.

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

Specific valuation allowances are established to absorb losses on loans for which full collectibility may not be reasonably assured as prescribed in SFAS No. 114, "Accounting by Creditors for Impairment of A Loan," (as amended by SFAS No. 118). The amount of the specific allowance is based on the estimated value of the collateral securing the loan and other analyses pertinent to each situation. Estimates of identifiable losses are reviewed continually and, generally, a provision for losses is charged against operations on a monthly basis as necessary to maintain the allowance at an appropriate level. Management presents the minutes of the IAR Committee to the Bank's Board of Directors on a quarterly basis, which summarizes the actions of the Committee.

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The unallocated allowance is based upon management's evaluation of various conditions, the effect of which are not directly measured in the determination of the formula and specific allowance. The evaluation of the inherent loss with respect to these conditions is subject to a higher degree of uncertainty because they are not identified with specific problem credits or portfolio segments. The conditions evaluated in connection with the unallocated allowance include the following conditions that existed as of the balance sheet date: (1) then-existing general economic and business conditions affecting the key lending areas of the Bank; (2) credit quality trends; (3) loan volumes and concentrations; (4) recent loss experience in particular segments of the portfolio; and (5) regulatory examination results.

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

At June 30, 2006, the Bank had an allowance for loan losses of \$10.3 million, or 0.81% of gross loans held for investment, compared to an allowance for loan losses at June 30, 2005 of \$9.2 million, or 0.81% of gross loans held

for investment. A \$1.1 million provision for loan losses was recorded in fiscal 2006, compared to \$1.6 million in fiscal 2005. The Bank's intent to expand its investment in multi-family, commercial real estate, construction and commercial business loans may lead to increased levels of charge-offs. However, management believes that the amount maintained in the allowance will be adequate, but not excessive, to absorb losses inherent in the loans held for investment. Although management believes the best information available is used to make such determinations, future adjustments to the allowance for loan losses may be necessary and results of operations could be significantly and adversely affected if circumstances differ substantially from the assumptions used in making the determinations.

In the fourth quarter of fiscal 2006, the Corporation revised its formula allowance for loan losses methodology by increasing the factors used to calculate the loan loss provision for single-family, construction and other loans while decreasing the factors used to calculate the loan loss provision for multi-family and commercial real estate loans. This action was taken as a result of the concentration of single-family loans with an interest-only payment feature, current real estate markets, mortgage interest rates, the general economic environment and our experience and expectations for loan losses by loan product type in the current environment.

As a result of past declines in local and regional real estate values and the significant losses experienced by many financial institutions, there has been a higher level of scrutiny by regulatory authorities of the loan portfolios of financial institutions undertaken as a part of the examinations of such institutions. While the Bank believes that it has established its existing allowance for loan losses in accordance with accounting principles generally accepted in the United States of America, there can be no assurance that regulators, in reviewing the Bank's loan portfolio, will not recommend that the Bank significantly increase its allowance for loan losses. In addition, because future events affecting borrowers and collateral cannot be predicted with certainty, there can be no assurance that the existing allowance for loan losses is adequate or that substantial increases will not be necessary should the quality of any loans deteriorate as a result of the factors discussed above. Any material increase in the allowance for loan losses may adversely affect the Bank's financial condition and results of operations.

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

	Year Ended June 30,				
	2006	2005	2004	2003	2002
(Dollars in Thousands)					
Allowance at beginning of period	\$ 9,215	\$ 7,614	\$ 7,218	\$ 6,579	\$ 6,068
Provision for loan losses	1,134	1,641	819	1,055	525
Recoveries:					
Mortgage loans:					
Single-family	-	-	-	-	29
Multi-family	-	-	-	-	67
Consumer loans	2	2	1	45	-
Total recoveries	2	2	1	45	96

Charge-offs:

Mortgage loans:

Single-family	-	-	-	(16)	(9)
Commercial business loans	(41)	(32)	(415)	(436)	(69)
Consumer loans	(3)	(10)	(9)	(9)	(32)

Total charge-offs	(44)	(42)	(424)	(461)	(110)
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Net charge-offs	(42)	(40)	(423)	(416)	(14)
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Balance at end of period	\$ 10,307	\$ 9,215	\$ 7,614	\$ 7,218	\$ 6,579
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Allowance for loan losses as a percentage of gross loans held for investment

	0.81%	0.81%	0.88%	0.96%	1.10%
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Net charge-offs as a percentage of average loans receivable, net, during the period

	-	-	0.05%	0.06%	-
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Allowance for loan losses as a percentage of non-performing loans at the end of the period

	407.71%	1,561.86%	701.75%	480.56%	498.79%
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The following table sets forth the breakdown of the allowance for loan losses by loan category at the periods indicated. Management believes that the allowance can be allocated by category only on an approximate basis. The allocation of the allowance is based upon an asset classification matrix. The allocation of the allowance to each category is not necessarily indicative of future losses and does not restrict the use of the allowance to absorb losses in any other categories.

At June 30,

2006	2005	2004	2003	2002
% of Loans in Each Category to Total	% of Loans in Each Category to Total	% of Loans in Each Category to Total	% of Loans in Each Category to Total	% of Loans in Each Category to Total
AmountLoans	AmountLoans	AmountLoans	AmountLoans	AmountLoans

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(Dollars in Thousands)

M o r t g a g e
loans:

	\$ 2,382	61.16%	\$ 1,924	65.56%	\$ 1,561	65.48%	\$ 1,372	64.89%	\$ 1,330	65.80%
Single-family	2,819	16.18	1,936	9.70	1,177	7.27	818	6.07	605	5.40
Multi-family	3,476	9.41	3,663	9.92	3,095	10.55	2,684	10.95	2,082	9.52
Commercial real estate	788	11.05	426	12.65	421	14.39	558	14.51	249	14.92
Construction Commercial business loans	525	0.95	1,040	1.24	1,197	1.45	1,601	2.75	1,981	3.66
C o n s u m e r loans	16	0.05	16	0.06	16	0.08	18	0.13	19	0.17
Other loans	301	1.20	210	0.87	147	0.78	114	0.70	69	0.53
Unallocated	-	N/A	-	N/A	-	N/A	53	N/A	244	N/A
<hr/>										
T o t a l allowance for loan losses	\$ 10,307	100.00%	\$ 9,215	100.00%	\$ 7,614	100.00%	\$ 7,218	100.00%	\$ 6,579	100.00%

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Investment Securities Activities

Federally chartered savings institutions are permitted under federal and state laws to invest in various types of liquid assets, including U.S. Treasury obligations, securities of various federal agencies and government sponsored enterprises and of state and municipal governments, deposits at the FHLB, certificates of deposit of federally insured institutions, certain bankers' acceptances, mortgage-backed securities and federal funds. Subject to various restrictions, federally chartered savings institutions may also invest a portion of their assets in commercial paper and corporate debt securities. Savings institutions such as the Bank are also required to maintain an investment in FHLB - San Francisco stock. In addition, the Bank is required to maintain minimum levels of investments that qualify as liquid assets under OTS regulations (see "REGULATION" and "Liquidity and Capital Resources" on page 29 and 57 of this Form 10-K). In April 2002, the OTS removed the specific liquidity requirement and now requires institutions to maintain the appropriate level of liquidity specific to their operations.

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

At June 30, 2006, the Corporation's investment securities portfolio was \$177.2 million, which primarily consisted of federal agency and government sponsored enterprise obligations. A total of \$126.2 million (estimated fair value) of

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the Corporation's investment securities portfolio was classified as available for sale. All other securities were classified as held to maturity.

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

	At June 30,								
	2006			2005			2004		
	Amortized Cost	Estimated Fair Value	Percent	Amortized Cost	Estimated Fair Value	Percent	Amortized Cost	Estimated Fair Value	Percent
(Dollars in Thousands)									
Held to maturity securities:									
U.S. government sponsored enterprise debt securities	\$ 51,028	\$ 49,911	28.35%	\$ 51,028	\$ 50,117	21.65%	\$ 59,199	\$ 58,211	23.13%
U.S. government agency MBS (1)	3	3	-	4	4	-	5	7	-
Corporate bonds	-	-	-	996	1,006	0.43	2,796	2,832	1.13
Certificates of deposit	-	-	-	200	200	0.09	200	200	0.08
Total held to maturity	51,031	49,914	28.35	52,228	51,327	22.17	62,200	61,250	24.34
Available for sale securities:									
U.S. government sponsored enterprise debt securities	21,846	21,264	12.08	24,838	24,399	10.54	24,831	24,315	9.66
U.S. government agency MBS	38,143	37,365	21.22	56,517	56,377	24.35	17,723	17,533	6.97
U.S. government sponsored enterprise MBS	61,455	61,249	34.79	91,144	91,748	39.62	137,517	137,329	54.58
	5,557	5,412	3.07	7,312	7,266	3.14	10,507	10,416	4.14

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Private issue CMO (2)									
Freddie Mac common stock	6	342	0.19	6	391	0.17	12	759	0.30
Fannie Mae common stock	1	19	0.01	1	23	0.01	1	28	0.01
Other common stock	118	507	0.29	-	-	-	-	-	-
<hr/>									
Total available for sale	127,126	126,158	71.65	179,818	180,204	77.83	190,591	190,380	75.66
<hr/>									
Total investment securities	\$178,157	\$176,072	100.00%	\$232,046	\$231,531	100.00%	\$252,791	\$251,630	100.00%

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

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As of June 30, 2006, the Corporation held investments in a continuous unrealized loss position totaling \$3.1 million, consisting of the following:

(In Thousands)	Unrealized Holding Losses Less Than 12 Months		Unrealized Holding Losses 12 Months or More		Unrealized Holding Losses Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
U.S. government sponsored enterprise debt securities:						
Fannie Mae	\$ -	\$ -	\$ 6,866	\$ 132	\$ 6,866	\$ 132
Freddie Mac	-	-	10,606	393	10,606	393
FHLB	-	-	47,816	1,061	47,816	1,061
Federal Farm Credit Banks	-	-	5,887	113	5,887	113
U.S. government agency MBS:						
GNMA	22,103	358	15,262	420	37,365	778
U.S. government sponsored enterprise MBS:						
Fannie Mae	18,647	66	15,375	410	34,022	476
Freddie Mac	1,369	2	-	-	1,369	2
Private issue CMO:						
Washington Mutual, Inc	-	-	5,412	145	5,412	145

Total	\$ 42,119	\$ 426	\$ 107,224	\$ 2,674	\$ 149,343	\$ 3,100
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As of June 30, 2006, the unrealized holding losses relate to a total of 57 investment securities, which consist of 26 adjustable rate MBS, three adjustable rate CMO and 28 fixed rate government sponsored enterprise debt obligations, which have been in an unrealized loss position (ranging from

a de minimus percentage to 5.7% of cost) for more than 12 months. Such unrealized holding losses are the result of an increase in market interest rates during fiscal 2006 and are not the result of credit or principal risk. Based on the nature of the investments and other considerations discussed above, management concluded that such unrealized losses were not other than temporary as of June 30, 2006.

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The following table sets forth the outstanding balance, maturity and weighted average yield of the investment securities at June 30, 2006:

	Due in One Year or Less		Due After One to Five Years		Due After Five to Ten Years		Due After Ten Years		No Stated Maturity		Total	
(Dollars in Thousands)	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield

Held to
maturity
securities:

U.S. government sponsored enterprise debt securities	\$ 32,029	2.65%	\$ 18,999	3.15%	\$ -	-	\$ -	-	\$ -	-	\$ 51,028	2.83%
U.S. government agency MBS	-	-	3	8.82%	-	-	-	-	-	-	3	8.82%
Total held to maturity	32,029	2.65%	19,002	3.15%	-	-	-	-	-	-	51,031	2.83%

Available for
sale securities:

U.S. government sponsored enterprise debt securities	11,801	2.57%	9,463	3.20%	-	-	-	-	-	-	21,264	2.85%
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U.S. government agency MBS	-	-	-	-	-	-	37,365	4.09%	-	-	37,365	4.09%
U.S. government sponsored enterprise MBS	2,143	4.55%	-	-	-	-	59,106	4.22%	-	-	61,249	4.23%
Private issue CMO	-	-	-	-	-	-	5,412	3.81%	-	-	5,412	3.81%
Freddie Mac common stock .	-	-	-	-	-	-	-	-	342	-	342	-
Fannie Mae common stock ..	-	-	-	-	-	-	-	-	19	-	19	-
Other common stock	-	-	-	-	-	-	-	-	507	-	507	-
Total available for sale	13,944	2.87%	9,463	3.20%	-	-	101,883	4.15%	868	-	126,158	3.91%
Total investment securities	\$ 45,973	2.72%	\$ 28,465	3.17%	\$ -	-	\$ 101,883	4.15%	\$ 868	-	\$ 177,189	3.60%

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Deposit Activities and Other Sources of Funds

General.

