PROVIDENT FINANCIAL HOLDINGS INC
Form 10-Q
November 08, 2006

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended **September 30, 2006**

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

For the transition period from ________________ to _________________

Commission File Number **000-28304**

PROVIDENT FINANCIAL HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

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

3756 Central Avenue, Riverside, California 92506

(Address of principal executive offices and zip code)

(951) 686-6060

(Registrant's telephone number, including area code)

____

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

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

Yes __√__. No____.

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

Large accelerated filer [ ]   Accelerated filer [√]   Non-accelerated filer [ ]

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

Yes ___.   No _√_.

APPLICABLE ONLY TO CORPORATE ISSUERS

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

Title of class:	As of November 3, 2006
Common stock, $ 0.01 par value, per share	**6,814,320 shares***

* Includes 273,902 shares held by the Employee Stock Ownership Plan that have not been released, committed to be released, or allocated to participant accounts; and 3,768 shares held by the Management Recognition Plan that have been awarded and not yet released to the participants.

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PROVIDENT FINANCIAL HOLDINGS, INC.

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

(Unaudited)
Dollars in Thousands

	September 30, 2006	June 30, 2006
Assets		
Cash and due from banks	$ 14,874	$ 13,558
Federal funds sold	3,000	2,800
Cash and cash equivalents	17,874	16,358
Investment securities - held to maturity		

(fair value $47,325 and $49,914, respectively)	48,031	51,031
Investment securities - available for sale, at fair value	145,751	126,158
Loans held for investment, net of allowance for loan losses of $10,839 and $10,307, respectively	1,306,099	1,262,997
Loans held for sale, at lower of cost or market	8,214	4,713
Receivable from sale of loans	106,542	99,930
Accrued interest receivable	7,659	6,774
Real estate held for investment, net	-	653
Real estate owned, net	414	-
Federal Home Loan Bank ("FHLB") - San Francisco stock	40,757	37,585
Premises and equipment, net	6,746	6,860
Prepaid expenses and other assets	7,688	9,411
Total assets	$ 1,695,775	$ 1,622,470
Liabilities and Stockholders' Equity		
Liabilities:		
Non interest-bearing deposits	$ 47,215	$ 48,776
Interest-bearing deposits	867,827	868,806
Total deposits	915,042	917,582
Borrowings	617,602	546,211
Accounts payable, accrued interest and other liabilities	24,752	22,467
Total liabilities	1,557,396	1,486,260
Commitments and Contingencies		
Stockholders' equity:		
Preferred stock, $.01 par value (2,000,000 shares authorized; none issued and outstanding)	-	-
Common stock, $.01 par value (15,000,000 shares authorized; 12,383,472 and 12,376,972 shares issued, respectively; 6,886,345 and 6,991,842 shares outstanding, respectively)	124	124
Additional paid-in capital	67,419	66,798
Retained earnings	147,082	142,867
Treasury stock at cost (5,497,127 and 5,385,130 shares, respectively)	(75,922)	(72,524)
Unearned stock compensation	(528)	(644)
Accumulated other comprehensive income (loss), net of tax	204	(411)
Total stockholders' equity	138,379	136,210

Total liabilities and stockholders' equity	$ 1,695,775	$ 1,622,470

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

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PROVIDENT FINANCIAL HOLDINGS, INC.
Condensed Consolidated Statements of Operations

(Unaudited)
In Thousands, Except Per Share Information

	Quarter Ended September 30,	
	2006	2005
Interest income:		
Loans receivable, net	$ 21,958	$ 19,043
Investment securities	1,696	1,813
FHLB - San Francisco stock	514	405
Interest-earning deposits	19	40
Total interest income	24,187	21,301
Interest expense:		
Checking and money market deposits	336	287
Savings deposits	644	904
Time deposits	5,827	3,782
Borrowings	6,624	5,358
Total interest expense	13,431	10,331
Net interest income, before provision for loan losses	10,756	10,970
Provision for loan losses	637	65
Net interest income, after provision for loan losses	10,119	10,905
Non-interest income:		
Loan servicing and other fees	476	643
Gain on sale of loans, net	3,492	4,393
Deposit account fees	522	494
Gain on sale of real estate, net	2,313	-

Other	591	425
Total non-interest income	7,394	5,955
Non-interest expense:		
Salaries and employee benefits	5,416	5,204
Premises and occupancy	784	793
Equipment	393	399
Professional expenses	264	344
Sales and marketing expenses	261	219
Other	1,116	1,194
Total non-interest expense	8,234	8,153
Income before income taxes	9,279	8,707
Provision for income taxes	4,021	3,774
Net income	$ 5,258	$ 4,933
Basic earnings per share	$ 0.79	$ 0.75
Diluted earnings per share	$ 0.77	$ 0.71
Cash dividends per share	$ 0.15	$ 0.14

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

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

(Unaudited)
Dollars in Thousands
For the Quarters Ended September 30, 2006 and 2005

	Common Stock Shares	Amount	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Unearned Stock Compensation	Accumulated Other Compre-hensive (Loss) Income	Total
Balance at July 1, 2006	6,991,842	$ 124	$ 66,798	$142,867	$(72,524)	$ () 644	$ (411)	$136,210
Comprehensive income:								

Net income				5,258				5,258
Unrealized holding gain on securities available for sale, net of tax expense of $446							615	615
Total comprehensive income								5,873
Purchase of treasury stock (1)	(111,997)				(3,398)			(3,398)
Exercise of stock options	6,500	-	154					154
Amortization of MRP (2)			18					18
Stock options expense			33					33
Tax benefit from non-qualified equity compensation			23					23
Allocations of contribution to ESOP (3)			393			68		461
Prepayment of ESOP loan						48		48
Cash dividends				(1,043)				(1,043)
Balance at September 30, 2006	6,886,345	$ 124	$ 67,419	$147,082	$(75,922)	$ (528)	$ 204	$138,379

(1) Includes the repurchase of 812 shares of distributed restricted stock.
(2) Management Recognition Plan ("MRP").
(3) Employee Stock Ownership Plan ("ESOP").

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Unearned Stock Compensation	Accumulated Other Comprehensive Income (Loss)	Total
Balance at July 1, 2005	6,956,815	$ 120	$59,497	$126,381	$(62,046)	$ (1,272)	$ 309	$122,989
Comprehensive income:								
Net income				4,933				4,933
Unrealized holding loss on securities available								

for sale, net of tax benefit of $ 389							(538)	(538)
Total comprehensive income								4,395
Purchase of treasury stock (1)	(28,862)				(819)			(819)
Exercise of stock options	3,659	-	43					43
Reclass on unearned MRP			(155)			155		-
Amortization of MRP			34					34
Stock options expense			93					93
Tax benefit from non-qualified equity compensation			29					29
Allocations of contribution to ESOP			375			68		443
Prepayment of ESOP loan						53		53
Cash dividends				(974)				(974)
Balance at September 30, 2005	6,931,612	$ 120	$59,916	$130,340	$(62,865)	$ (996)	$ (229)	$126,286

(1) Includes the repurchase of 862 shares of distributed restricted stock.

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

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

(Unaudited - In Thousands)

	Three Months Ended September 30,	
	2006	2005
Cash flows from operating activities:		
Net income	$ 5,258	$ 4,933
Adjustments to reconcile net income to net cash (used for) provided by		

Operating activities:		
Depreciation and amortization	454	1,004
Provision for loan losses	637	65
Gain on sale of loans	(3,492)	(4,393)
Gain on sale of real estate	(2,313)	-
Stock compensation	489	547
FHLB - San Francisco stock dividend	(493)	(385)
Tax benefit from non-qualified equity compensation	(23)	(29)
Increase in accounts payable and other liabilities	1,934	5,337
Decrease (increase) in prepaid expense and other assets	731	(351)
Loans originated for sale	(319,541)	(389,257)
Proceeds from sale of loans and net change in receivable from sale of loans	312,920	410,066
Net cash (used for) provided by operating activities	(3,439)	27,537
Cash flows from investing activities:		
Net (increase) decrease in loans held for investment	(44,141)	22,743
Maturity and call of investment securities held to maturity	3,000	-
Principal payments from mortgage-backed securities	10,012	17,137
Purchase of investment securities available for sale	(28,647)	-
Proceeds from sale of real estate	2,966	-
Purchase of FHLB - San Francisco stock	(2,679)	(897)
Purchases of premises and equipment	(143)	(280)
Net cash (used for) provided by investing activities	(59,632)	38,703
Cash flows from financing activities:		
Net (decrease) increase in deposits	(2,540)	44,476
Proceeds from (repayment of) borrowings, net	71,391	(53,508)
Exercise of stock options	154	43
Tax benefit from non-qualified equity compensation	23	29
Cash dividends	(1,043)	(974)
Treasury stock purchases	(3,398)	(819)
Net cash provided by (used for) financing activities	64,587	(10,753)
Net increase in cash and cash equivalents	1,516	55,487
Cash and cash equivalents at beginning of period	16,358	25,902
Cash and cash equivalents at end of period	$ 17,874	$ 81,389
Supplemental information:		
Cash paid for interest	$ 13,099	$ 10,303
Cash paid for income taxes	$ -	$ 600
Transfer of loans held for investment to loans held for sale	$ -	$ 18,472
Transfer of loans held for sale to loans held for investment	$ 854	$ 913
Real estate acquired in settlement of loans	$ 414	$ -