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

Deposit Accounts.

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

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The Bank currently offers time deposits for terms not exceeding five years. As illustrated in the following table, time deposits represented 57.4% of the Bank's deposit portfolio at June 30, 2006, compared to 47.3% at June 30, 2005. At June 30, 2006, the Bank has a single depositor with an aggregate balance of \$100.0 million. The Bank attempts to reduce the overall cost of its deposit portfolio and to increase its franchise value by emphasizing transaction accounts which are subject to a heightened degree of competition (see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" on page 45 of this Form 10-K).

The following table sets forth information concerning the Bank's weighted-average interest rate of deposits at June 30, 2006.

Weighted Average Interest Rate	Term	Deposit Account Type	Minimum Amount	Balance (In Thousands)	Percentage of Total Deposits
<u>Transaction accounts:</u>					
0.00%	N/A	Checking accounts - non-interest-bearing	\$ -	\$ 48,776	5.32%
0.70	N/A	Checking accounts - interest-bearing	-	131,265	14.31
1.38	N/A	Savings accounts	10	181,806	19.81
1.29	N/A	Money market accounts	-	29,274	3.19
<u>Time deposits:</u>					
3.96	12 to 36 months	Fixed-term, variable rate	1,000	1,752	0.19
0.84	30 days or less	Fixed-term, fixed rate	1,000	39	-
2.45	31 to 90 days	Fixed-term, fixed rate	1,000	4,051	0.44
4.57	91 to 180 days	Fixed-term, fixed rate	1,000	109,236	11.90
4.09	181 to 365 days	Fixed-term, fixed rate	1,000	128,743	14.03
4.05	Over 1 to 2 years	Fixed-term, fixed rate	1,000	89,698	9.78
4.12	Over 2 to 3 years	Fixed-term, fixed rate	1,000	125,166	13.64
4.33	Over 3 to 5 years	Fixed-term, fixed rate	1,000	67,776	7.39
2.83%				\$ 917,582	100.00%

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The following table indicates the aggregate dollar amount of the Bank's time deposits with balances of \$100,000 or more differentiated by time remaining until maturity as of June 30, 2006.

Maturity Period	Amount
-----------------	--------

(In Thousands)

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Three months or less	\$ 117,715
Over three to six months	11,726
Over six to twelve months	24,916
Over twelve months	118,399
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Total	\$ 272,756

Deposit Flows.

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

	At June 30,					
	2006			2005		
	Amount	Percent of Total	Increase (Decrease)	Amount	Percent of Total	Increase (Decrease)
(Dollars In Thousands)						
Checking accounts - non-interest-bearing	\$ 48,776	5.32%	\$ 603	\$ 48,173	5.25%	\$ 6,622
Checking accounts - interest-bearing	131,265	14.31	3,382	127,883	13.92	4,262
Savings accounts	181,806	19.81	(85,401)	267,207	29.09	(81,704)
Money market accounts	29,274	3.19	(11,784)	41,058	4.47	(5,800)
Time deposits:						
Fixed-term, fixed rate which mature:						
Within one year	304,759	33.21	73,195	231,564	25.21	104,683
Over one to two years	128,741	14.03	62,573	66,168	7.20	(19,006)
Over two to five years	91,209	9.94	(43,316)	134,525	14.64	58,685
Over five years	-	-	-	-	-	(100)
Fixed-term, variable rate	1,752	0.19	(301)	2,053	0.22	(50)
<hr/>						
Total	\$ 917,582	100.00%	\$ (1,049)	\$ 918,631	100.00%	\$ 67,592

Time Deposits by Rates

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

At June 30,

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	2006	2005	2004
(In Thousands)			
Below 1.00%	\$ 151	\$ 2,174	\$ 40,867
1.00 to 1.99%	384	31,134	74,727
2.00 to 2.99%	31,707	153,610	78,066
3.00 to 3.99%	175,831	188,421	43,517
4.00 to 4.99%	278,574	47,588	37,816
5.00 to 5.99%	39,814	8,923	10,320
6.00 to 6.99%	-	2,460	4,463
7.00% and over	-	-	322
Total	\$ 526,461	\$ 434,310	\$ 290,098

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Time Deposits by Maturities.

The following table sets forth the aggregate dollar amount of time deposits at June 30, 2006 differentiated by interest rates and maturity.

	One Year or Less	Over One to Two Years	Over Two to Three Years	Over Three to Four Years	After Four Years	Total
(In Thousands)						
Below 1.00%	\$ 147	\$ 4	\$ -	\$ -	\$ -	\$ 151
1.00 to 1.99%	340	-	-	44	-	384
2.00 to 2.99%	30,224	1,192	291	-	-	31,707
3.00 to 3.99%	90,974	66,167	13,622	3,583	1,485	175,831
4.00 to 4.99%	175,044	56,988	37,781	6,519	2,242	278,574
5.00% and over	9,141	4,948	25,725	-	-	39,814
Total	\$ 305,870	\$ 129,299	\$ 77,419	\$ 10,146	\$ 3,727	\$ 526,461

Deposit

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

	At or For the Year Ended June 30,		
	2006	2005	2004
(In Thousands)			
Beginning balance	\$ 918,631	\$ 851,039	\$ 754,106
Net (withdrawals) deposits before interest credited	(23,120)	51,425	83,591
Interest credited	22,071	16,167	13,342
Net (decrease) increase in deposits	(1,049)	67,592	96,933
Ending balance	\$ 917,582	\$ 918,631	\$ 851,039

Borrowings.

The FHLB - San Francisco functions as a central reserve bank providing credit for member financial institutions. As a member, the Bank is required to own capital stock in the FHLB - San Francisco and is authorized to apply for advances using such stock and certain of its mortgage loans and other assets (principally investment securities) as collateral, provided certain creditworthiness standards have been met. Advances are made pursuant to several different credit programs. Each credit program has its own interest rate, maturity, terms and conditions. Depending on the program, limitations on the amount of advances are based on the financial condition of the member institution and the adequacy of collateral pledged to secure the credit. The Bank utilizes advances from the FHLB - San Francisco as an alternative to deposits to supplement its supply of lendable funds, to meet deposit withdrawal requirements and to help manage interest rate risk. The FHLB - San Francisco has, from time to time, served as the Bank's primary borrowing source. Advances from the FHLB - San Francisco are typically secured by the Bank's single-family residential first mortgages, multi-family and commercial real estate loans. Total mortgage loans pledged to the FHLB - San Francisco were \$737.3 million at June 30, 2006 as compared to \$515.4 million at June 30, 2005. In addition, the Bank pledged investment securities totaling \$54.6 million at June 30, 2006 as compared to \$128.5 million at June 30, 2005 to collateralize its FHLB - San Francisco advances under the Securities-Backed Credit ("SBC") facility. At June 30, 2006, the Bank had \$546.2 million of borrowings from the FHLB - San Francisco with a weighted-average rate of 4.53%, of which \$54.5 million was under the SBC facility. Such borrowings mature between 2006 and 2021.

In addition, the Bank has a borrowing arrangement in the form of a federal funds facility with its correspondent bank in the amount of \$60.0 million. As of June 30, 2006, the Bank had no outstanding correspondent bank advances as compared to \$10.0 million at a rate of 3.39% as of June 30, 2005.

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

	At or For the Year Ended June 30,		
	2006	2005	2004

(Dollars In Thousands)

Balance outstanding at the end of period:			
FHLB - San Francisco advances	\$ 546,211	\$ 550,845	\$ 324,877
Correspondent bank advances	\$ -	\$ 10,000	-
Weighted average rate at the end of period:			
FHLB - San Francisco advances	4.53%	3.95%	4.01%
Correspondent bank advances	-	3.39%	-
Maximum amount of borrowings outstanding at any month end:			
FHLB - San Francisco advances	\$ 572,342	\$ 550,845	\$ 385,385
Correspondent bank advances	\$ -	\$ 10,000	-
Average short-term borrowings during the period (1)			
With respect to:			
FHLB - San Francisco advances	\$ 121,950	\$ 135,708	\$ 97,638
Correspondent bank advances	\$ 205	\$ 334	-
Weighted average short-term borrowing rate during the period (1)			
With respect to:			
FHLB - San Francisco advances	4.11%	2.84%	2.42%
Correspondent bank advances	3.46%	2.05%	-

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

Subsidiary Activities

Federal savings institutions generally may invest up to 3% of their assets in service corporations, provided that at least one-half of any amount in excess of 1% is used primarily for community, inner-city and community development projects. The Bank's investment in its service corporations did not exceed these limits at June 30, 2006.

The Bank has three wholly owned subsidiaries; Provident Financial Corp ("PFC"), Profed Mortgage, Inc., and First Service Corporation. PFC's current activities include: (i) acting as trustee for the Bank's real estate transactions and (ii) holding real estate for investment. The real estate investment of PFC is six acres of land in Riverside, California with a book value of \$653,000 as of June 30, 2006. Profed Mortgage, Inc., which formerly conducted the Bank's mortgage banking activities, and First Service Corporation are currently inactive. At June 30, 2006, the Bank's investment in its subsidiaries was \$841,000.

REGULATION

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

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

General

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

Federal Regulation of Savings Institutions

Office of Thrift Supervision.

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

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

All savings institutions are required to pay assessments to the OTS to fund the agency's operations. The general assessments, paid on a semi-annual basis, are determined based on the savings institution's total assets, including consolidated subsidiaries. The Bank's annual OTS assessment for the fiscal year ended June 30, 2006 was \$311,000.

Federal law provides that savings institutions are generally subject to the national bank limit on loans to one borrower. A savings institution may not make a loan or extend credit to a single or related group of borrowers in excess of 15% of its unimpaired capital and surplus. An additional amount may be lent, equal to 10% of unimpaired capital and surplus, if secured by specified readily marketable collateral. At June 30, 2006, the Bank's limit on loans to one borrower was \$21.2 million. At June 30, 2006, the Bank's largest loan commitment to a single borrower was \$8.5

million. Of this commitment, \$683,000 has been disbursed in the form of single-family tract construction loan, which is performing according to its original terms.

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

Federal Home Loan Bank System.

The Bank is a member of the FHLB - San Francisco, which is one of 12 regional FHLBs that administer the home financing credit function of member financial institutions. Each FHLB serves as a reserve or central bank for its members within its assigned region. It is funded primarily from proceeds derived from the sale of consolidated obligations of the FHLB System. It makes loans or advances to members in accordance with policies and procedures, established by the Board of Directors of the FHLB, which are subject to the oversight of the Federal Housing Finance Board. All advances from the FHLB are required to be fully secured by sufficient collateral as determined by the FHLB. In addition, all long-term advances are required to provide funds for residential home financing. At June 30, 2006, the Bank had \$546.2 million of outstanding advances from the FHLB - San Francisco under an available credit facility of \$624.7 million, which is limited to available collateral. See "Business - Deposit Activities and Other Sources of Funds - Borrowings."

As a member, the Bank is required to purchase and maintain stock in the FHLB - San Francisco. At June 30, 2006, the Bank had \$37.6 million in FHLB - San Francisco stock, which was in compliance with this requirement. In past years, the Bank has received substantial dividends on its FHLB - San Francisco stock. The average dividend yield for fiscal 2006 and 2005 was 4.78% and 4.41%, respectively. There is no guarantee that the FHLB - San Francisco will maintain its dividend at these levels.

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

Federal Deposit Insurance Reform Act of 2005. The Federal Deposit Insurance Reform Act of 2005 ("Reform Act") was signed into law on February 8, 2006 and amended current laws regarding the federal deposit insurance system. Pursuant to the Reform Act, the FDIC merged the Bank Insurance Fund and the Savings Association Insurance Fund into one deposit insurance fund, the DIF, on March 31, 2006. The new legislation also abolished the prior minimum 1.25% reserve ratio and the mandatory assessments when the ratio falls below 1.25%. Under the Reform Act, the FDIC, at the beginning of each year, has the flexibility to adjust the DIF's reserve ratio between 1.15% and 1.50% depending upon a variety of factors, including projected losses, economic considerations and assessment rates.

Pursuant to the Reform Act, effective April 1, 2006, deposit insurance coverage limits were increased from \$100,000 to \$250,000 for certain types of Individual Retirement Accounts, 401(k) plans and other retirement savings accounts, including Keogh accounts and "457 plan" accounts, among others. The current \$100,000 limit continues to apply to individual accounts and municipal deposits; however, the Reform Act authorizes the FDIC to review all levels of insurance coverage every five years beginning in 2011, and index such insurance coverage to inflation. Additionally, under the Reform Act, undercapitalized financial institutions are restricted from accepting employee benefit plan deposits. Certain one-time deposit premium assessment credits are also authorized under the Reform Act, and regulations related to the allotment of such credits have recently been issued by the FDIC. To date, however, the credit

program has not been finalized and the credits will not be rebated but instead may be applied against premiums at any time, subject to limited exceptions.

The Reform Act also provides that the FDIC must promulgate final regulations implementing the Reform Act no later than 270 days after its enactment, or by November 5, 2006. Because the FDIC has not promulgated these final regulations, it is difficult to predict the effect, if any, such regulations will have on the Bank's operations.

Insurance of Accounts and Regulation by the FDIC.

The Bank is a member of the DIF, which is administered by the FDIC. The FDIC insures deposits up to the applicable limits and this insurance is backed by the full faith and

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credit of the United States government. As insurer, the FDIC imposes deposit insurance premiums and is authorized to conduct examinations of and to require reporting by FDIC-insured institutions. It also may prohibit any FDIC-insured institution from engaging in any activity the FDIC determines by regulation or order to pose a serious risk to the FDIC. The FDIC also has the authority to initiate enforcement actions against savings institutions, after giving the OTS an opportunity to take such action, and may terminate the deposit insurance if it determines that the institution has engaged in unsafe or unsound practices or is in an unsafe or unsound condition.

The FDIC's deposit insurance premiums are assessed through a risk-based system under which all insured depository institutions are placed into one of nine categories and assessed insurance premiums based upon their level of capital and supervisory evaluation. Under the system, institutions classified as well capitalized (i.e., a core capital ratio of at least 5%, a ratio of Tier 1 or core capital to risk-weighted assets ("Tier 1 risk-based capital") of at least 6% and a risk-based capital ratio of at least 10%) and considered healthy pay the lowest premiums while institutions that are less than adequately capitalized (i.e., core or Tier 1 risk-based capital ratios of less than 4% or a risk-based capital ratio of less than 8%) and considered of substantial supervisory concern pay the highest premiums. Risk classification of all insured institutions is made by the FDIC for each semi-annual assessment period. The Reform Act authorizes the FDIC to revise its current risk-based system, subject to public notice and comment, although no deadline was given by Congress for the creation or implementation of such regulations.

DIF-insured institutions are required to pay a Financing Corporation (FICO) assessment, in order to fund the interest on bonds issued to resolve thrift failures in the 1980s. For the quarter ended March 31, 2006, the FICO assessment was equal to 1.32 basis points for each \$100 in domestic deposits. These assessments, which may be revised based upon the level of DIF deposits, will continue until the bonds mature in the years 2017 through 2019.

Prompt Corrective Action.

The OTS is required to take certain supervisory actions against undercapitalized savings institutions, the severity of which depends upon the institution's degree of undercapitalization. Generally, an institution is considered to be "undercapitalized" if it has a ratio of total capital to risk-weighted assets of less than 8.0%, a ratio of Tier I (core) capital to risk-weighted assets of less than 4.0%, or a ratio of core capital to total assets of less than 4.0% (3.0% or less for institutions with the highest examination rating). An institution that has a total risk-based capital ratio less than 6.0%, a Tier I capital ratio of less than 3.0% or a leverage ratio that is less than 3.0% is considered to be "significantly undercapitalized" and an institution that has a tangible capital to total assets ratio equal to or less than 1.5% is deemed to be "critically undercapitalized." Subject to a narrow exception, the OTS is required to appoint a receiver or conservator for a savings institution that is "critically undercapitalized." OTS regulations also require that a capital restoration plan be filed with the OTS within 45 days of the date a savings institution receives notice that it is "undercapitalized," "significantly

undercapitalized" or "critically undercapitalized." In addition, numerous mandatory supervisory actions become immediately applicable to an undercapitalized institution, including, but not limited to, increased monitoring by regulators and restrictions on growth, capital distributions and expansion. "Significantly undercapitalized" and "critically undercapitalized" institutions are subject to more extensive mandatory regulatory actions. The OTS also could take any one of a number of discretionary supervisory actions, including the issuance of a capital directive and the replacement of senior executive officers and directors.

At June 30, 2006, the Bank was categorized as "well capitalized" under the prompt corrective action regulations of the OTS.

Standards for Safety and Soundness.

The federal banking regulatory agencies have prescribed, by regulation, standards 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 ("Guidelines"). The Guidelines set forth the safety and soundness standards that the federal banking agencies use to identify and address problems at insured depository institutions before capital becomes impaired. If the OTS determines that the Bank fails to meet any standard prescribed by the Guidelines, it may require the Bank to submit an acceptable plan to achieve compliance with the standard. OTS regulations establish deadlines for the submission and review of such safety and soundness compliance plans. Management is aware of no conditions relating to these safety and soundness standards which would require the submission of a plan of compliance.

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Qualified Thrift Lender Test.

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

A savings institution that fails to meet the QTL is subject to certain operating restrictions and may be required to convert to a national bank charter. Recent legislation has expanded the extent to which education loans, credit card loans and small business loans may be considered "qualified thrift investments." As of June 30, 2006, the Bank maintained 83.76% of its portfolio assets in qualified thrift investments and, therefore, met the qualified thrift lender test.

Capital Requirements.

The OTS's capital regulations require federal savings institutions to meet three minimum capital standards: a 1.5% tangible capital to total assets ratio, a 4% leverage ratio (3% for institutions receiving the highest rating on the CAMELS examination rating system) and an 8% risk-based capital ratio. In addition, the prompt corrective action standards discussed below also establish, in effect, a minimum 2% tangible capital standard, a 4% leverage ratio (3% for institutions receiving the highest rating on the CAMELS system) and, together with the risk-based capital standard itself, a 4% Tier I risk-based capital standard. The OTS regulations also require that, in meeting the tangible, leverage and risk-based capital standards, institutions must generally deduct investments in and loans to subsidiaries engaged in activities as principal that are not permissible for a national bank.

The risk-based capital standard requires federal savings institutions to maintain Tier I (core) and total capital (which is defined as core capital and supplementary capital) to risk-weighted assets of at least 4% and 8%, respectively. In determining the amount of risk-weighted assets, all assets, including certain off-balance sheet assets, recourse obligations, residual interests and direct credit substitutes, are multiplied by a risk-weight factor of 0% to 100%, assigned by the OTS capital regulation based on the risks believed inherent in the type of asset. Core (Tier I) capital is defined as common stockholders' equity (including retained earnings), certain noncumulative perpetual preferred stock and related surplus and minority interests in equity accounts of consolidated subsidiaries, less intangibles other than

certain mortgage servicing rights and credit card relationships. The components of supplementary capital currently include cumulative preferred stock, long-term perpetual preferred stock, mandatory convertible securities, subordinated debt and intermediate preferred stock, the allowance for loan and lease losses limited to a maximum of 1.25% of risk-weighted assets and up to 45% of unrealized gains on available-for-sale equity securities with readily determinable fair market values. Overall, the amount of supplementary capital included as part of total capital cannot exceed 100% of core capital.

The OTS also has authority to establish individual minimum capital requirements in appropriate cases upon a determination that an institution's capital level is or may become inadequate in light of the particular circumstances. At June 30, 2006, the Bank met each of these capital requirements. For additional information, see Note 10 of the Notes to Consolidated Financial Statements included in Item 8 of this Form 10-K.

Limitations on Capital Distributions.

OTS regulations impose various restrictions on savings institutions with respect to their ability to make distributions of capital, which include dividends, stock redemptions or repurchases, cash-out mergers and other transactions charged to the capital account. Generally, savings institutions, such as the Bank, that before and after the proposed distribution are well-capitalized, may make capital distributions during any calendar year equal to up to 100% of net income for the year-to-date plus retained net income for the two preceding years. However, an institution deemed to be in need of more than normal supervision by the OTS may have its dividend authority restricted by the OTS. The Bank may pay dividends to the Corporation in accordance with this general authority.

Savings institutions proposing to make any capital distribution need not submit written notice to the OTS prior to such distribution unless they are a subsidiary of a holding company or would not remain well-capitalized following the distribution. Savings institutions that do not, or would not meet their current minimum capital requirements following a proposed capital distribution or propose to exceed these net income limitations, must obtain OTS approval prior to making such distribution. The OTS may object to the distribution during that 30-day period based

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on safety and soundness concerns.

Activities of Associations and Their Subsidiaries.

When a savings institution establishes or acquires a subsidiary or elects to conduct any new activity through a subsidiary that the association controls, the savings institution must notify the FDIC and the OTS 30 days in advance and provide the information each agency may, by regulation, require. Savings institutions also must conduct the activities of subsidiaries in accordance with existing regulations and orders.

The OTS may determine that the continuation by a savings institution of its ownership, control of, or its relationship to, the subsidiary constitutes a serious risk to the safety, soundness or stability of the savings institution or is inconsistent with sound banking practices or with the purposes of the Federal Deposit Insurance Act. Based upon that determination, the FDIC or the OTS has the authority to order the savings institution to divest itself of control of the subsidiary. The FDIC also may determine by regulation or order that any specific activity poses a serious threat to the DIF. If so, it may require that no DIF member engage in that activity directly.

Transactions with Affiliates.

The Bank's authority to engage in transactions with "affiliates" is limited by OTS regulations and by Sections 23A and 23B of the Federal Reserve Act as implemented by the Federal Reserve Board's Regulation W. The term "affiliates" for these purposes generally means any company that controls or is under common control with an institution. The Corporation and its non-savings institution subsidiaries would be affiliates of the Bank. In general, transactions with affiliates must be on terms that are as favorable to the institution as comparable transactions with non-affiliates. In addition, certain types of transactions are restricted to an aggregate percentage of the institution's capital. Collateral in

specified amounts must usually be provided by affiliates in order to receive loans from an institution. In addition, savings institutions are prohibited from lending to any affiliate that is engaged in activities that are not permissible for bank holding companies and no savings institution may purchase the securities of any affiliate other than a subsidiary.

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

Community Reinvestment Act.

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

Affiliate Transactions.

The Corporation and the Bank are separate and distinct legal entities. Various legal limitations restrict the Bank from lending or otherwise supplying funds to the Corporation, generally limiting any single transaction to 10% of the Bank's capital and surplus and limiting all such transactions to 20% of the Bank's capital and surplus. These transactions also must be on terms and conditions consistent with safe and sound banking practices that are substantially the same as those prevailing at the time for transactions with unaffiliated companies.