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

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

September 30, 2006

Note 1: Basis of Presentation

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

Note 2: Recent Accounting Pronouncements

Statement of Financial Accounting Standards ("SFAS" or "Statement") No. 157:

In September 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 157, "Fair Value Measurements." This Statement defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements, the Board having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this Statement does not require any new fair value measurements. The definition of fair value retains the exchange price notion in earlier definitions of fair value. This Statement clarifies that the exchange price is the price in an orderly transaction between market participants to sell the asset or transfer the liability in the market in which the reporting entity would transact for the asset or liability, that is, the principal or most advantageous market for the asset or liability. The transaction to sell the asset or transfer the liability is a hypothetical transaction at the measurement date, considered from the perspective of a market participant that holds the asset or owes the liability. Therefore, the definition focuses on the price that would be received to sell the asset or paid to transfer the liability (an exit price), not the price that would be paid to acquire the asset or received to assume the liability (an entry price). This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The adoption of this statement is not expected to have a material impact on the Corporation's financial condition, results of operations, or cash flows.

SFAS No. 156:

In March 2006, the FASB issued SFAS No. 156, "Accounting for Servicing of Financial Assets," an amendment of FASB Statement No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." SFAS No. 156 requires all separately recognized servicing assets and servicing liabilities be initially measured at fair value, if practicable, and permits for subsequent measurement using either fair value measurement with changes in fair value reflected in earnings or the amortization and impairment requirements of Statement No. 140. SFAS No. 156 is effective for an entity's first fiscal year beginning after September 15, 2006. The Corporation intends to continue applying the amortization and impairment requirements of Statement No. 140.

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SFAS No. 155:

In February 2006, the FASB issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments," amendment of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," and SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. This statement permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation; clarifies which interest-only strips and principal-only strips are not subject to the requirements of Statement 133; establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation; clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives; and amends SFAS No. 140 to eliminate the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. SFAS No. 155 is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. In October 2006, the FASB exempted most pre-payable assets from provisions of SFAS No. 155 that would have required mark-to-market of those assets through results of operations if purchased at a discount to par. The adoption of this statement is not expected to have a material impact on the Corporation's financial condition, results of operations, or cash flows.

SFAS No. 154:

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections," that addresses accounting for changes in accounting principle, changes in accounting estimates, changes required by an accounting pronouncement in the instance that the pronouncement does not include specific transition provisions, and error corrections. SFAS No. 154 requires retrospective application to prior periods' financial statements of changes in accounting principle and error correction unless impracticable to do so. SFAS No. 154 states an exception to retrospective application when a change in accounting principle, or the method of applying it, may be inseparable from the effect of a change in accounting estimate. When a change in principle is inseparable from a change in estimate, such as depreciation, amortization or depletion, the change to the financial statements is to be presented in a prospective manner. SFAS No. 154 and the required disclosures are effective for accounting changes and error corrections in fiscal years beginning after December 15, 2005. The adoption of this statement did not have a material impact on the Corporation's financial condition, results of operations, or cash flows.

SEC Staff Accounting Bulletin No. 108

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

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

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

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effective for fiscal years beginning after December 15, 2006. It is not anticipated that adoption will have a material impact on the Corporation's financial condition, results of operations, or cash flows.

Note 3: Earnings Per Share and Stock-Based Compensation

Earnings Per Share:

Basic earnings per share ("EPS") excludes dilution and is computed by dividing income available to common shareholders by the weighted-average number of shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that would then share in the earnings of the entity. The following table provides the basic and diluted EPS computations for the quarters ended September 30, 2006 and 2005, respectively.

(In Thousands, Except Earnings Per Share)	For the Quarter Ended September 30,	
	2006	2005
Numerator:		
Net income - numerator for basic earnings per share and diluted earnings per share - income available to common stockholders	$ 5,258	$ 4,933
Denominator:		
Denominator for basic earnings per share:		
Weighted-average shares	6,660	6,585
Effect of dilutive securities:		
Stock option dilution	131	332
Restricted stock dilution	3	10
Denominator for diluted earnings per share:		
Adjusted weighted-average shares and assumed conversions	6,794	6,927
Basic earnings per share	$ 0.79	$ 0.75
Diluted earnings per share	$ 0.77	$ 0.71

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

The adoption of SFAS No. 123R resulted in incremental stock-based compensation expense and is solely related to issued and unvested stock option grants. The incremental stock-based compensation expense was $33,000 for the first quarter ended September 30, 2006, down 65% from $93,000 in the same period last year, due primarily to a prior

period adjustment of $63,000. For the first quarter of fiscal 2007 and 2006, cash provided by operating activities decreased by $23,000 and $29,000, respectively, and cash provided by financing activities increased by an identical amount related to excess tax benefits from stock-based payment arrangements. This amount is reflective of the tax benefit for stock options exercised and restricted stock distributions during the respective period.

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Note 4: Operating Segment Reports

The Corporation operates in two business segments: community banking through the Bank and mortgage banking through Provident Bank Mortgage ("PBM"), a division of the Bank. The following tables set forth condensed statements of operations and total assets for the Corporation's operating segments for the quarters ended September 30, 2006 and 2005, respectively (in thousands).

	For the Quarter Ended September 30, 2006		
	Provident Bank	Provident Bank Mortgage	Consolidated Totals
Net interest income, after provision for loan losses	$ 9,843	$ 276	$ 10,119
Non-interest income:			
Loan servicing and other fees (1)	(95)	571	476
Gain on sale of loans, net (2)	108	3,384	3,492
Deposit account fees	522	-	522
Gain on sale of real estate	2,313	-	2,313
Other	591	-	591
Total non-interest income	3,439	3,955	7,394
Non-interest expense:			
Salaries and employee benefits	3,329	2,087	5,416
Premises and occupancy	541	243	784
Operating and administrative expenses	1,024	1,010	2,034
Total non-interest expense	4,894	3,340	8,234
Income before taxes	$ 8,388	$ 891	$ 9,279
Total assets, end of period	$ 1,580,502	$ 115,273	$ 1,695,775

(1) Includes an inter-company charge of $436 credited to PBM by the Bank during the period to compensate PBM for originating loans held for investment.

(2)

Includes an inter-company charge of $12 credited to PBM by the Bank during the period to compensate PBM for servicing fees on loans sold on a servicing retained basis.

	For the Quarter Ended September 30, 2005		
	Provident Bank	Provident Bank Mortgage	Consolidated Totals
Net interest income, after provision for loan losses	$ 10,109	$ 796	$ 10,905
Non-interest income:			
Loan servicing and other fees (1)	(652)	1,295	643
Gain on sale of loans, net (2)	146	4,247	4,393
Deposit account fees	494	-	494
Other	424	1	425
Total non-interest income	412	5,543	5,955
Non-interest expense:			
Salaries and employee benefits	3,283	1,921	5,204
Premises and occupancy	547	246	793
Operating and administrative expenses	1,161	995	2,156
Total non-interest expense	4,991	3,162	8,153
Income before taxes	$ 5,530	$ 3,177	$ 8,707
Total assets, end of period	$ 1,492,934	$ 138,295	$ 1,631,229

(1) Includes an inter-company charge of $997 credited to PBM by the Bank during the period to compensate PBM for originating loans held for investment.

(2) Includes an inter-company charge of $60 credited to PBM by the Bank during the period to compensate PBM for servicing fees on loans sold on a servicing retained basis.

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

The Corporation is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit in the form of originating loans or providing funds under existing lines of credit, and forward loan sale agreements to third parties. These instruments involve, to varying degrees, elements of credit and interest-rate risk in excess of the amount recognized in the accompanying consolidated statements of financial condition. The Corporation's exposure to credit

loss, in the event of non-performance by the counterparty to these financial instruments, is represented by the contractual amount of these instruments. The Corporation uses the same credit policies in entering into financial instruments with off-balance sheet risk as it does for on-balance sheet instruments.

As of September 30, 2006 and June 30, 2006, the Corporation had commitments to extend credit (on loans to be held for investment and loans to be held for sale) of $81.1 million and $86.8 million, respectively.