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Federally insured savings institutions are subject, with certain exceptions, to certain restrictions on extensions of credit to their parent holding companies or other affiliates, on investments in the stock or other securities of affiliates and on the taking of such stock or securities as collateral from any borrower. In addition, these institutions are prohibited from engaging in certain tie-in arrangements in connection with any extension of credit or the providing of any property or service.

Regulatory and Criminal Enforcement Provisions.

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

Environmental Issues Associated with Real Estate Lending.

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

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

Privacy Standards.

The Gramm-Leach-Bliley Financial Services Modernization Act of 1999 ("GLBA"), which was enacted in 1999, 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 OTS regulations implementing the privacy protection provisions of the GLBA. These regulations require the Bank to disclose its privacy policy, including identifying with whom it shares "non-public personal information," to customers at the time of establishing the customer relationship and annually thereafter.

Anti-Money Laundering and Customer Identification.

Congress enacted the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the "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 new powers to address terrorist threats through enhanced domestic security measures, expanded surveillance powers, increased information sharing, and broadened anti-money laundering requirements. In March 2006, Congress re-enacted certain expiring provisions of the USA Patriot Act.

Savings and Loan Holding Company Regulations

General.

The Corporation is a unitary savings and loan holding company subject to the regulatory oversight of the OTS. Accordingly, the Corporation is required to register and file reports with the OTS and is subject to regulation and examination by the OTS. In addition, the OTS has enforcement authority over the Corporation and its non-savings institution subsidiaries, which also permits the OTS to restrict or prohibit activities that are determined to present a serious risk to the subsidiary savings institution.

Mergers and Acquisitions.

The Corporation must obtain approval from the OTS before acquiring more than 5% of the voting stock of another savings institution or savings and loan holding company or acquiring such an institution or holding company by merger, consolidation or purchase of its assets. In evaluating an application for the

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Corporation to acquire control of a savings institution, the OTS would consider the financial and managerial resources and future prospects of the Corporation and the target institution, the effect of the acquisition on the risk to the insurance funds, the convenience and the needs of the community and competitive factors.

Activities Restrictions.

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As a unitary savings and loan holding company, the Corporation generally is not subject to activity restrictions. The Corporation and its non-savings institution subsidiaries are subject to statutory and regulatory restrictions on their business activities specified by federal regulations, which include performing services and holding properties used by a savings institution subsidiary, activities authorized for savings and loan holding companies as of March 5, 1987, and non-banking activities permissible for bank holding companies pursuant to the Bank Holding Company Act of 1956 or authorized for financial holding companies pursuant to the GLBA.

If the Bank fails the QTL test, the Corporation must, within one year of that failure, register as, and will become subject to, the restrictions applicable to bank holding companies. See "Federal Regulation of Savings Institutions - Qualified Thrift Lender Test" on page 33 of this Form 10-K.

Sarbanes-Oxley Act.

The Sarbanes-Oxley Act was signed into law on July 30, 2002 in response to public concerns regarding corporate accountability in connection with certain accounting scandals. The stated goals of the Sarbanes-Oxley Act are to increase corporate responsibility, to provide for enhanced penalties for accounting and auditing improprieties at publicly traded companies and to protect investors by improving the accuracy and reliability of corporate disclosures pursuant to the securities laws. The Sarbanes-Oxley Act generally applies to all companies that file or are required to file periodic reports with the SEC, under the Securities Exchange Act of 1934, including the Corporation.

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

TAXATION

Federal Taxation

General.

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

Tax Bad Debt Reserves.

As a result of legislation enacted in 1996, the reserve method of accounting for bad debt reserves was repealed for tax years beginning after December 31, 1995. Due to such repeal, the Bank is no longer able to calculate its deduction for bad debts using the percentage-of-taxable-income or the experience method. Instead, the Bank will be permitted to deduct as bad debt expense its specific charge-offs during the taxable year. In addition, the legislation required savings institutions to recapture into taxable income, over a six-year period, their post-1987 additions to their bad debt tax reserves. As of the effective date of the legislation, the Bank had no post-1987 additions to its bad debt tax reserves. As of June 30, 2006, the Bank's total pre-1988 bad debt reserve for tax purposes was approximately \$9.0 million. Under current law, a savings institution will not be required to recapture its pre-1988 bad debt reserve unless the Bank makes a "non-dividend distribution" as defined below.

Distributions

. To the extent that the Bank makes "non-dividend distributions" to the Corporation that are considered as made from the reserve for losses on qualifying real property loans, to the extent the reserve for such losses exceeds the amount that would have been allowed under the experience method; or from the supplemental reserve for losses on loans

("Excess Distributions"), then an amount based on the amount distributed will be

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included in the Bank's taxable income. Non-dividend distributions include distributions in excess of the Bank's current and accumulated earnings and profits, distributions in redemption of stock, and distributions in partial or complete liquidation. However, dividends paid out of the Bank's current or accumulated earnings and profits, as calculated for federal income tax purposes, will not be considered to result in a distribution from the Bank's bad debt reserve. Thus, any dividends to the Corporation that would reduce amounts appropriated to the Bank's bad debt reserve and deducted for federal income tax purposes would create a tax liability for the Bank. The amount of additional taxable income attributable to an Excess Distribution is an amount that, when reduced by the tax attributable to the income, is equal to the amount of the distribution. Thus, if the Bank makes a "non-dividend distribution," then approximately one and one-half times the amount distributed will be included in taxable income for federal income tax purposes, assuming a 35% corporate income tax rate (exclusive of state and local taxes). See "Limitation on Capital Distributions" on page 33 of this Form 10-K for limits on the payment of dividends by the Bank. The Bank does not intend to pay dividends that would result in a recapture of any portion of its tax bad debt reserve. During fiscal 2006, the Bank declared and paid cash dividends to the Corporation of \$6.0 million while the Corporation declared and paid cash dividends to the shareholders of \$4.1 million.

Corporate Alternative Minimum Tax.

The Internal Revenue Code of 1986 imposes a tax on alternative minimum taxable income ("AMTI") at a rate of 20%. In addition, only 90% of AMTI can be offset by net operating loss carryovers. AMTI is increased by an amount equal to 75% of the amount by which the Bank's adjusted current earnings exceeds its AMTI (determined without regard to this preference and prior to reduction for net operating losses).

Non-Qualified Compensation Tax Benefits.

During fiscal 2006, 1,452 shares of common stock under the Management Recognition Plan ("MRP") were distributed to non-employee members of the Corporation's Board of Directors in accordance with previous awards and consistent with the vesting schedule. Also, 256,289 common stock option contracts to purchase shares of the Corporation's common stock were exercised as non-qualified stock option contracts during fiscal 2006. The federal tax benefit from the non-qualified compensation in fiscal 2006 was \$1.9 million.

Other Matters.

The Internal Revenue Service has audited the Bank's income tax returns through 1996 and the California Franchise Tax Board has audited the Bank through 1990.

State Taxation

California.

The California franchise tax rate applicable to the Bank equals the franchise tax rate applicable to corporations generally, plus an "in lieu" rate of 2%, which is approximately equal to personal property taxes and business license taxes paid by such corporations (but not generally paid by banks or financial corporations such as the Bank). At June 30, 2006, the Corporation's net state tax rate was 7.2%. Bad debt deductions are available in computing California franchise taxes using the specific charge-off method. The Bank and its California subsidiaries file California franchise tax returns on a combined basis. The Corporation will be treated as a general corporation subject to the general corporate tax rate. The state tax benefit from the non-qualified compensation in fiscal 2006, as described under the Federal Taxation section, was \$655,000.

Delaware.

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As a Delaware holding company not earning income in Delaware, the Corporation is exempted from Delaware corporate income tax, but is required to file an annual report with and pay an annual franchise tax to the State of Delaware.

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EXECUTIVE OFFICERS

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

Name	Age (1)	Position	
		Corporation	Bank
Craig G. Blunden	58	Chairman, President and Chief Executive Officer	Chairman, President and Chief Executive Officer
Lilian Brunner-Salter	51	-	Senior Vice President Chief Information Officer
Thomas "Lee" Fenn	57	-	Senior Vice President Chief Lending Officer
Richard L. Gale	55	-	Senior Vice President Provident Bank Mortgage
Kathryn R. Gonzales (2)	48	-	Senior Vice President Retail Banking
Donavon P. Ternes	46	Chief Financial Officer Corporate Secretary	Senior Vice President Chief Financial Officer Corporate Secretary

(1) As of June 30, 2006.
 (2) Joined the Bank on August 7, 2006.

Biographical Information

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

Craig G. Blunden

has been associated with the Bank since 1974 and has held his current positions at the Bank since 1991 and as President and Chief Executive Officer of the Corporation since its formation in 1996. Mr. Blunden also serves on the Board of Directors of the FHLB - San Francisco, the Riverside Economic Development Corporation, and is Vice Chairman of the Board of the Greater Riverside Chamber of Commerce. On January 1, 2005, Mr. Blunden was appointed to a two-year term on the Thrift Institutions Advisory Council by the Federal Reserve Board.

Lilian Brunner-Salter,

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who joined the Bank in 1993, was general auditor prior to being promoted to Chief Information Officer in 1997. Prior to joining the Bank, Ms. Brunner-Salter was with Home Federal Bank, San Diego, California for 17 years and held various positions in information systems, auditing and accounting.

Thomas "Lee" Fenn

joined the Bank as Senior Vice President and Chief Lending Officer on July 31, 2003. Prior to joining the Bank, Mr. Fenn was a Senior Vice President and Regional Manager of First Bank & Trust, Huntington Beach, California, a state chartered commercial bank, for six years and was responsible for managing commercial real estate originations, sales to the secondary market, commercial underwriting, sales training for 50 retail offices in California, and the asset based lending division.

Richard L. Gale

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

Kathryn R. Gonzales

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

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business related products and services, and commercial lending.

Donavon P. Ternes

joined the Bank as Senior Vice President and Chief Financial Officer on November 1, 2000. Prior to joining the Bank, Mr. Ternes was the President, Chief Executive Officer, Chief Financial Officer and Director of Mission Savings and Loan Association, a financial institution located in Riverside, California for over 11 years.

Item 1A. Risk Factors

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

Fluctuations in interest rates could reduce our profitability and affect the value of our assets.

Like other financial institutions, we are subject to interest rate risk. Our primary source of income is net interest income, which is the difference between interest earned on loans and investment securities and the interest paid on deposits and borrowings. We expect that we will periodically experience imbalances in the interest rate sensitivities of our assets and liabilities and the relationships of various interest rates to each other. Over any period of time, our interest-earning assets may be more sensitive to changes in market interest rates than our interest-bearing liabilities, or vice versa. In addition, the individual market interest rates underlying our loan and deposit products may not change to the same degree over a given time period. In any event, if market interest rates should move contrary to our

position, our earnings may be negatively affected. In addition, loan volume and quality and deposit volume and mix can be affected by market interest rates. Changes in levels of market interest rates could materially adversely affect our net interest spread, asset quality, origination volume and overall profitability.

Interest rates have recently been at historically low levels. However, since June 30, 2004, the U.S. Federal Reserve has increased its target for the federal funds rate 17 times, from 1.00% to 5.25%, and the most recent interest rate increase was on June 29, 2006. While these short-term market interest rates have increased the pricing of our loans, it has been more than offset by the rise in our funding costs. In a sustained rising interest rate environment the asset yields may not match rising funding costs, which may negatively impact interest margins. A sustained falling interest rate environment would positively impact margins.

We manage our assets and liabilities in order to achieve long-term profitability while limiting our exposure to the fluctuation of interest rates. We anticipate periodic imbalances in the interest rate sensitivity of our assets and liabilities and the relationship of various interest rates to each other. At any reporting period, we may have earning assets which are more sensitive to changes in interest rates than interest-bearing liabilities, or vice versa. The fluctuation of market interest rates can materially affect our net interest spread, interest margin, loan originations, deposit volumes and overall profitability. In addition, we may have valuation risk in measuring our interest rate risk position. The valuation risk is attributable to calculation methods (modeling risks) and assumptions used in the model, including loan prepayments and forward interest rates.