Commitments	September 30, 2006	June 30, 2006
(In Thousands)		
Undisbursed loan funds - Construction loans	$ 68,614	$ 84,024
Undisbursed lines of credit - Single-family loans	4,863	6,824
Undisbursed lines of credit - Commercial business loans	11,132	10,545
Undisbursed lines of credit - Consumer loans	1,540	1,633
Commitments to extend credit on loans to be held for investment	27,236	20,858
Total	$ 113,385	$ 123,884

In accordance with SFAS No. 133 and interpretations of the Derivatives Implementation Group of the FASB, the fair value of the commitments to extend credit on loans to be held for sale, forward loan sale agreements and put option contracts are recorded at fair value on the balance sheet, and are included in other assets or other liabilities. The Corporation does not apply hedge accounting to its derivative financial instruments; therefore, all changes in fair value are recorded in earnings. The net impact of derivative financial instruments on the consolidated statements of operations during the quarter ended September 30, 2006 was a gain of $319,000, unchanged from the quarter ended September 30, 2005.

	September 30, 2006		June 30, 2006		September 30, 2005	
Derivative Financial Instruments	Amount	Fair Value	Amount	Fair Value	Amount	Fair Value
(In Thousands)						
Commitments to extend credit on loans to be held for sale (1)	$ 53,891	$ 116	$ 65,970	$ (192)	$ 55,058	$ 12
Forward loan sale agreements	33,467	6	35,500	(94)	26,721	115
Put option contracts	12,000	14	9,000	53	13,000	85
Total	$ 99,358	$ 136	$ 110,470	$ (233)	$ 94,779	$ 212

(1) Net of 31.8 percent at September 30, 2006, 31.0 percent at June 30, 2006 and 24.9 percent at September 30, 2005 of commitments, which may not fund.

Note 6: Subsequent Events

On October 3, 2006, the Bank signed a Lease Agreement with the intention of opening a new retail/business banking office at the southeast corner of Iris Avenue and Perris Boulevard in Moreno Valley, California. The branch will

become the Bank's 14th full-service branch and is scheduled to open in the fall of 2007, subject to the approval of the Office of Thrift Supervision and the completion of the shopping center.

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On October 24, 2006, the Board of Directors of the Bank declared a cash dividend of $3.25 million to the Corporation, which was paid on October 25, 2006.

On October 24, 2006, the Corporation announced a cash dividend of $0.18 per share on the Corporation's outstanding shares of common stock for shareholders of record as of the close of business on November 17, 2006, payable on December 11, 2006.

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

General

Provident Financial Holdings, Inc., a Delaware corporation, was organized in January 1996 for the purpose of becoming the holding company of Provident Savings Bank, F.S.B. upon the Bank's conversion from a federal mutual to a federal stock savings bank ("Conversion"). The Conversion was completed on June 27, 1996. At September 30, 2006, the Corporation had total assets of $1.7 billion, total deposits of $915.0 million and total stockholders' equity of $138.4 million. The Corporation has not engaged in any significant activity other than holding the stock of the Bank. Accordingly, the information set forth in this report, including financial statements and related data, relates primarily to the Bank and its subsidiaries.

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

The Bank's business consists of community banking activities and mortgage banking activities. Community banking activities primarily consist of accepting deposits from customers within the communities surrounding the Bank's full service offices and investing those funds in single-family loans, multi-family loans, commercial real estate loans, construction loans, commercial business loans, consumer loans and other real estate loans. The Bank also offers business checking accounts, other business banking services, and services loans for others. Mortgage banking activities consist of the origination and sale of mortgage and consumer loans secured primarily by single-family residences. The Bank's revenues are derived principally from interest on its loan and investment securities and fees generated through its community banking and mortgage banking activities. There are various risks inherent in the Bank's business including, among others, the general business environment, interest rates, the California real estate market, the demand for loans, the prepayment of loans, investments, competitive conditions between banks and non-bank financial services providers, regulatory changes, and other risks.

The Corporation, from time to time, may repurchase its common stock as a way to enhance the Corporation's earnings per share. The Corporation evaluates the repurchase of its common stock when the market price of the stock is lower than its book value and/or the Corporation believes that the current market price is not commensurate with its current and future earnings potential. Consideration is also given to the Corporation's liquidity, regulatory capital requirements and future capital needs based on the Corporation's current business plan. The Corporation's Board of Directors authorizes each stock repurchase program, the duration of which is typically one year. Once the stock repurchase program is authorized, management may repurchase the Corporation's common stock from time to time in

the open market or in privately negotiated transactions, depending upon market conditions and the factors described above. On May 23, 2006, the Corporation announced that its Board of Directors authorized the repurchase of up to five percent of its common stock, or approximately 350,558 shares, over a one-year period. For additional information regarding the Corporation's repurchases during the quarter ended September 30, 2006, see Part II, Item 2 - "Unregistered Sales of Equity Securities and Use of Proceeds" on Page 29.

The Corporation began to distribute quarterly cash dividends in the quarter ended September 30, 2002. On July 25, 2006, the Corporation announced a quarterly cash dividend of $0.15 per share for the Corporation's shareholders of record at the close of business on August 17, 2006, which was paid on September 8, 2006. Future declarations or payments of dividends will be subject to the consideration of the Corporation's Board of Directors, which will take into account the Corporation's financial condition,

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results of operations, tax considerations, capital requirements, industry standards, economic conditions and other factors, including the regulatory restrictions which affect the payment of dividends by the Bank to the Corporation. On July 25, 2006, the Board of Directors of the Bank declared a $10.25 million cash dividend to the Holding Company, which was paid on August 15, 2006. Under Delaware law, dividends may be paid either out of surplus or, if there is no surplus, out of net profits for the current fiscal year and/or the preceding fiscal year in which the dividend is declared.

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

Safe-Harbor Statement

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

Critical Accounting Policies

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

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

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

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Results for the Quarters Ended September 30, 2006 and 2005 - Provision for Loan Losses" on page 18 of this Form 10-Q.

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

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

Community banking operations primarily consist of accepting deposits from customers within the communities surrounding its full service offices and investing those funds in single-family, multi-family, commercial real estate, construction, commercial business, consumer and other loans. Additionally, certain fees are collected from depositors for services provided to them such as non-sufficient fund fees, deposit account service charges, ATM fees, IRA/KEOGH fees, safe deposit box fees, travelers check fees, and wire transfer fees, among others. The primary source of income in community banking is net interest income, which is the difference between the interest income produced by loans and investment securities, and the interest expense produced by interest-bearing deposits and borrowed funds. During the next three years the Corporation intends to increase the community banking business by growing total assets; restructure the 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-

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A fixed rate, Alt-A adjustable rate and second trust deed loans. The Alt-A loans are underwritten to expanded guidelines allowing a borrower with good credit a broader range of product choices. The "Alt-A" choices include interest-only loans, stated-income loans and greater than 30-year amortization loans. The 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.

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.

Off-Balance Sheet Financing Arrangements and Contractual Obligations

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

	Payments Due by Period				
	1 year or less	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years	Total
Operating lease obligations	$ 1,163	$ 1,858	$ 898	$ 252	$ 4,171
Time deposits	345,208	213,025	9,821	-	568,054
FHLB - San Francisco advances	292,164	165,796	162,566	53,798	674,324
Total	$ 638,535	$ 380,679	$ 173,285	$ 54,050	$ 1,246,549

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

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

Total assets increased $73.3 million, or five percent, to $1.70 billion at September 30, 2006 from $1.62 billion at June 30, 2006. The increase was primarily attributable to increases in investment securities and loans held for investment.

Total investment securities increased $16.6 million, or nine percent, to $193.8 million at September 30, 2006 from $177.2 million at June 30, 2006. The increase was primarily the result of the purchase of $28.9 million of investment securities settled in August 2006, partly offset by scheduled and accelerated principal payments on mortgage-backed securities. The Bank evaluates individual investment securities quarterly for other-than-temporary declines in the market value. The Bank believes there are no other-than-temporary impairments at September 30, 2006, therefore, no impairment losses have been recorded as of September 30, 2006.

Loans held for investment increased $43.1 million, or three percent, to $1.31 billion at September 30, 2006 from $1.26 billion at June 30, 2006. During the first three months of fiscal 2007, the Bank originated

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$110.1 million of loans held for investment, of which $60.6 million, or 55 percent, were "preferred loans" (multi-family, commercial real estate, construction and commercial business loans), which includes the purchase of $35.5 million of loans. The loans purchased in the first three months of fiscal 2007 are secured by real estate located primarily in California (property inspections were performed on those loans above $400,000) and all loans were underwritten by the Corporation prior to purchase (using the same underwriting criteria as an originated loan). Total loan repayments during the first three months of fiscal 2007 were $78.4 million, compared to $143.8 million during the first three months of fiscal 2006. The balance of preferred loans increased to $479.3 million, or 36 percent of loans

held for investment at September 30, 2006, as compared to $433.8 million, or 34 percent of loans held for investment at June 30, 2006. Purchased loans serviced by others at September 30, 2006 were $124.8 million, or nine percent of loans held for investment, compared to $102.7 million, or eight percent of loans held for investment at June 30, 2006.