Our mortgage banking business is subject to additional interest rate risk. For instance, rising interest rates may lower the loan origination volume thereby reducing the gain on sale of loans. Additionally, since the loan origination volume is hedged against interest rate fluctuations with forward loan sale commitments and put option contracts, rising or falling interest rates may alter the actual loan origination volume such that the hedges are insufficient to protect our profitability margins. Also, we cannot be assured that the value of the instruments we use

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to hedge our loan origination volume will react to the interest rate fluctuations in the same manner as the value of the loan origination commitments which may also significantly impact profitability.

For further information on our interest rate risks, see the discussion included in "Item 7A. Quantitative and Qualitative Disclosure About Market Risks" on page 58 of this Form 10-K.

We are subject to credit risks in connection with our lending practices.

We are subject to credit risk in connection with our loans held for investment, loans available for sale, receivable from sale of loans, investment securities and in connection with the mortgage banking activities, particularly in the sale of loans (counter-party risk). We have established stringent underwriting policies to mitigate this risk for the purpose of determining the credit worthiness of each borrower. To assist us in this endeavor, we have established the Internal Asset Review Committee and Quality Assurance Department. The Internal Asset Review Committee manages the exposure to credit losses in each of these business operations, including the adequacy of allowance for loan losses; while Quality Assurance Department verifies the existence, authenticity, completeness, and accuracy of legal, compliance and credit documentation, and the quality of real property appraisals, and underwriting decisions for loan originations.

Additionally, multi-family and commercial real estate loans bear higher credit risk as compared to single-family mortgage loans. These loans are typically secured by properties that are generally greater in amount, more difficult to evaluate and monitor and are susceptible to default as a result of changes in

general economic conditions and, therefore, involve a greater degree of risk than single-family mortgage loans. Since payments on loans secured by multi-family and commercial real estate are often dependent on the successful operation and management of the properties, repayment of such loans may be impacted by adverse conditions in the real estate market or the economy. Our multi-family and commercial real estate loans are primarily located in Los Angeles, Orange, Riverside, San Bernardino and San Diego Counties.

Our non-traditional or "Alt-A" loans include interest-only loans, stated-income loans and more than 30-year amortization loans and bear higher credit risk. In the case of interest-only loans a borrower's payment is subject to change in the future when the loan converts to a fully-amortizing status. Since the payment may increase by a substantial amount there is no assurance that the borrower will be able to afford the increased monthly payment. In the case of stated income loans a borrower may misrepresent his income or source of income (which we have not verified) in order to obtain the loan. The borrower may not have sufficient income to qualify for the loan amount and may not be able to make the monthly loan payment. In the case of more than 30-year amortization loans the term of the loan requires many more monthly payments from the borrower (ultimately increasing the cost of the home) and subjects the loan to more interest rate cycles, economic cycles and employment cycles which increases the possibility that the borrower is negatively impacted by one of these cycles and is no longer willing or able to meet his monthly payment obligations.

Our funding sources may prove insufficient to replace deposits and support our future growth.

We rely on customer deposits and advances from the FHLB - San Francisco and other borrowings to fund our operations. Although we have historically been able to replace maturing deposits and advances if desired, no assurance can be given that we would be able to replace such funds in the future if our financial condition or the financial condition of the FHLB - San Francisco or market conditions were to change. Our financial flexibility will be severely constrained if we are unable to maintain our access to funding or if adequate financing is not available to accommodate future growth at acceptable interest rates. Finally, if we are required to rely more heavily on more expensive funding sources to support future growth, our revenues may not increase proportionately to cover our costs. In this case, our profitability would be adversely affected.

Although we consider such sources of funds adequate for our liquidity needs, we may seek additional debt in the future to achieve our long-term business objectives. There can be no assurance additional borrowings, if sought, would be available to us or, if available, would be on favorable terms. If additional financing sources are unavailable or are not available on reasonable terms, our growth and future prospects could be adversely affected.

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Our profitability depends significantly on economic conditions in the State of California.

Our success depends primarily on the general economic conditions of the State of California and the specific local markets in which we operate. Adverse economic conditions unique to the California markets could have a material adverse effect on our financial condition and results of operations. Further, a significant decline in general economic conditions, caused by inflation, recession, unemployment, changes in securities markets or other factors could impact our state and local markets and, in turn, also have a material adverse effect on our financial condition and results of operations. Of particular concern are the rising real estate values, which may prove unsustainable in our current rising interest rate environment and may lead to higher loan losses since the majority of our loans are secured by real estate located within California. Similarly, if California were to experience significant declines in real estate values, this decline may inhibit our ability to recover on defaulted loans by selling the underlying real estate.

Competition with other financial institutions could adversely affect our profitability.

The banking and financial services industry is very competitive. Legal and regulatory developments have made it easier for new and sometimes unregulated competitors to compete with us. Consolidation among financial service providers has resulted in fewer very large national and regional banking and financial institutions holding a large accumulation of assets. These institutions generally have significantly greater resources, a wider geographic presence or greater accessibility. Our competitors sometimes are also able to offer more services, more favorable pricing or greater customer convenience than we do. In addition, our competition has grown from new banks and other financial services providers that target our existing or potential customers. As consolidation continues among large banks, we expect additional institutions to try to exploit our market.

Technological developments have allowed competitors including some non-depository institutions, to compete more effectively in local markets and have expanded the range of financial products, services and capital available to our target customers. If we are unable to implement, maintain and use such technologies effectively, we may not be able to offer products or achieve cost-efficiencies necessary to compete in our industry. In addition, some of these competitors have fewer regulatory constraints and lower cost structures.

The loss of key members of our senior management team could adversely affect our business.

We believe that our success depends largely on the efforts and abilities of our senior management. Their experience and industry contacts significantly benefit us. The competition for qualified personnel in the financial services industry is intense, and the loss of any of our key personnel or an inability to continue to attract, retain and motivate key personnel could adversely affect our business.

We are subject to extensive government regulation and supervision.

We are subject to extensive federal and state regulation and supervision, primarily through the Bank and certain non-bank subsidiaries. Banking regulations are primarily intended to protect depositors' funds, federal deposit insurance funds and the banking system as a whole, not shareholders. These regulations affect our lending practices, capital structure, investment practices, dividend policy and growth, among other things. Congress and federal regulatory agencies continually review banking laws, regulations and policies for possible changes. Changes to statutes, regulations or regulatory policies, including changes in interpretation or implementation of statutes, regulations or policies, could affect us in substantial and unpredictable ways. Such changes could subject us to additional costs, limit the types of financial services and products we may offer and/or increase the ability of non-banks to offer competing financial services and products, among other things. Failure to comply with laws, regulations or policies could result in sanctions by regulatory agencies, civil money penalties and/or reputation damage, which could have a material adverse effect on our business, financial condition and results of operations. While we have policies and procedures designed to prevent any such violations, there can be no assurance that such violations will not occur. For further information, see "Item 1. Business - REGULATION" on page 29 of this Form 10-K.

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We rely heavily on the proper functioning of our technology.

We rely heavily on communications and information systems to conduct our business. Any failure, interruption or breach in security of these systems could result in failures or disruptions in our customer relationship management, general ledger, deposit, loan and other systems. While we have policies and procedures designed to prevent or limit the effect of the failure, interruption or security breach of our information systems, there can be no assurance that any such failures, interruptions or security breaches will not occur or, if they do occur, that they will be adequately addressed. The occurrence of any failures, interruptions or security breaches of our information systems could damage

our reputation, result in a loss of customer business, subject us to additional regulatory scrutiny, or expose us to civil litigation and possible financial liability, any of which could have a material adverse effect on our financial condition and results of operations.

We rely on third-party service providers for much of our communications, information, operating and financial control systems technology. If any of our third-party service providers experience financial, operational or technological difficulties, or if there is any other disruption in our relationships with them, we may be required to locate alternative sources of such services, and we cannot assure that we could negotiate terms that are as favorable to us, or could obtain services with similar functionality, as found in our existing systems, without the need to expend substantial resources, if at all. Any of these circumstances could have an adverse effect on our business.

Terrorist activities could cause reductions in investor confidence and substantial volatility in real estate and securities markets.

It is impossible to predict the extent to which terrorist activities may occur in the United States or other regions, or their effect on a particular security issue. It is also uncertain what effects any past or future terrorist activities and/or any consequent actions on the part of the United States government and others will have on the United States and world financial markets, local, regional and national economics, and real estate markets across the United States. Among other things, reduced investor confidence could result in substantial volatility in securities markets, a decline in general economic conditions and real estate related investments and an increase in loan defaults. Such unexpected losses and events could materially affect our results of operations.

We rely on dividends from subsidiaries for most of our revenue.

Provident Financial Holdings, Inc is a separate and distinct legal entity from its subsidiaries. We receive substantially all of our revenue from dividends from our subsidiaries. These dividends are the principal source of funds to pay dividends on our common stock and interest and principal on our debt. Various federal and/or state laws and regulations limit the amount of dividends that the Bank may pay us. Also, our right to participate in a distribution of assets upon a subsidiary's liquidation or reorganization is subject to the prior claims of the subsidiary's creditors. In the event the Bank is unable to pay dividends to us, we may not be able to service our debt, pay obligations or pay dividends on our common stock. The inability to receive dividends from the Bank could have a material adverse effect on our business, financial condition and results of operations

If we fail to maintain an effective system of internal control over financial reporting, we may not be able to accurately report our financial results or prevent fraud, and, as a result, investors and depositors could lose confidence in our financial reporting, which could adversely affect our business, the trading price of our stock and our ability to attract additional deposits.

In connection with the enactment of the Sarbanes-Oxley Act of 2002 and the implementation of the rules and regulations promulgated by the SEC, we document and evaluate our internal control over financial reporting in order to satisfy the requirements of Section 404 of the Sarbanes-Oxley Act. This requires us to prepare an annual management report on our internal control over financial reporting, including among other matters, management's assessment of the effectiveness of internal control over financial reporting and an attestation report by our independent auditors addressing these assessments. If we fail to identify and correct any significant deficiencies in the design or operating effectiveness of our internal control over financial reporting or fail to prevent fraud, current and potential shareholders and depositors could lose confidence in our internal controls and financial reporting,

which could adversely affect our business, financial condition and results of operations, the trading price of our stock and our ability to attract additional deposits.

Changes in accounting standards may affect our performance.

Our accounting policies and methods are fundamental to how we record and report our financial condition and results of operations. From time to time there are changes in the financial accounting and reporting standards that govern the preparation of our financial statements. These changes can be difficult to predict and can materially impact how we report and record our financial condition and results of operations. In some cases, we could be required to apply a new or revised standard retroactively, resulting in restating prior period financial statements.

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

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

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

At June 30, 2006, the net book value of the Bank's property (including land and buildings) and its furniture, fixtures and equipment was \$6.9 million. The Bank's home office is located in Riverside, California. Including the home office, the Bank has 12 retail banking offices, 11 of which are located in Riverside County in the cities of Riverside (4), Moreno Valley, Hemet, Sun City, Rancho Mirage, Corona, Temecula and Blythe and one is located in Redlands, San Bernardino County, California. The Bank owns eight of the retail banking offices and four are leased. The leases expire from 2009 to 2013. The Bank also has 12 stand-alone loan production offices, which are located in Carlsbad, Corona, Diamond Bar, Glendora, Huntington Beach, La Quinta, Rancho Cucamonga, Riverside (2), San Diego, Torrance and Vista, California. All of these offices are leased, except one in Riverside. The leases expire from 2006 to 2010.

Item 3. Legal Proceedings

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

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year ended June 30, 2006.

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PART II

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

The common stock of Provident Financial Holdings, Inc. is listed on the Nasdaq Stock Market LLC under the symbol PROV. The following table provides the high and low stock prices for PROV during the last two fiscal years. As of June 30, 2006, there were approximately 338 registered stockholders of record.