Receivable from the sale of loans increased $6.6 million, or seven percent, to $106.5 million at September 30, 2006 from $99.9 million at June 30, 2006. The increase was attributable to the timing differences between loan sale and loan sale settlement dates, partly offset by a decline in loan sales volume during the first quarter of fiscal 2007 in comparison to the fourth quarter of fiscal 2006.

Total deposits decreased $2.6 million, or less than one percent, to $915.0 million at September 30, 2006 from $917.6 million at June 30, 2006. This decrease was primarily attributable to a decrease of $17.1 million in transaction accounts, partly offset by an increase of $14.5 million in time deposits. The decrease in transaction accounts and the increase in time deposits was primarily attributable to the increase in short-term interest rates and depositors switching from savings deposits to time deposits.

Borrowings, which consisted primarily of FHLB - San Francisco advances, increased $71.4 million, or 13 percent, to $617.6 million at September 30, 2006 from $546.2 million at June 30, 2006. The increase in borrowings was primarily the result of the increases in investment securities and loans held for investment and the decrease in deposits. The weighted-average maturity of the Bank's existing FHLB - San Francisco advances was approximately 25 months (20 months, based on put dates) at September 30, 2006 as compared to the weighted-average maturity of 30 months (24 months, based on put dates) at June 30, 2006.

Total stockholders' equity increased $2.2 million, or two percent, to $138.4 million at September 30, 2006, from $136.2 million at June 30, 2006, primarily as a result of the net income and stock option exercises during the first three months of fiscal 2007, which was partly offset by common stock repurchases and a quarterly cash dividend paid during the first three months of fiscal 2007. During the first three months of fiscal 2007, a total of 6,500 stock options with an average strike price of $23.62 per share were exercised. Also, a total of 111,185 shares were repurchased under the existing stock repurchase program at an average price of $30.35 per share. As of September 30, 2006, 37 percent of the authorized shares of the May 2006 stock repurchase program were purchased, leaving 220,044 shares available for future repurchase. During the first three months of fiscal 2007, the Corporation also repurchased 812 shares of restricted stock at an average price of $29.90 per share. The total cash dividend paid in the first three months of fiscal 2007 was $1.0 million.

Comparison of Operating Results for the Quarters Ended September 30, 2006 and 2005

The Corporation's net income for the first quarter ended September 30, 2006 was $5.3 million, an increase of $325,000, or seven percent, from $4.9 million during the same quarter of fiscal 2006. This increase was primarily attributable to an increase in non-interest income, partly offset by a decrease in net interest income and an increase in provision for loan losses.

The Corporation's net interest income before the provision for loan losses decreased by $214,000, or two percent, to $10.8 million for the quarter ended September 30, 2006 from $11.0 million during the comparable period of fiscal 2006. This decrease was the result of a lower net interest margin, partly offset by higher average earning assets. The net interest margin decreased to 2.68 percent in the first quarter of fiscal 2007, down 12 basis points from 2.80 percent for the same period of fiscal 2006. The decrease in the net interest margin during the first quarter of fiscal 2007 was primarily attributable to the increase in the average cost of funds, which was more than the increase in the average yield of earning assets. The interest spread narrowed to 2.42 percent in the quarter ended September 30, 2006 from 2.64 percent in the same

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period last year, a decline of 22 basis points. The average balance of earning assets increased $40.3 million, or three percent, to $1.61 billion in the first quarter of fiscal 2007 from $1.57 billion in the comparable period of fiscal 2006.

The Corporation's efficiency ratio improved to 45 percent in the first quarter of fiscal 2007 from 48 percent in the same period of fiscal 2006. The improvement was primarily attributable to the gain on sale of real estate recognized in the first quarter of fiscal 2007.

Return on average assets for the quarter ended September 30, 2006 increased six basis points to 1.28 percent from 1.22 percent in the same period last year. Return on average equity for the quarter ended September 30, 2006 decreased to 15.25 percent from 15.80 percent for the same period last year.

Diluted earnings per share for the quarter ended September 30, 2006 were $0.77, an increase of eight percent from $0.71 for the quarter ended September 30, 2005.

Interest Income.

Total interest income increased by $2.9 million, or 14 percent, to $24.2 million for the first quarter of fiscal 2007 from $21.3 million in the same quarter of fiscal 2006. This increase was primarily the result of a higher average balance of earning assets and a higher average earning asset yield. The average yield on earning assets during the first quarter of fiscal 2007 was 6.02 percent, 58 basis points higher than the average yield of 5.44 percent during the same period of fiscal 2006.

Loan interest income increased $3.0 million, or 16 percent, to $22.0 million in the quarter ended September 30, 2006 from $19.0 million for the same quarter of fiscal 2006. This increase was attributable to a higher average loan balance and a higher average loan yield. The average balance of loans outstanding, including receivable from sale of loans and loans held for sale, increased $84.4 million, or six percent, to $1.4 billion during the first quarter of fiscal 2007 from $1.3 billion during the same quarter of fiscal 2006. The average loan yield during the first quarter of fiscal 2007 increased 48 basis points to 6.34 percent from 5.86 percent during the same quarter last year. The increase in the average loan yield was primarily attributable to mortgage loans originated with higher interest rates, the repricing of adjustable rate loans during the period and a higher percentage of preferred loans, which generally have a higher yield.

Interest income from investment securities decreased $117,000, or six percent, to $1.7 million during the quarter ended September 30, 2006 from $1.8 million during the same quarter of fiscal 2006. This decrease was primarily a result of a decrease in the average balance, partly offset by an increase in average yield. The average balance of investment securities decreased $41.3 million, or 18 percent, to $183.1 million in the first quarter of fiscal 2007 from $224.4 million in the same quarter of fiscal 2006. During the first quarter of fiscal 2007, $28.9 million of investment securities were purchased and $3.0 million matured, while $9.7 million of principal was received on mortgage-backed securities ("MBS"). The average yield on the investment securities increased 48 basis points to 3.71 percent during the quarter ended September 30, 2006 from 3.23 percent during the quarter ended September 30, 2005. The increase in the average yield of investment securities was primarily a result of the new purchases with a higher average yield (5.42% vs. the average yield of 3.71%) and a decline in the accelerated principal payments on MBS with a corresponding reduction to the MBS premium amortization. The accelerated premium amortization in the first quarter of fiscal 2007 declined by $102,000 to $16,000 as compared to $118,000 in the same quarter of fiscal 2006.

FHLB - San Francisco stock dividends increased by $109,000, or 27 percent, to $514,000 in the first quarter of fiscal 2007 from $405,000 in the same period of fiscal 2006. This increase was attributable to a higher average yield and a higher average balance. The average yield on FHLB - San Francisco stock increased 109 basis points to 5.36 percent during the first quarter of fiscal 2007 from 4.27 percent during the same period last year. The increase in the average yield was due to the stock dividends declared by the FHLB - San Francisco. The average balance of FHLB - San

Francisco stock increased $449,000 to $38.4 million during the first quarter of fiscal 2007 from $37.9 million during the same period of fiscal 2006. The increase in FHLB - San Francisco stock was in accordance with the borrowing requirements of the FHLB - San Francisco.

Interest Expense.

Total interest expense for the quarter ended September 30, 2006 was $13.4 million as compared to $10.3 million for the same period of fiscal 2006, an increase of $3.1 million, or 30 percent. This increase was primarily attributable to an increase in the average cost and a higher average balance of

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interest-bearing liabilities. The average cost of interest-bearing liabilities was 3.60 percent during the quarter ended September 30, 2006, up 80 basis points from 2.80 percent during the same period of fiscal 2006. The average balance of interest-bearing liabilities, principally deposits and borrowings, increased $18.7 million, or one percent, to $1.48 billion during the first quarter of fiscal 2007 from $1.46 billion during the same period of fiscal 2006.

Interest expense on deposits for the quarter ended September 30, 2006 was $6.8 million as compared to $5.0 million for the same period of fiscal 2006, an increase of $1.8 million, or 36 percent. The increase in interest expense on deposits was primarily attributable to a higher average cost, partly offset by a lower average balance. The average cost of deposits increased to 2.96 percent during the quarter ended September 30, 2006 from 2.11 percent during the same quarter of fiscal 2006, an increase of 85 basis points. The increase in the average cost of deposits, primarily in time deposits, was attributable to the general rise in short-term interest rates. The average balance of deposits decreased $25.0 million, or three percent, to $911.9 million during the quarter ended September 30, 2006 from $936.9 million during the same period of fiscal 2006. The average balance of transaction accounts decreased by $90.8 million, or 19 percent, to $383.1 million in the quarter ended September 30, 2006 from $473.9 million in the quarter ended September 30, 2005. The decrease was primarily attributable to a decline in savings accounts. The average balance of time deposits increased by $65.8 million, or 14 percent, to $528.8 million in the quarter ended September 30, 2006 as compared to $463.0 million in the quarter ended September 30, 2005. The increase in time deposits is primarily attributable to depositors switching from savings deposits to time deposits. The average balance of transaction account deposits to total deposits in the first quarter of fiscal 2007 was 42 percent, compared to 51 percent in the same period of fiscal 2006.