	First (Ended September 30)	Second (Ended December 31)	Third (Ended March 31)	Fourth (Ended June 30)
2006 Quarters:				
High	\$ 30.92	\$ 28.03	\$ 32.69	\$ 33.15
Low	\$ 26.92	\$ 25.04	\$ 25.40	\$ 27.09
2005 Quarters:				
High	\$ 29.40	\$ 29.58	\$ 30.96	\$ 29.93
Low	\$ 22.30	\$ 26.00	\$ 27.44	\$ 25.60

The Corporation adopted a quarterly cash dividend policy on July 24, 2002. Quarterly dividends of \$0.14, \$0.14, \$0.15 and \$0.15 per share were paid for the quarters ended September 30, 2005, December 31, 2005, March 31, 2006 and June 30, 2006, respectively. Quarterly dividends of \$0.10, \$0.14, \$0.14 and \$0.14 per share were paid for the quarters ended September 30, 2004, December 31, 2004, March 31, 2005 and June 30, 2005, respectively. Future declarations or payments of dividends will be subject to the approval of the Corporation's Board of Directors, which will take into account the Corporation's financial condition, results of operations, tax considerations, capital requirements, industry standards, economic conditions and other factors, including the regulatory restrictions which affect the payment of dividends by the Bank to the Corporation. See "Item 1. Business - Regulation - Federal Regulation of Savings Institutions - Limitations on Capital Distributions" on page 33 of this Form 10-K. Under Delaware law, dividends may be paid either out of surplus or, if there is no surplus, out of net profits for the current fiscal year and/or the preceding fiscal year in which the dividend is declared.

The Corporation continues to repurchase its common stock consistent with Board approved stock repurchase plans. A total of 347,840 shares were purchased under the June 2005 stock repurchase program, at an average cost of \$28.43 per share and on May 23, 2006, the Corporation announced a new plan regarding the repurchase of five percent of its common stock or approximately 350,558 shares. As of June 30, 2006, 331,229 shares were available for future purchase, under the May 2006 stock repurchase program.

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The table below sets forth information regarding the Corporation's purchases of its common stock during the fourth quarter of fiscal 2006.

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plan	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plan
April 1, 2006 - April 30, 2006	15,000	\$ 29.17	15,000	114,235
May 1, 2006 - May 31, 2006	131,448	29.72	131,448	333,345 (1)
June 1, 2006 - June 30, 2006	2,116	28.15	2,116	331,229
Total	148,564	\$ 29.65	148,564	331,229

(1) On May 23, 2006, the Corporation announced a new stock repurchase plan of 350,558 shares.

Item 6. Selected Financial Data

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

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

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

General

Management's discussion and analysis of financial condition and results of operations are intended to assist in understanding the financial condition and results of operations of the Corporation. The information contained in this section should be read in conjunction with the Consolidated Financial Statements and Notes to the Consolidated Financial Statements included in Item 8 of this Form 10-K. Provident Savings Bank, F.S.B., is a wholly owned subsidiary of Provident Financial Holdings, Inc. and as such, comprises substantially all of the activity for Provident Financial Holdings, Inc.

Certain matters in this Form 10-K constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. 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 current 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 due to a wide range of factors including, but not limited to, the credit risks of lending activities, including changes in the level and direction of loan delinquencies and

write-offs and changes in estimates of the adequacy of the allowance for loan losses, the Corporation's ability to access cost-effective funding, the general business environment, the direction of future interest rates and the Corporation's ability to successfully manage the risks associated with fluctuations in interest rates, the California real estate market, competitive conditions between banks and non-bank financial services providers, regulatory changes, labor market competitiveness, and other risks detailed in the Corporation's reports filed with the SEC.

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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 judgments 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 Years Ended June 30, 2006 and 2005 - Provision for Loan Losses" on page 50 of this Form 10-K.

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. During the third quarter of fiscal 2004, the Corporation adopted the SEC guidance regarding loan commitments that are recognized as derivatives pursuant to SFAS No. 133. As a result of implementing the SEC Staff Accounting Bulletin No. 105, "Application of Accounting Principles to Loan

Commitments," the Corporation excludes the recognition of servicing released premiums in the valuation of commitments to extend credit on loans to be held for sale. The Corporation's previous practice had been to recognize, at the inception of the rate lock, the anticipated servicing released premiums on the underlying loans. The Corporation elected to prospectively apply this guidance to new loan commitments initiated after January 1, 2004. This action delays the recognition of servicing released premiums until the underlying loans are funded and sold.

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 and through its subsidiary, Provident Financial

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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 and real estate operations.

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 balance sheet 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, construction and commercial business loans. In addition, over time, the Corporation also intends to decrease the percentage of time deposits in its deposit base and to increase the percentage 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. By doing so, the Corporation believes that it can maintain its gain on sale margin at approximately the same levels experienced during the prior year.

Investment services primarily consist of selling alternative investment products such as annuities and mutual funds to our depositors. Real estate operations primarily consist of deriving net rental income from tenants that occupy the Corporation's real estate held for investment. In the foreseeable future, real estate operations will not contribute meaningful revenue as a result of the sale of the commercial office building in November 2005. Each of these businesses generates a relatively small portion of the Corporation's net income.

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 rising 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. Rising real estate values may prove unsustainable which 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 may inhibit the Corporation's ability to recover on defaulted loans by selling the underlying real estate.

Commitments and Derivative Financial Instruments

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

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Off-Balance Sheet Financing Arrangements and Contractual Obligations

The following table summarizes the Corporation's contractual obligations at June 30, 2006 and the effect such obligations are expected to have on the Corporation's liquidity and cash flows in future periods:

(In Thousands)	Payments Due by Period				Total
	1 Year or Less	Over 1 to 3 Years	Over 3 to 5 Years	Over 5 Years	
Operating lease obligations	\$ 1,019	\$ 1,605	\$ 781	\$ 184	\$ 3,589
Time deposits	320,561	216,245	14,278	-	551,084
FHLB - San Francisco advances	174,920	187,386	174,381	69,503	606,190
Total	\$ 496,500	\$ 405,236	\$ 189,440	\$ 69,687	\$1,160,863

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

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, forward loan sale agreements to third parties and commitments to purchase investment securities. These instruments involve, to varying degrees, elements of credit and interest-rate risk in excess of the amount recognized in the accompanying Consolidated Statements of Financial Condition included in Item 8 of this Form 10-K. The Corporation's exposure to credit loss, in the event of non-performance by the other party to these financial instruments, is represented by the contractual amount of these

instruments. The Corporation uses the same credit policies in making commitments to extend credit as it does for on-balance sheet instruments. As of June 30, 2006 and 2005, these commitments were \$86.8 million and \$97.3 million, respectively.

Comparison of Financial Condition at June 30, 2006 and June 30, 2005

Total assets decreased \$9.6 million, or 1%, to \$1.62 billion at June 30, 2006 from \$1.63 billion at June 30, 2005 primarily as a result of decreases in cash and cash equivalents, investment securities, receivable from sale of loans and real estate held for investment, partly offset by an increase in loans held for investment.

Cash and cash equivalents decreased \$9.5 million, or 37%, to \$16.4 million at June 30, 2006 from \$25.9 million at June 30, 2005 and was attributable to lower balance requirements at the Corporation's correspondent bank and lower federal funds sold. The balance of federal funds sold varies depending on loan sale settlements and/or unfunded loans late in the day, which cannot be accounted for prior to borrowing deadlines.

Total investment securities decreased \$55.2 million, or 24%, to \$177.2 million at June 30, 2006 from \$232.4 million at June 30, 2005. During fiscal 2006, a total of \$4.2 million of investment securities matured and \$49.5 million of the reduction was the result of mortgage-backed securities principal payments. The principal reduction of mortgage-backed securities was primarily attributable to mortgage prepayments and the normal principal payments of the underlying mortgage loans. During fiscal 2006, no investment securities were called or purchased.

Loans held for investment increased \$131.1 million, or 12%, to \$1.26 billion at June 30, 2006 from \$1.13 billion at June 30, 2005 primarily as a result of originating and purchasing \$624.5 million of loans held for investment, which was partly offset by \$476.2 million of loan prepayments. These prepayments were attributable to the continued high volume of refinance activity during fiscal 2006 in connection with increasing short-term interest rates and a relatively low long-term mortgage interest rate environment.

During fiscal 2006, the Bank originated approximately \$1.75 billion in new loans, primarily through PBM, and purchased \$111.7 million in loans from other financial institutions. A total of \$1.26 billion of loans were sold during fiscal 2006. The PBM loan production is sold primarily servicing released, except those loans sold to FHLB

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- San Francisco under the MPF program. The total loan origination volume was achieved as a result of relatively favorable real estate market conditions and relatively favorable long-term mortgage interest rates, despite higher short-term interest rates and a more competitive environment. The outstanding balance of loans held for sale decreased to \$4.7 million at June 30, 2006 from \$5.7 million at June 30, 2005. The outstanding balance of loans held for sale is largely dependent on the timing of loan fundings and loan sales.

The receivable from sale of loans decreased \$67.9 million, or 40%, to \$99.9 million at June 30, 2006 from \$167.8 million at June 30, 2005, resulting from the timing difference between loan sales and loan sale settlements.

Real estate held for investment decreased \$9.2 million, or 93%, to \$653,000 at June 30, 2006 from \$9.9 million at June 30, 2005, resulting from the sale of the commercial building in November 2005. The remaining real estate held for investment is approximately six acres of land located in Riverside, California, which was committed for sale in March and settled in July 2006.

Total liabilities decreased \$22.8 million, or 2%, to \$1.49 billion at June 30, 2006 from \$1.51 billion at June 30, 2005 as a result of decreases in customer deposits and borrowings. Total deposits decreased \$1.0 million to \$917.6 million

at June 30, 2006 from \$918.6 million at June 30, 2005. Although the Bank continued its emphasis on expanding customer relationships, particularly in transaction accounts, increases in short-term interest rates during fiscal 2006 became a catalyst for depositors to move their funds from savings accounts to time deposits to take advantage of higher yields. Transaction accounts decreased \$93.2 million, or 19%, to \$391.1 million at June 30, 2006 from \$484.3 million, primarily in savings and money market accounts. Time deposits increased \$92.2 million, or 21%, to \$526.5 million at June 30, 2006 from \$434.3 million at June 30, 2005.

Borrowings, comprised primarily of FHLB - San Francisco advances, decreased \$14.6 million, or 3%, to \$546.2 million at June 30, 2006 from \$560.8 million at June 30, 2005. FHLB - San Francisco advances were primarily used to supplement the funding needs of the Bank, to the extent that a decrease in deposits and a decrease in investment securities did not meet loan funding requirements.

Total stockholders' equity increased \$13.2 million, or 11%, to \$136.2 million at June 30, 2006 from \$123.0 million at June 30, 2005. The increase in stockholders' equity during fiscal 2006 was primarily attributable to earnings in fiscal 2006, allocation of contributions to ESOP, the exercise of stock options and the related tax benefits, partly offset by share repurchases and cash dividends to shareholders. During fiscal 2006, a total of 403,632 shares of stock options were exercised with an average strike price of \$7.27 and the associated tax benefit from non-qualified equity compensation of \$2.6 million was recognized. The Corporation repurchased 368,605 shares of common stock, or approximately 5% of its outstanding shares, at an average price of \$28.43 per share, totaling \$10.5 million during fiscal 2006. During fiscal 2006, the Corporation declared and distributed cash dividends to its shareholders of \$4.1 million, or \$0.58 per share. The Corporation's book value per share increased to \$19.48 at June 30, 2006 from \$17.68 at June 30, 2005.

Comparison of Operating Results for the Years Ended June 30, 2006 and 2005

General.

The Corporation had net income of \$20.5 million, or \$2.98 per diluted share, for the year ended June 30, 2006, as compared to \$18.7 million, or \$2.64 per diluted share, for the year ended June 30, 2005. The \$1.8 million increase in net income in fiscal 2006 was primarily attributable to increases in net interest income and non-interest income, partly offset by an increase in non-interest expense.

Net Interest Income.