Interest expense on borrowings, which consisted primarily of FHLB - San Francisco advances, for the quarter ended September 30, 2006 increased $1.2 million, or 22 percent, to $6.6 million from $5.4 million for the same period of fiscal 2006. The increase in interest expense on borrowings was primarily a result of a higher average cost and a higher average balance. The average cost of borrowings increased to 4.61 percent for the quarter ended September 30, 2006 from 4.04 percent in the same quarter of fiscal 2006, an increase of 57 basis points. The increase in the average cost of borrowings was the result of higher short-term interest rates. The average balance of borrowings increased $43.7 million, or eight percent, to $570.0 million during the quarter ended September 30, 2006 from $526.3 million during the same period of fiscal 2006.

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The following table depicts the average balance sheets for the quarters ended September 30, 2006 and 2005, respectively:

Average Balance Sheets

(Dollars in thousands)

	Quarter Ended September 30, 2006			Quarter Ended September 30, 2005		
	Average Balance	Interest	Yield/ Cost	Average Balance	Interest	Yield/ Cost
Interest-earning assets:						
Loans receivable, net (1)	$ 1,384,634	$ 21,958	6.34%	$ 1,300,225	$ 19,043	5.86%
Investment securities	183,090	1,696	3.71%	224,366	1,813	3.23%
FHLB - San Francisco stock	38,370	514	5.36%	37,921	405	4.27%
Interest-earning deposits	1,443	19	5.27%	4,699	40	3.40%
Total interest-earning assets	1,607,537	24,187	6.02%	1,567,211	21,301	5.44%
Non interest-earning assets	40,089			52,127		
Total assets	$ 1,647,626			$ 1,619,338		
Interest-bearing liabilities:						
Checking and money market accounts (2)	$ 207,129	336	0.64%	$ 222,790	287	0.51%
Savings accounts	175,977	644	1.45%	251,118	904	1.43%
Time deposits	528,819	5,827	4.37%	463,024	3,782	3.24%
Total deposits	911,925	6,807	2.96%	936,932	4,973	2.11%
Borrowings	570,024	6,624	4.61%	526,281	5,358	4.04%
Total interest-bearing liabilities	1,481,949	13,431	3.60%	1,463,213	10,331	2.80%
Non interest-bearing liabilities	27,778			31,201		
Total liabilities	1,509,727			1,494,414		
Stockholders' equity	137,899			124,924		

Total liabilities and stockholders' Equity	$ 1,647,626	$ 1,619,338
Net interest income	$ 10,756	$ 10,970
Interest rate spread (3)	2.42%	2.64%
Net interest margin (4)	2.68%	2.80%
Ratio of average interest-earning Assets to average interest-bearing Liabilities	108.47%	107.11%
Return on average assets	1.28%	1.22%
Return on average equity	15.25%	15.80%

(1) Includes receivable from sale of loans, loans held for sale and non-accrual loans, as well as net deferred loan fee (cost) amortization of $12 and $(120) for the quarters ended September 30, 2006 and 2005, respectively.
(2) Includes the average balance of non interest-bearing checking accounts of $47.4 million and $51.3 million during the quarters ended September 30, 2006 and 2005, respectively.
(3) Represents the difference between the weighted-average yield on all interest-earning assets and the weighted-average rate on all interest-bearing liabilities.
(4) Represents net interest income before provision for loan losses as a percentage of average interest-earning assets.

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The following table provides the rate/volume variances for the quarters ended September 30, 2006 and 2005, respectively:

Rate/Volume Variance

(In Thousands)

	Quarter Ended September 30, 2006 Compared to Quarter Ended September 30, 2005 Increase (Decrease) Due to			
	Rate	Volume	Rate/ Volume	Net
Interest-earning assets:				
Loans receivable (1)	$ 1,577	$ 1,237	$ 101	$ 2,915
Investment securities	266	(333)	(50)	(117)
FHLB - San Francisco stock	103	5	1	109

Interest-bearing deposits	22	(28)	(15)	(21)
Total net change in income on interest-earning assets	1,968	881	37	2,886
Interest-bearing liabilities:				
Checking and money market accounts	74	(20)	(5)	49
Savings accounts	15	(271)	(4)	(260)
Time deposits	1,321	537	187	2,045
Borrowings	758	445	63	1,266
Total net change in expense on interest-bearing liabilities	2,168	691	241	3,100
Net increase (decrease) in net interest income	$ (200)	$ 190	$ (204)	$ (214)

(1) Includes receivable from sale of loans, loans held for sale and non-accrual loans. For purposes of calculating volume, rate and rate/volume variances, non-accrual loans were included in the weighted-average balance outstanding.

Provision for Loan Losses.

During the first quarter of fiscal 2007, the Corporation recorded a loan loss provision of $637,000, an increase of $572,000 as compared to a loan loss provision of $65,000 during the same period of fiscal 2006. The provision for loan losses in the first quarter of fiscal 2007 was primarily attributable to an increase of $45.5 million in preferred loans during the quarter ended September 30, 2006, partly offset by a decrease in classified assets (including assets designated as special mention). Total classified assets decreased $603,000 to $8.7 million at September 30, 2006 from $9.3 million at June 30, 2006.

The allowance for loan losses was $10.8 million at September 30, 2006 as compared to $10.3 million at June 30, 2006. The allowance for loan losses as a percentage of gross loans held for investment was 0.82 percent at September 30, 2006 as compared to 0.81 percent at June 30, 2006. Management considers the allowance for loan losses sufficient to absorb potential losses inherent in loans held for investment.

The allowance for loan losses is maintained at a level sufficient to provide for estimated losses based on evaluating known and inherent risks in the loans held for investment and upon management's continuing analysis of the factors underlying the quality of the loans held for investment. These factors include changes in the size and composition of the loans held for investment, actual loan loss experience, current economic conditions, detailed analysis of individual loans for which full collectibility may not be assured, and determination of the realizable value of the collateral securing the loans. Provisions for losses are charged against operations on a monthly basis as necessary to maintain the allowance at appropriate levels. Management believes that the amount maintained in the allowance will be adequate to absorb losses inherent in the loans held for investment. Although management believes it uses the best information available to make such determinations, there can be no assurance that regulators, in reviewing the Bank's loans held for investment, will not request the Bank to significantly increase its allowance for loan losses. Future adjustments to the allowance for loan losses may be necessary and results of operations could be

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significantly and adversely affected as a result of economic, operating, regulatory, and other conditions beyond the control of the Bank.

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

	Three Months Ended September 30,	
(Dollars in Thousands)	2006	2005
Allowance at beginning of period	$ 10,307	$ 9,215
Provision for loan losses	637	65
Recoveries	-	-
Charge-offs:		
Mortgage loans:		
Single-family	(105)	-
Total charge-offs	(105)	-
Net charge-offs	(105)	-
Balance at end of period	$ 10,839	$ 9,280
Allowance for loan losses as a percentage of gross loans held for investment	0.82%	0.82%
Net charge offs as a percentage of average loans outstanding during the period	0.01%	-
Allowance for loan losses as a percentage of non-performing loans at the end of the period	270.16%	512.42%

Non-Interest Income.

Total non-interest income increased $1.4 million, or 23 percent, to $7.4 million during the quarter ended September 30, 2006 from $6.0 million during the same period of fiscal 2006. The increase was primarily attributable to the gain on sale of real estate, partly offset by a decrease in gain on sale of loans.

The gain on sale of real estate in the first quarter was $2.3 million, or $1.3 million net of statutory taxes, resulting from the completion of the sale of approximately six acres of land in Riverside, California on July 31, 2006.

The gain on sale of loans decreased $901,000, or 21 percent, to $3.5 million for the quarter ended September 30, 2006 from $4.4 million in the same quarter of fiscal 2006. The decrease was a result of a lower average loan sale margin and a lower volume of loans originated for sale in the first quarter of fiscal 2007. The average loan sale margin for PBM during the first quarter of fiscal 2007 was 1.11 percent, down 12 basis points from 1.23 percent in the same period of fiscal 2006. The gain on sale of loans includes a gain of $319,000 on derivative financial instruments as a result of SFAS No. 133 in the quarter ended September 30, 2006, unchanged from the gain in the same period of fiscal

2006. The volume of loans originated for sale decreased to $319.5 million in the first quarter of fiscal 2007 as compared to $389.3 million during the same period last year. Total loan originations (including loans originated for investment, loans purchased for investment and loans originated for sale) were $429.7 million in the first quarter of fiscal 2007, down $125.7 million or 23 percent, from $555.4 million in the same quarter of fiscal 2006. The decline in loan originations was primarily attributable to lower loan demand resulting from a general rise in interest rates, a decline in real estate sales and a more competitive environment.

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The average profit margin for PBM in the first quarter of fiscal 2007 and 2006 was 25 basis points and 68 basis points, respectively. 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. The decrease in the profit margin was primarily attributable to a lower average loan sale margin and a lower volume of loans originated for sale.

Non-Interest Expense.

Total non-interest expense in the quarter ended September 30, 2006 was $8.2 million, an increase of $81,000 or one percent, as compared to the same quarter of fiscal 2006. The increase in non-interest expense was primarily the result of an increase in compensation expense, the result of lower deferred compensation attributable to the application of SFAS No. 91. On July 1, 2006 the Bank lowered the SFAS No. 91 deferred compensation allocated to each loan originated after completing the annual review and analysis of SFAS No. 91. Additionally, fewer loans were originated during the first quarter of fiscal 2007 in comparison to the same quarter last year, which also reduced deferred compensation. The increase in compensation expense was partly offset by a decrease in professional expenses.

Income taxes.

Income tax expense was $4.0 million for the quarter ended September 30, 2006 as compared to $3.8 million during the same period of fiscal 2006. The effective income tax rate for the quarters ended September 30, 2006 remained unchanged at 43.3 percent, as compared to the same quarter last year. The Corporation believes that the effective income tax rate applied in the first quarter of fiscal 2007 reflects its current income tax obligations.

Asset Quality

Non-accrual loans increased to $4.0 million at September 30, 2006 from $2.5 million at June 30, 2006. The non-accrual loans at September 30, 2006 consisted of 10 single-family loans ($3.1 million to nine different borrowers) and one commercial real estate loan ($866,000 to one borrower); while the non-accrual loans at June 30, 2006 consisted of five single-family loans ($1.2 million to four different borrower) and one construction loan ($1.3 million to one borrower). The non-accrual construction loan at June 30, 2006 was paid in full in the first quarter ended September 30, 2006. No interest accruals were made for loans that were past due 90 days or more.

The non-accrual and 90 days or more past due loans as a percentage of net loans held for investment increased to 0.31 percent at September 30, 2006 from 0.20 percent at June 30, 2006. Real estate owned at September 30, 2006 was $414,000 as compared to none at June 30, 2006. Non-performing assets as a percentage of total assets increased to 0.26 percent at September 30, 2006 from 0.16 percent at June 30, 2006.

The Bank reviews loans individually to identify when impairment has occurred. A loan is identified as impaired when it is deemed probable that the borrower will be unable to meet the scheduled principal and interest payments under the terms of the loan agreement. Impairment is based on the present value of expected future cash flows discounted at the loan's effective interest rate, except that as a practical expedient, the Bank may measure impairment based on a loan's observable market price or the fair value of the collateral if the loan is collateral dependent.

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The following table is provided to disclose details on asset quality (dollars in thousands):

	At September 30,	At June 30,
	2006	2006
Loans accounted for on a non-accrual basis:		
Mortgage loans:		
Single-family	$ 3,145	$ 1,215
Commercial real estate	867	-
Construction	-	1,313
Total	4,012	2,528
Accruing loans which are contractually past due 90 days or more	-	-
Total of non-accrual and 90 days past due loans	4,012	2,528
Real estate owned	414	-
Total non-performing assets	$ 4,426	$ 2,528
Non-accrual and 90 days or more past due loans as a percentage of loans held for investment, net	0.31%	0.20%
Non-accrual and 90 days or more past due loans as a percentage of total assets	0.24%	0.16%
Non-performing assets as a percentage of total assets	0.26%	0.16%

Total classified assets (including assets designated as special mention) were $8.7 million at September 30, 2006, a decrease of $602,000, or six percent, from $9.3 million at June 30, 2006. The decrease in classified assets was primarily attributable to the net effect of three construction loans ($2.2 million) and three commercial business loans ($535,000) that have been paid in full, one single-family loan ($414,000, net) that was converted to real estate owned, and the downgrade of 11 single-family loans ($2.8 million).

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Loan Volume Activities

The following table is provided to disclose details related to the volume of loans originated, purchased and sold (in thousands):

	For the Quarter Ended September 30,	
	2006	2005
Loans originated for sale:		
Retail originations	$ 79,083	$ 133,102
Wholesale originations	240,458	256,155
Total loans originated for sale (1)	319,541	389,257
Loans sold:		
Servicing released	(314,648)	(392,860)
Servicing retained	(1,407)	(6,637)
Total loans sold (2)	(316,055)	(399,497)
Loans originated for investment:		
Mortgage loans:		
Single-family (3)	48,429	103,023
Multi-family	7,792	6,751
Commercial real estate	8,604	12,038
Construction	7,170	39,679
Commercial business loans	1,492	865
Other loans	1,119	618
Total loans originated for investment	74,606	162,974
Loans purchased for investment:		
Mortgage loans:		
Multi-family	35,514	-
Commercial business loans	-	900
Other loans	-	2,250
Total loans purchased for investment	35,514	3,150
Mortgage loan principal repayments	(78,446)	(143,809)
Real estate acquired in settlement of loans	(414)	-
Increase (decrease) in other items, net (4)	11,857	(8,215)

Net increase in loans held for investment and loans held for sale	$ 46,603	$ 3,860

(1) Primarily comprised of PBM loans originated for sale, totaling $311.3 million and $368.7 million for the quarters ended September 30, 2006 and 2005, respectively.
(2) Primarily comprised of PBM loans sold, totaling $309.3 million and $389.0 million for the quarters ended September 30, 2006 and 2005, respectively.
(3) Primarily comprised of PBM loans originated for investment, totaling $48.2 million and $103.0 million for the quarters ended September 30, 2006 and 2005, respectively.
(4) Includes net changes in undisbursed loan funds, deferred loan fees or costs and allowance for loan losses.

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Liquidity and Capital Resources

The Corporation's primary sources of funding include deposits, proceeds from loan interest, scheduled principal payments, sales of loans, loan prepayments, interest income on investment securities, the maturity or principal payments on investment securities, and FHLB - San Francisco advances. While maturities and the scheduled amortization of loans and investment securities are predictable sources of funds, deposit flows, loan sales, and mortgage prepayments are greatly influenced by interest rates, economic conditions, and competition.

The Bank has a standard credit facility available from the FHLB - San Francisco. In September 2006, the FHLB - San Francisco approved the Bank's request to increase its credit facility from 40 percent to 50 percent of its total assets. As of September 30, 2006, the Bank's remaining available credit facility from the FHLB - San Francisco was $213.5 million. In addition to the FHLB - San Francisco credit facility, the Bank has an unsecured line of credit in the amount of $60.0 million with its correspondent bank.

The Bank must maintain an adequate level of liquidity to ensure the availability of sufficient funds to support loan growth, to cover deposit withdrawals, to satisfy financial commitments and take advantage of investment opportunities. The Bank generally maintains sufficient cash to meet short-term liquidity needs. At September 30, 2006, cash and cash equivalents totaled $17.9 million, or one percent of total assets. Depending on market conditions and the pricing of deposit products and FHLB - San Francisco advances, the Bank may rely on FHLB - San Francisco advances or unsecured lines of credit for its liquidity needs.

The OTS has no statutory liquidity requirement for savings institutions, but requires that liquidity be maintained at a level, consistent with the safe and sound operation of the Bank. The Bank's average liquidity ratio for the quarter ended September 30, 2006 decreased to 5.4 percent from 6.9 percent during the same period in fiscal 2006. This decrease was primarily the result of the redeployment of available cash flows into loans held for investment and the pledging of investment securities as collateral for certain interest-bearing liabilities.

The Bank continues to experience a large volume of loan prepayments in its loan held for investment and it is challenging to reinvest these cash flows in assets that carry similar or better interest rate risk and credit risk characteristics. The Bank has mitigated the impact of this in several ways. The Bank has generated more loans for investment from its mortgage banking, business banking and commercial real estate divisions and purchased commercial real estate, multi-family and construction loans from other financial institutions. This has been accomplished with prudent interest-rate-risk and credit risk management practices.

The Bank is subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet minimum requirements can initiate certain mandatory actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet certain specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk-weightings, and other factors.