Net interest income before provision for loan losses increased \$1.6 million, or 3.8%, to \$44.1 million in fiscal 2006 from \$42.5 million in fiscal 2005. This increase resulted principally from an increase in average earning assets, partly offset by a decrease in net interest margin. The average balance of earning assets increased \$96.0 million, or 6.7%, to \$1.53 billion in fiscal 2006 from \$1.44 billion in fiscal 2005. The average net interest margin declined nine basis points to 2.87% in fiscal 2006 from 2.96% in fiscal 2005.

Interest Income.

Interest income increased \$11.1 million, or 14.7%, to \$86.6 million in fiscal 2006 from \$75.5 million in fiscal 2005. The increase in interest income was primarily a result of increases in the average balance and the average yield of earning assets. The increase in average assets was primarily attributable to the increase in loans

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receivable, which was partly offset by the decrease in investment securities. Total originations of loans held for investment, including loan purchases, were \$624.5 million, while total loan prepayments were \$476.2 million in fiscal 2006. The increase in the average yield on earning assets was the result of increases in the average yield of loans receivable, investment securities, FHLB - San Francisco stock and federal funds investment during fiscal 2006. Average yield on loans receivable increased 30 basis points to 6.04% in fiscal 2006 from 5.74% in fiscal 2005. The

increase in the average loan yield was primarily the result of higher mortgage interest rates during fiscal 2006 and the mix of loans held for investment. The average yield on investment securities increased 14 basis points to 3.36% in fiscal 2006 from 3.22% in fiscal 2005. The increase in the average yield of investment securities was primarily attributable to lower amortization of premiums resulting from lower MBS principal prepayments. The average yield on FHLB - San Francisco stock increased 37 basis points to 4.78% in fiscal 2006 from 4.41% in fiscal 2005. The increase in the average yield of FHLB - San Francisco stock was the result of the higher dividend received from the FHLB - San Francisco.

Interest Expense.

Interest expense increased \$9.6 million, or 29.1%, to \$42.6 million in fiscal 2006 from \$33.0 million in fiscal 2005. The increase in interest expense was attributable to the increases in the average cost and average balance of interest-bearing liabilities. The average cost of interest-bearing liabilities increased 55 basis points to 3.00% in fiscal 2006 from 2.45% in fiscal 2005. The average cost of deposits increased 60 basis points to 2.37% in fiscal 2006 from 1.77% in fiscal 2005. The increase in the average cost of deposits was the result of the increase in short-term interest rates during fiscal 2006, maturities of lower costing time deposits and the change in the deposit mix toward higher costing time deposits. The average balance of deposits increased \$20.5 million, or 2.2%, to \$932.6 million in fiscal 2006 from \$912.1 million in fiscal 2005. The average cost of borrowings, primarily FHLB - San Francisco advances, increased 32 basis points to 4.22% in fiscal 2006 from 3.90% in fiscal 2005. The increase in FHLB - San Francisco advances was primarily attributable to increases in interest rates during fiscal 2006. The average maturity of FHLB - San Francisco advances decreased to 30 months at June 30, 2006 from 36 months at June 30, 2005. The average balance of FHLB - San Francisco advances increased \$54.1 million, or 12.5%, to \$485.5 million in fiscal 2006 from \$431.4 million in fiscal 2005.

Provision for Loan Losses.

Loan loss provisions in fiscal 2006 were \$1.1 million as compared to \$1.6 million in fiscal 2005. The decrease in fiscal 2006 was primarily a result of lower growth of loans held for investment and a revision in the methodology used to calculate the allowance for loan losses. The decrease was partly offset by a higher mix of preferred loans (which includes multi-family, commercial real estate, construction and commercial business loans), which generally have higher loan loss provisions. The loans held for investment increased \$131.1 million (from \$1.13 billion to \$1.26 billion) in fiscal 2006 as compared to \$269.4 million (from \$862.5 million to \$1.13 billion) in fiscal 2005. Preferred loans as a percentage of loans held for investment increased to 34% at June 30, 2006 from 28% at June 30, 2005.

Total classified assets (including assets designated as special mention) increased by \$571,000 to \$9.3 million at June 30, 2006 from \$8.8 million at June 30, 2005. The allowance for loan losses was \$10.3 million, or 0.81% of gross loans held for investment at June 30, 2006 as compared to \$9.2 million, or 0.81% of gross loans held for investment at June 30, 2005. The allowance for loan losses as a percentage of non-performing loans at the end of fiscal 2006 was 407.7%, as compared to 1,561.9% at the end of fiscal 2005.

Consistent with its current operating strategy, the Corporation intends for the fastest growing segments of loans held for investment to be commercial real estate, multi-family and construction loans. These loans generally have greater risk than single-family mortgage loans. Management believes that the current provision for loan losses is prudent based upon the loans held for investment composition, historic loss experience and current economic conditions. As changes occur regarding the risk profile of the Corporation's loans held for investment, management may increase or decrease the provision for loan losses.

Non-Interest Income.

Total non-interest income increased \$1.8 million, or 7.4%, to \$26.2 million in fiscal 2006 from \$24.4 million in fiscal 2005. The increase in non-interest income was primarily attributable to the gain on sale of real estate, an increase in loan servicing and other fees and an increase in deposit account fees, partly offset by decreases in gain on sale of loans and gain on sale of investment securities.

In November 2005, the Corporation sold its commercial building in downtown Riverside, California for a pre-tax gain of \$6.3 million (approximately \$3.6 million net of statutory taxes). The Corporation, through the Bank's

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wholly-owned subsidiary, Provident Financial Corp, has owned and operated the building since 1999 which was purchased for investment purposes.

Loan servicing and other fees increased \$897,000, or 53.6%, to \$2.6 million in fiscal 2006 from \$1.7 million in fiscal 2005, resulting primarily from an increase in servicing fees and an increase in loan prepayment and other loan fees. In fiscal 2006, the Corporation recovered an impairment reserve on servicing assets of \$82,000 which was previously established in fiscal 2005. Total loan prepayments in fiscal 2006 were \$476.2 million as compared to \$482.9 million in fiscal 2005.

Deposit account fees increased \$304,000, or 17.0%, to \$2.1 million in fiscal 2006 from \$1.8 million in fiscal 2005. The increase in deposit account fees was primarily attributable to higher non-sufficient fund returned check fees.

Total gain on sale of loans decreased \$5.2 million, or 27.8%, to \$13.5 million in fiscal 2006 from \$18.7 million in fiscal 2005, and was the result of lower loan sale volume and a lower average loan sale margin at PBM. Total loans originated for sale decreased \$48.0 million, or 3.7%, to \$1.24 billion in fiscal 2006 from \$1.29 billion in fiscal 2005. The decline in loan sale volume was primarily attributable to lower loan demand caused by an increase in interest rates, rising real estate prices and a more competitive environment. The average loan sale margin for PBM in fiscal 2006 was 1.08%, down 31 basis points from 1.39% in fiscal 2005. The decrease in the loan sale margin was primarily attributable to the more competitive mortgage banking environment. The loan sale margin at PBM is derived from total gain on sale of loans divided by total loan sale volume. The PBM loan sale volume used to calculate the loan sale margin, which is defined as PBM loans originated for sale adjusted for the change in commitments to extend credit on loans to be held for sale, was \$1.20 billion in fiscal 2006 as compared to \$1.31 billion in fiscal 2005.

The net impact of derivative financial instruments (SFAS No. 133) in fiscal 2006 was a favorable adjustment of \$71,000 as compared to an unfavorable adjustment of \$264,000 in fiscal 2005. The fair value of the derivative financial instruments outstanding at June 30, 2006 was a net liability of \$233,000 in comparison to a net liability of \$91,000 at June 30, 2005. The Corporation implemented the SEC guidance described in the SEC Staff Accounting Bulletin No. 105, "Application of Accounting Principles to Loan Commitments," which does not allow for the recognition of servicing released premiums in the valuation of commitments to extend credit on loans to be held for sale. These premiums will be realized in future periods when the underlying loans are funded and sold. The SFAS No. 133 adjustment is relatively volatile and may have an adverse impact on future earnings.

The average profit margin for PBM in fiscal 2006 decreased to 41 basis points from 85 basis points in fiscal 2005. The average profit margin is defined as income before taxes divided by total loans funded during the period (including brokered loans) adjusted for the change in commitments to extend credit.

Gain on sale of investment securities was \$384,000 in fiscal 2005, which was not replicated in fiscal 2006.

Non-Interest Expense.

Total non-interest expense increased \$399,000, or 1.2%, to \$32.9 million in fiscal 2006 as compared to \$32.5 million in fiscal 2005. This increase was attributable primarily to increases in premises and occupancy expenses and other operating expenses, partially offset by lower compensation expense. The increase in premises and occupancy expense was primarily the result of the opening of two PBM loan production offices; and the increase in other operating expenses was primarily attributable to a \$500,000 charitable contribution to capitalize the newly established Provident Savings Bank Charitable Foundation. The decrease in compensation costs was primarily attributable to a 10 percent workforce reduction at PBM completed in January 2006 and a seven percent workforce reduction at PBM completed in February 2006.

Income Taxes.

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The provision for income taxes was \$15.7 million for fiscal 2006, representing an effective tax rate of 43.3%, as compared to \$14.1 million in fiscal 2005, representing an effective tax rate of 42.9%. The Corporation determined that the tax rate of 43.3% in fiscal 2006 meets its fiscal 2006 income tax obligations.

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Comparison of Operating Results for the Years Ended June 30, 2005 and 2004

General.

The Corporation had net income of \$18.7 million, or \$2.64 per diluted share, for the year ended June 30, 2005, as compared to \$15.1 million, or \$2.09 per diluted share, for the year ended June 30, 2004. The increase in net income in fiscal 2005 was primarily attributable to increases in net interest income and non-interest income, partly offset by an increase in non-interest expense.

Net Interest Income.

Net interest income before provision for loan losses increased \$6.3 million, or 17.4%, to \$42.5 million in fiscal 2005 from \$36.2 million in fiscal 2004. This increase resulted principally from an increase in average earning assets. The average balance of earning assets increased \$219.6 million, or 18.0%, to \$1.44 billion in fiscal 2005 from \$1.22 billion in fiscal 2004. The net interest margin declined slightly to an average of 2.96% in fiscal 2005 from an average of 2.97% in fiscal 2004.

Interest Income.

Interest income increased \$13.3 million, or 21.4%, to \$75.5 million in fiscal 2005 from \$62.2 million in fiscal 2004. The increase in interest income was primarily a result of increases in the average balance and the average yield of earning assets. The increase in average assets was primarily attributable to the increase in loans receivable, which was partly offset by the decrease in investment securities. Total originations of loans held for investment, including loan purchases, were \$784.3 million, while total loan prepayments were \$482.9 million in fiscal 2005. The increase in the average yield of earning assets was the result of increases in the average yield of investment securities, FHLB - San Francisco stock and federal funds investment during fiscal 2005, which was partly offset by a decline in the average yield of loans receivable. Average yield on investment securities increased 33 basis points to 3.22% in fiscal 2005 from 2.89% in fiscal 2004. The increase in the average yield of investment securities was primarily attributable to lower amortization of premiums resulting from lower MBS principal prepayments. The increase in the average yield of FHLB - San Francisco stock was a result of the higher dividend received from FHLB - San Francisco. The average yield on loans receivable decreased seven basis points to 5.74% in fiscal 2005 from 5.81% in fiscal 2004. The decrease in the average loan yield was primarily a result of the impact of the prepayment of higher yielding loans held for investment replaced with lower yielding loans.

Interest Expense.