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The Bank's actual and required capital amounts and ratios as of September 30, 2006 are as follows (dollars in thousands):

	Amount	Percent
Tangible capital	$ 127,543	7.51%
Requirement	33,962	2.00
Excess over requirement	$ 93,581	5.51%
Tier 1 (core) capital	$ 127,543	7.51%
Requirement to be "Well Capitalized"	84,905	5.00
Excess over requirement	$ 42,638	2.51%
Total risk-based capital	$ 135,681	12.42%
Requirement to be "Well Capitalized"	109,271	10.00
Excess over requirement	$ 26,410	2.42%
Tier 1 risk-based capital	$ 124,612	11.40%
Requirement to be "Well Capitalized"	65,563	6.00
Excess over requirement	$ 59,049	5.40%

Commitments and Derivative Financial Instruments

The Corporation is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, in the form of

originating loans or providing funds under existing lines of credit, and forward loan sale agreements to third parties. These instruments involve, to varying degrees, elements of credit and interest-rate risk in excess of the amount recognized in the accompanying consolidated statements of financial condition. The Corporation's exposure to credit loss, in the event of non-performance by the counter party to these financial instruments, is represented by the contractual amount of these instruments. The Corporation uses the same credit policies in entering into financial instruments with off-balance sheet risk as it does for on-balance sheet instruments. For discussion on commitments and derivative financial instruments, see Note 5 on page 9.

Stockholders' Equity

The ability of the Corporation to pay dividends depends primarily on the ability of the Bank to pay dividends to the Corporation. The Bank may not declare or pay a cash dividend if the effect thereof would cause its net worth to be reduced below the amount required for the liquidation account established by the Bank in connection with its Conversion or the regulatory capital requirements imposed by federal and state regulation. The Corporation paid $1.0 million of cash dividends to its shareholders in the first three months of fiscal 2007.

The Corporation repurchased 111,185 shares under the existing stock repurchase program during the first three months of fiscal 2007 at an average price of $30.35 per share. As of September 30, 2006, 37 percent of the authorized shares of the May 2006 stock repurchase plan were purchased, leaving approximately 220,044 shares available for future repurchase. During the first three months of fiscal 2007, the Corporation also repurchased 812 shares of restricted stock at an average price of $29.90 per share.

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Incentive Plans

As of September 30, 2006, the Corporation had three share-based compensation plans, which are described below. The compensation cost that has been charged against income for those plans was $28,000 and $104,000 for the quarters ended September 30, 2006 and 2005, respectively. The income tax benefit recognized in the consolidated statements of operations for share-based compensation plans was $23,000 and $29,000 for quarters ended September 30, 2006 and 2005, respectively.

Stock Option Plans

The Corporation established the 1996 Stock Option Plan and the 2003 Stock Option Plan (collectively, the "Stock Option Plans") for key employees and eligible directors under which options to acquire up to 1.15 million shares and 352,500 shares of common stock, respectively, may be granted. Under the Stock Option Plans, options may not be granted at a price less than the fair market value at the date of grant. Options vest over a five-year period on a pro-rata basis as long as the employee or director remains an employee or director of the Corporation. The options are exercisable after vesting for up to the remaining term of the original grant. The maximum term of the options granted is 10 years.

On April 28, 2005, the Board of Directors accelerated the vesting of 136,950 unvested stock options, which were previously granted to directors, officers and key employees who had three or more continuous years of service with the Corporation or an affiliate of the Corporation. The Board believes that it was in the best interest of the shareholders to accelerate the vesting of these options which were granted prior to January 1, 2004, since it will have a

positive impact on the future earnings of the Corporation. This action was taken as a result of SFAS No. 123R which the Corporation adopted on July 1, 2005.

As a result of accelerating the vesting of these options, the Corporation recorded a charge to compensation expense of $320,000 during the quarter ended June 30, 2005. This charge represents a new measurement of compensation cost for these options as of the modification date. The modification introduced the potential for an effective renewal of the awards as some of these options may have been forfeited by the holders. This charge will require adjustment in future periods for actual forfeiture experience. The Corporation estimates that the compensation expense related to these options that would have been recognized over their remaining vesting periods pursuant to the transition provisions of SFAS No. 123R is $1.7 million. Because these options are now fully vested, they are not subject to the provisions of SFAS No. 123R.

The fair value of each option award is estimated on the date of grant using the Black-Scholes option valuation model with the assumptions noted in the following table. The expected volatility is based on implied volatility from historical common stock closing prices for the last 30 months. The expected dividend yield is based on the most recent quarterly dividend on an annualized basis. The expected term is based on the historical experience of all fully vested stock option grants and is reviewed annually. The risk-free interest rate is based on the U.S. Treasury rate of a similar term as the stock option at the particular grant date.

	Quarter Ended September 30, 2006	Quarter Ended September 30, 2005
Expected volatility	23%	20%
Weighted-average volatility	23%	20%
Expected dividend yield	2.0%	1.9%
Expected term (in years)	7.4	7.8
Risk-free interest rate	4.5% - 5.0%	4.1%

In the first quarter of fiscal 2007, the total options (under both plans) granted, exercised and forfeited were 64,000 shares, 6,500 shares and 0 shares, respectively. In the first quarter of fiscal 2006, the total options (under both plans) granted, exercised and forfeited were 9,000 shares, 3,659 shares and 2,000 shares, respectively. As of September 30, 2006 and 2005, the number of options available for future grants under the Stock Option Plans were 43,200 and 82,200 shares, respectively.

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The following is a summary of stock option activity under the 1996 and 2003 Plans:

Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value ($000)
Outstanding at July 1, 2006	552,993	$ 19.77		

Granted	64,000	30.02		
Exercised	(6,500)	23.62		
Forfeited	-	-		
Outstanding at September 30, 2006	610,493	$ 20.80	7.00	$5,702
Exercisable at September 30, 2006	353,793	$ 16.77	6.08	$4,730

The weighted-average grant-date fair value of options granted during the quarters ended September 30, 2006 and 2005 was $8.43 and $7.44 per share, respectively. The total intrinsic value of options exercised during the quarters ended September 30, 2006 and 2005 was $43,000 and $64,000, respectively.

As of September 30, 2006, there was $1.7 million of unrecognized compensation expense related to unvested share-based compensation arrangements granted under the 1996 and 2003 Stock Option Plans. This expense is expected to be recognized over a weighted-average period of 3.5 years. The forfeiture rate during the first quarter of fiscal 2007 was 20%, which was calculated based on the historical experience of all fully vested stock option grants and is reviewed annually.

Management Recognition Plan ("MRP")

The Corporation established the MRP to provide key employees and eligible directors with a proprietary interest in the growth, development and financial success of the Corporation through the award of restricted stock. The Corporation acquired 461,250 shares of its common stock in the open market to fund the MRP in 1997. All of the MRP shares have been awarded. Awarded shares vest over a five-year period as long as the employee or director remains an employee or director of the Corporation. The Corporation recognizes compensation expense for the MRP based on the fair value of the shares at the award date. MRP compensation expense was $18,000 and $34,000 for the quarters ended September 30, 2006 and 2005, respectively. At September 30, 2006 and 2005, the value of the unearned MRP was $45,000 (included in the Consolidated Statements of Financial Condition under additional paid-in capital, as per SFAS No. 123R) and $121,000, respectively, and reported as a reduction to stockholders' equity. There were 5,820 MRP shares remaining to be distributed at September 30, 2006, all of which have been awarded.

A summary of the status of the Corporation's unvested MRP shares as of September 30, 2006 and changes during the quarter ended September 30, 2006 is presented below:

Unvested Shares	Shares	Weighted-Average Grant Date Fair Value
Unvested at July 1, 2006	9,588	$ 12.81
Granted	-	-
Vested	(3,768)	13.67
Forfeited	-	-
Unvested at September 30, 2006	5,820	$12.26

As of September 30, 2006, the unvested share-based compensation arrangements granted under the MRP are expected to be recognized over a weighted-average period of 0.3 years. The forfeiture rate during fiscal 2006 was 0%, which was based on the on-going retention of the remaining participants. The fair value of shares vested during the quarters ended September 30, 2006 and 2005 was $113,000 and $115,000, respectively.

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Supplemental Information

	At September 30, 2006	At June 30, 2006	At September 30, 2005
Loans serviced for others (in thousands)	$ 229,895	$ 239,650	$ 262,412
Book value per share	$ 20.09	$ 19.48	$ 18.22

ITEM 3 - Quantitative and Qualitative Disclosures about Market Risk.

The principal financial objective of the Corporation's interest rate risk management function is to achieve long-term profitability while limiting its exposure to the fluctuation of interest rates. The Bank, through its Asset Liability Committee seeks to reduce the exposure of its earnings to changes in market interest rates by managing the mismatch between asset and liability maturities. The principal element in achieving this objective is to manage the interest-rate sensitivity of the Bank's assets by holding loans with interest rates subject to periodic market adjustments. In addition, the Bank maintains a liquid investment securities portfolio comprised of government agency securities and mortgage-backed securities. The Bank relies on retail deposits as its primary source of funding while utilizing FHLB - San Francisco advances as a secondary source of funding. As part of its interest rate risk management strategy, the Bank promotes transaction accounts and time deposits with terms up to five years.

Through the use of an internal interest rate risk model and the OTS interest rate risk model, the Bank is able to analyze its interest rate risk exposure by measuring the change in net portfolio value ("NPV") over a variety of interest rate scenarios. NPV is the net present value of expected cash flows from assets, liabilities and off-balance sheet contracts. The calculation is intended to illustrate the change in NPV that would occur in the event of an immediate change in interest rates of at least 100 basis points with no effect given to steps that management might take to counter the effect of the interest rate movement.

The results of the internal interest rate risk model are reconciled with the results provided by the OTS on a quarterly basis. Significant deviations are researched and adjusted where applicable.

The following table is derived from the OTS interest rate risk model and represents the NPV based on the indicated changes in interest rates as of September 30, 2006 (dollars in thousands).

	Net	NPV	Portfolio	NPV as Percentage of Portfolio Value	Sensitivity

Basis Points ("bp") Change in Rates	Portfolio Value	Change (1)	Value of Assets	Assets (2)	Measure (3)
+300 bp	$ 140,032	$ (18,602)	$ 1,658,495	8.44%	-78 bp
+200 bp	151,543	(7,091)	1,683,128	9.00%	-22 bp
+100 bp	158,002	(632)	1,703,701	9.27%	+5 bp
0 bp	158,634	-	1,719,909	9.22%	
-100 bp	153,983	(4,651)	1,731,452	8.89%	-33 bp
-200 bp	147,388	(11,246)	1,741,594	8.46%	-76 bp

(1) Represents the decrease of the NPV at the indicated interest rate change in comparison to the NPV at September 30, 2006 ("base case").
(2) Calculated as the NPV divided by the portfolio value of total assets.
(3) Calculated as the change in the NPV ratio from the base case amount assuming the indicated change in interest rates (expressed in basis points).

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The following table is derived from the OTS interest rate risk model and represents the change in the NPV at a -200 basis point rate shock at September 30, 2006 and a +200 basis point rate shock at June 30, 2006.

	At September 30, 2006	At June 30, 2006
	(-200 bp rate shock)	(+200 bp rate shock)
Pre-shock NPV ratio: NPV as a % of PV Assets	9.22%	11.13%
Post-shock NPV ratio: NPV as a % of PV Assets	8.46%	10.32%
Sensitivity measure: Change in NPV Ratio	76 bp	81 bp
TB 13a Level of Risk	Minimal	Minimal

As with any method of measuring interest rate risk, certain shortcomings are inherent in the method of analysis presented in the foregoing tables. For example, although certain assets and liabilities may have similar maturities or periods to repricing, they may react in different degrees to changes in market interest rates. Also, the interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types of assets and liabilities may lag behind changes in market interest rates. Additionally, certain assets, such as adjustable rate mortgage ("ARM") loans, have features that restrict changes in interest rates on a short-term basis and over the life of the asset. Further, in the event of a change in interest rates, expected rates of prepayments on loans and early withdrawals from time deposits could likely deviate significantly from those assumed when calculating the tables above. It is also possible that, as a result of an interest rate increase, the higher mortgage payments required from ARM borrowers could result in an increase in delinquencies and defaults. Changes in market interest rates may also affect the volume and profitability of the Corporation's mortgage banking operations. Accordingly, the data presented in the tables above should not be relied upon as indicative of actual results in the

event of changes in interest rates. Furthermore, the NPV presented in the foregoing tables is not intended to present the fair market value of the Bank, nor does it represent amounts that would be available for distribution to shareholders in the event of the liquidation of the Corporation.

The Bank also models the sensitivity of net interest income for the 12-month period subsequent to any given month-end assuming a dynamic balance sheet (accounting for the Bank's current balance sheet, 12-month business plan, embedded options, rate floors, periodic caps, lifetime caps, and loan, investment, deposit and borrowing cash flows, among others), and immediate, permanent and parallel movements in interest rates of plus 100, plus 200, minus 100 and minus 200 basis points. The following table describes the results of the analysis at September 30, 2006 and June 30, 2006.

At September 30, 2006		At June 30, 2006	
Basis Point (bp) Change in Rates	Change in Net Interest Income	Basis Point (bp) Change in Rates	Change in Net Interest Income
+200 bp	+10.25%	+200 bp	+1.68%
+100 bp	+10.31%	+100 bp	+3.88%
-100 bp	+6.39%	-100 bp	+5.02%
-200 bp	-0.11%	-200 bp	-0.31%

In both periods, the Bank was asset sensitive in all rate scenarios suggesting net interest income would increase in the subsequent 12-month period, except in the minus 200 basis point scenario where the Bank was liability sensitive.

Management believes that the assumptions used to complete the analysis described in the table above are reasonable. However, past experience has shown that immediate, permanent and parallel movements in interest rates will not necessarily occur. Additionally, while the analysis provides a tool to evaluate the projected net interest income to changes in interest rates, actual results may be substantially different if actual experience differs from the assumptions used to complete the analysis. Therefore, the model results that we disclose should be thought of as a risk management tool to compare the trends of our current disclosure to previous disclosures, over time, within the context of the actual performance of the treasury yield curve.

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ITEM 4 - Controls and Procedures.

An evaluation of the Corporation's disclosure controls and procedure (as defined in Section 13a-15(e) or 15d-15(e) of the Securities Exchange Act of 1934 (the "Act")) was carried out under the supervision and with the participation of the Corporation's Chief Executive Officer, Chief Financial Officer and the Corporation's Disclosure Committee as of the end of the period covered by this quarterly report. The Corporation's Chief Executive Officer and Chief Financial Officer concluded that the Corporation's disclosure controls and procedures as currently in effect are effective in ensuring that the information required to be disclosed by the Corporation in the reports it files or submits under the Act is (i) accumulated and communicated to the Corporation's management (including the Chief Executive Officer and Chief Financial Officer) in a timely manner, and (ii) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

In addition, there have been no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) of the Act) that occurred during the quarter ended September 30, 2006, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

From time to time, the Corporation or its subsidiaries are engaged in legal proceedings in the ordinary course of business, none of which are currently considered to have a material impact on the Corporation's financial position or results of operations.

Item 1A. Risk Factors.

There are no material changes from the risk factors as previously disclosed in the Corporation's Form 10-K ended June 30, 2006.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

The table below represents the issuer purchases of equity securities for the first quarter of fiscal 2007.

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
July 1 - 31, 2006	812	$ 29.90	-	331,229
August 1 - 31, 2006	75,890	$ 30.13	75,890	255,339
September 1 - 30, 2006	35,295	$ 30.81	35,295	220,044
Total	111,997	$ 30.34	111,185	220,044

Item 3. Defaults Upon Senior Securities.

Not applicable.

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

Not applicable.

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Item 5. Other Information.

Not applicable.

Item 6. Exhibits.

Exhibits:

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

3.2 Bylaws of Provident Financial Holdings, Inc. (Incorporated by reference to Exhibit 3.2 to the Corporation's Registration Statement on Form S-1 (File No. 333-2230))

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

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

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

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

10.5 Severance Agreement with Lilian Brunner-Salter, Thomas "Lee" Fenn, Richard L. Gale, Donavon P. Ternes and Kathryn R. Gonzales (incorporated by reference to Exhibit 10.1 in the Corporation's Form 8-K dated July 3, 2006)

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

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

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

14 Code of Ethics for the Corporation's directors, officers and employees (incorporated by reference to Exhibit 14 in the Corporation's Annual Report on Form 10-K for the year ended June 30, 2004)

31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1 Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Provident Financial Holdings, Inc.

November 8, 2006 /s/ Craig G. Blunden
Craig G. Blunden
Chairman, President and Chief Executive Officer
(Principal Executive Officer)

November 8, 2006 /s/ Donavon P. Ternes
Donavon P. Ternes
Chief Financial Officer
(Principal Financial and Accounting Officer)

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31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

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Exhibit 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Craig G. Blunden, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Provident Financial Holdings, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15-(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2006

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

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Exhibit 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Donavon P. Ternes, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Provident Financial Holdings, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15-(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2006

/s/ Donavon P. Ternes
Donavon P. Ternes
Chief Financial Officer

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Exhibit 32.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the accompanying Quarterly Report on Form 10-Q of Provident Financial Holdings, Inc. (the "Corporation") for the period ended September 30, 2006 (the "Report"), I, Craig G. Blunden, Chairman, President and Chief Executive Officer of the Corporation, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

Date: November 8, 2006

/s/ Craig G. Blunden
Craig G. Blunden

Chairman, President and Chief Executive Officer

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Exhibit 32.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the accompanying Quarterly Report on Form 10-Q of Provident Financial Holdings, Inc. (the "Corporation") for the period ended September 30, 2006 (the "Report"), I, Donavon P. Ternes, Chief Financial Officer of the Corporation, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

Date: November 8, 2006

/s/ Donavon P. Ternes
Donavon P. Ternes
Chief Financial Officer

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