Interest expense increased \$7.1 million, or 27.4%, to \$33.0 million in fiscal 2005 from \$25.9 million in fiscal 2004. The increase in interest expense was attributable to the increases in the average cost and average balance of interest-bearing liabilities. The average cost of interest-bearing liabilities increased 17 basis points to 2.45% in fiscal 2005 from 2.28% in fiscal 2004. The average cost of deposits increased 14 basis points to 1.77% in fiscal 2005 from 1.63% in fiscal 2004. The increase in the average cost of deposits was the result of the increase in short-term interest rates during fiscal 2005, maturities of lower costing time deposits and the change in the deposit mix toward higher costing time deposits. The average balance of deposits increased \$96.5 million, or 11.8%, to \$912.1 million in fiscal 2005 from \$815.6 million in fiscal 2004. The average cost of FHLB - San Francisco advances remained unchanged at 3.90% in fiscal 2005 as compared to the average cost in fiscal 2004. The increase in long-term interest rates for FHLB - San Francisco advances was offset by maturities of higher costing advances and the utilization of lower costing overnight borrowings. The average maturity of FHLB - San Francisco advances decreased to 36 months at June 30, 2005 from 45 months at June 30, 2004. The average balance of FHLB - San Francisco advances increased \$108.7 million, or 33.7%, to \$431.4 million in fiscal 2005 from \$322.7 million in fiscal 2004.

Provision for Loan Losses.

Loan loss provisions in fiscal 2005 were \$1.6 million as compared to \$819,000 in fiscal 2004. The increase in fiscal 2005 was primarily a result of the growth of loans held for investment in fiscal 2005. The loan growth in fiscal 2005 was \$269.4 million as compared to \$118.3 million in fiscal 2004. The allowance for loan losses was \$9.2 million, or 0.81% of gross loans held for investment at June 30, 2005 as compared to \$7.6 million, or 0.88% of gross loans held for investment at June 30, 2004. The allowance for loan losses as a percentage of non-performing loans at

the end of fiscal 2005 was 1,561.9%, as compared to 701.8% at the end of fiscal 2004.

Consistent with its current operating strategy, the Corporation intends for the fastest growing segments of loans held for investment to be commercial real estate, multi-family and construction loans. These loans generally have greater risk than single-family mortgage loans. Management believes that the current provision for loan losses is prudent based upon the loans held for investment composition, historic loss experience and current economic conditions. As

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changes occur regarding the risk profile of the Corporation's loans held for investment, management may increase or decrease the provision for loan losses.

Non-Interest Income.

Total non-interest income increased \$4.2 million, or 20.8%, to \$24.4 million in fiscal 2005 from \$20.2 million in fiscal 2004. The increase in non-interest income was primarily attributable to increases in gain on sale of loans and gain on sale of investment securities, partly offset by a decrease in loan servicing and other fees.

Total gain on sale of loans increased \$4.4 million, or 30.8%, to \$18.7 million in fiscal 2005 from \$14.3 million in fiscal 2004, and was the result of higher loan sale volume and a higher average loan sale margin at PBM. Total loans originated for sale increased \$174.4 million, or 15.7%, to \$1.29 billion in fiscal 2005 from \$1.11 billion in fiscal 2004. The average loan sale margin for PBM in fiscal 2005 was 1.39%, up three basis points from 1.36% in fiscal 2004. The loan sale margin at PBM is derived from total gain on sale of loans divided by total loan sale volume. The PBM loan sale volume used to calculate the loan sale margin, which is defined as PBM loans originated for sale adjusted for the change in commitments to extend credit on loans to be held for sale, was \$1.31 billion in fiscal 2005 as compared to \$1.05 billion in fiscal 2004. The increase in the average loan sale margin was primarily attributable to the improvement in the product mix of the loan sales with a higher percentage of high margin products. The high margin products consist primarily of second trust deeds, Alt-A adjustable rate and Alt-A fixed rate first trust deed mortgage loans. In fiscal 2005, the high margin products comprised 70% of the PBM loan sale volume as compared to 40% of the loan sale volume in fiscal 2004.

The net impact of derivative financial instruments (SFAS No. 133) in fiscal 2005 was an unfavorable adjustment of \$264,000 as compared to an unfavorable adjustment of \$859,000 in fiscal 2004. The fair value of the derivative financial instruments outstanding at June 30, 2005 was a net liability of \$91,000 in comparison to a net liability of \$109,000 at June 30, 2004. The Corporation implemented the SEC guidance described in the SEC Staff Accounting Bulletin No. 105, "Application of Accounting Principles to Loan Commitments," which does not allow for the recognition of servicing released premiums in the valuation of commitments to extend credit on loans to be held for sale. These premiums will be realized in future periods when the underlying loans are funded and sold. The SFAS No. 133 adjustment is relatively volatile and may have an adverse impact on future earnings.

The average profit margin for PBM in fiscal 2005 remained unchanged at 85 basis points as compared to the same period in fiscal 2004. The average profit margin is defined as income before taxes divided by total loans funded during the period (including brokered loans) adjusted for the change in commitments to extend credit.

Loan servicing and other fees decreased \$617,000, or 26.9%, to \$1.7 million in fiscal 2005 from \$2.3 million in fiscal 2004, resulting primarily from lower servicing fees, lower commercial loan fees, lower returned check fees and lower late payment charges on loans. In fiscal 2005, the Corporation recorded an impairment reserve on servicing assets of \$82,000 as compared to no impairment reserve in fiscal 2004. The impairment reserve was recorded primarily in response to accelerated prepayments of the underlying loans serviced for others, which reduces the value of servicing

assets.

Deposit account fees decreased \$197,000, or 9.9%, to \$1.8 million in fiscal 2005 from \$2.0 million in fiscal 2004. The decrease in deposit account fees was primarily attributable to lower non-sufficient fund returned check fees.

Gain on sale of investment securities was \$384,000 in fiscal 2005, resulting from the sale of 6,000 shares of Freddie Mac stock. Other non-interest income increased \$186,000 to \$1.5 million in fiscal 2005 from \$1.3 million in fiscal 2004.

Non-Interest Expense.

Total non-interest expense increased \$3.7 million, or 12.8%, to \$32.5 million in fiscal 2005 as compared to \$28.8 million in fiscal 2004. This increase was attributable primarily to increases in compensation expenses, premises and occupancy expenses, professional expenses and other operating expenses, partially offset by lower equipment expense. The increase in non-interest expense was primarily the result of the costs associated with loan production in the mortgage banking division and commercial real estate department, the \$320,000 expense associated with the accelerated vesting of certain stock options, and Sarbanes-Oxley Act compliance costs. Total costs related to Sarbanes-Oxley Act compliance were \$632,000 in fiscal 2005, primarily attributable to the Sarbanes-

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Oxley Act Section 404 attestation fees of \$318,000 and the Sarbanes-Oxley Act Section 404 implementation fees of \$314,000 for external consultant services.

Income Taxes.

The provision for income taxes was \$14.1 million for fiscal 2005, representing an effective tax rate of 42.9%, as compared to \$11.7 million in fiscal 2004, representing an effective tax rate of 43.7%. The Corporation determined that the tax rate of 42.9% in fiscal 2005 meets its fiscal 2005 income tax obligations.

Average Balances, Interest and Average Yields/Costs

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

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Year Ended June 30,					
2006		2005		2004	
Average	Average Yield/	Average	Average Yield/	Average	Average Yield/

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	Balance	Interest	Cost	Balance	Interest	Cost	Balance	Interest	Cost
(Dollars In Thousands)									
Interest-earning assets:									
Loans receivable, net (1)	\$ 1,288,657	\$ 77,821	6.04%	\$ 1,146,073	\$ 65,734	5.74%	\$ 915,894	\$ 53,216	5.81%
Investment securities	203,096	6,831	3.36%	256,729	8,268	3.22%	276,436	7,978	2.89%
FHLB - San Francisco stock	38,266	1,831	4.78%	32,778	1,445	4.41%	24,012	938	3.91%
Interest-earning deposits	3,722	144	3.87%	2,105	48	2.28%	1,793	19	1.06%
Total interest-earning assets	1,533,741	86,627	5.65%	1,437,685	75,495	5.25%	1,218,135	62,151	5.10%
Non-interest-earning assets	45,185			53,825			67,709		
Total assets	\$ 1,578,926			\$ 1,491,510			\$ 1,285,844		
Interest-bearing liabilities:									
Checking and money market accounts (2)	\$ 222,000	1,224	0.55%	\$ 221,880	1,170	0.53%	\$ 206,384	1,365	0.66%
Savings accounts	223,162	3,151	1.41%	309,352	4,484	1.45%	336,756	5,267	1.56%
Time deposits	487,391	17,691	3.63%	380,873	10,508	2.76%	272,486	6,688	2.45%
Total deposits	932,553	22,066	2.37%	912,105	16,162	1.77%	815,626	13,320	1.63%
Borrowings	485,523	20,507	4.22%	431,430	16,820	3.90%	322,745	12,599	3.90%
Total interest-bearing liabilities	1,418,076	42,573	3.00%	1,343,535	32,982	2.45%	1,138,371	25,919	2.28%
Non-interest-bearing liabilities	30,098			31,799			40,830		
Total liabilities	1,448,174			1,375,334			1,179,201		
Stockholders' equity	130,752			116,176			106,643		
Total liabilities and stockholders'									

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equity	\$ 1,578,926	\$ 1,491,510	\$ 1,285,844	
Net interest income	\$ 44,054	\$ 42,513	\$ 36,232	
Interest rate spread (3)		2.65%	2.80%	2.82%
Net interest margin (4)		2.87%	2.96%	2.97%
Ratio of average interest-earning assets to average interest-bearing liabilities	108.16%	107.01%	107.01%	

(1) Includes receivable from sale of loans, loans held for sale and non-accrual loans, as well as net deferred loan (cost) fee amortization of \$(363), \$194 and \$613 for the years ended June 30, 2006, 2005 and 2004, respectively.

(2) Includes average balance of non-interest-bearing checking accounts of \$52.5 million, \$46.9 million and \$44.9 million in fiscal 2006, 2005 and 2004, respectively.

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

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

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Yields Earned and Rates Paid

The following table sets forth (on a consolidated basis), for the periods and at the dates indicated, the weighted average yields earned on the Bank's assets and the weighted average interest rates paid on the Bank's liabilities, together with the net yield on interest-earning assets.

	Quarter Ended June 30, 2006	Year Ended June 30,		
		2006	2005	2004
Weighted average yield on:				
Loans receivable, net (1)	6.22%	6.04%	5.74%	5.81%
Investment securities	3.49%	3.36%	3.22%	2.89%
FHLB - San Francisco stock	5.13%	4.78%	4.41%	3.91%
Interest-earning deposits	4.89%	3.87%	2.28%	1.06%

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Total interest-earning assets	5.86%	5.65%	5.25%	5.10%
Weighted average rate paid on:				
Checking and money market accounts (2)	0.59%	0.55%	0.53%	0.66%
Savings accounts	1.39%	1.41%	1.45%	1.56%
Time deposits	4.09%	3.63%	2.76%	2.45%
Borrowings	4.41%	4.22%	3.90%	3.90%
<hr/>				
Total interest-bearing liabilities	3.31%	3.00%	2.45%	2.28%
Interest rate spread (3)	2.55%	2.65%	2.80%	2.82%
Net interest margin (4)	2.82%	2.87%	2.96%	2.97%
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- (1) Includes receivable from sale of loans, loans held for sale and non-accrual loans, as well as net deferred loan (cost) fee amortization of \$(363,000), \$194,000 and \$613,000 for the years ended June 30, 2006, 2005 and 2004, respectively.
- (2) Includes average balance of non-interest-bearing checking accounts of \$52.5 million, \$46.9 million and \$44.9 million in fiscal 2006, 2005 and 2004, respectively.
- (3) Represents difference between weighted average yield on total interest-earning assets and weighted average rate on total interest-bearing liabilities.
- (4) Represents net interest income before provision for loan losses as a percentage of average interest-earning assets.

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Rate/Volume Analysis

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

Year Ended June 30, 2006 Compared to Year Ended June 30, 2005 Increase (Decrease) Due to				Year Ended June 30, 2005 Compared to Year Ended June 30, 2004 Increase (Decrease) Due to			
Rate	Volume	Rate/ Volume	Net	Rate	Volume	Rate/ Volume	Net

(In Thousands)

Interest-earnings
assets: