

PROVIDENT FINANCIAL HOLDINGS INC  
Form 10-Q  
May 10, 2013

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

FORM 10-Q  
(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended March 31, 2013  
.....
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number  
000-28304

PROVIDENT FINANCIAL HOLDINGS, INC.  
(Exact name of registrant as specified in its charter)  
Delaware  
(State or other jurisdiction of  
incorporation or organization)

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

3756 Central Avenue, Riverside, California 92506  
(Address of principal executive offices and zip code)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer  Accelerated filer

Edgar Filing: PROVIDENT FINANCIAL HOLDINGS INC - Form 10-Q

Non-accelerated filer [ ]

Smaller reporting company [ ]

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 April 30, 2013

Common stock, \$ 0.01 par value, per share

10,450,471 shares

---

PROVIDENT FINANCIAL HOLDINGS, INC.

Table of Contents

PART 1 - FINANCIAL INFORMATION

ITEM 1 - Financial Statements. The Unaudited Interim Condensed Consolidated Financial Statements of Provident Financial Holdings, Inc. filed as a part of the report are as follows:

	Page
Condensed Consolidated Statements of Financial Condition as of March 31, 2013 and June 30, 2012	<u>1</u>
Condensed Consolidated Statements of Operations for the Quarters and Nine Months Ended March 31, 2013 and 2012	<u>2</u>
Condensed Consolidated Statements of Comprehensive Income (Loss) for the Quarters and Nine Months Ended March 31, 2013 and 2012	<u>3</u>
Condensed Consolidated Statements of Stockholders' Equity for the Quarters and Nine Months Ended March 31, 2013 and 2012	<u>4</u>
Condensed Consolidated Statements of Cash Flows for the Nine Months Ended March 31, 2013 and 2012	<u>6</u>
Notes to Unaudited Interim Condensed Consolidated Financial Statements	<u>7</u>

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

General	<u>39</u>
Safe-Harbor Statement	<u>40</u>
Critical Accounting Policies	<u>41</u>
Executive Summary and Operating Strategy	<u>43</u>
Off-Balance Sheet Financing Arrangements and Contractual Obligations	<u>44</u>
Comparison of Financial Condition at March 31, 2013 and June 30, 2012	<u>44</u>
Comparison of Operating Results for the Quarters and Nine Months Ended March 31, 2013 and 2012	<u>46</u>
Asset Quality	<u>55</u>
Loan Volume Activities	<u>64</u>
Liquidity and Capital Resources	<u>65</u>
Commitments and Derivative Financial Instruments	<u>66</u>
Supplemental Information	<u>66</u>

ITEM 3 - Quantitative and Qualitative Disclosures about Market Risk 67

ITEM 4 - Controls and Procedures 68

PART II - OTHER INFORMATION

ITEM 1 - Legal Proceedings 69

ITEM 1A - Risk Factors 69

ITEM 2 - Unregistered Sales of Equity Securities and Use of Proceeds 69

ITEM 3 - Defaults Upon Senior Securities 70

ITEM 4 - Mine Safety Disclosures 70

ITEM 5 - Other Information 70

ITEM 6 - Exhibits 70



PROVIDENT FINANCIAL HOLDINGS, INC.  
Condensed Consolidated Statements of Financial Condition  
(Unaudited)  
In Thousands, Except Share Information

	March 31, 2013	June 30, 2012
<b>Assets</b>		
Cash and cash equivalents	\$220,322	\$145,136
Investment securities – available for sale, at fair value	20,578	22,898
Loans held for investment, net of allowance for loan losses of \$16,826 and \$21,483, respectively	754,441	796,836
Loans held for sale, at fair value	169,571	231,639
Accrued interest receivable	2,963	3,277
Real estate owned, net	2,227	5,489
Federal Home Loan Bank (“FHLB”) – San Francisco stock	17,227	22,255
Premises and equipment, net	6,747	6,600
Prepaid expenses and other assets	27,407	26,787
<b>Total assets</b>	<b>\$1,221,483</b>	<b>\$1,260,917</b>
<b>Liabilities and Stockholders’ Equity</b>		
<b>Liabilities:</b>		
Non interest-bearing deposits	\$55,927	\$55,688
Interest-bearing deposits	879,173	905,723
<b>Total deposits</b>	<b>935,100</b>	<b>961,411</b>
<b>Borrowings</b>	<b>106,505</b>	<b>126,546</b>
Accounts payable, accrued interest and other liabilities	22,409	28,183
<b>Total liabilities</b>	<b>1,064,014</b>	<b>1,116,140</b>
<b>Commitments and Contingencies</b>		
<b>Stockholders’ equity:</b>		
Preferred stock, \$.01 par value (2,000,000 shares authorized; none issued and outstanding)	—	—
Common stock, \$.01 par value (40,000,000 shares authorized; 17,661,865 and 17,619,865 shares issued; 10,450,471 and 10,856,027 shares outstanding, respectively)	177	176
Additional paid-in capital	87,547	86,758
Retained earnings	175,284	156,560
Treasury stock at cost (7,211,394 and 6,763,838 shares, respectively)	(106,167)	(99,343)
Accumulated other comprehensive income, net of tax	628	626
<b>Total stockholders’ equity</b>	<b>157,469</b>	<b>144,777</b>
<b>Total liabilities and stockholders’ equity</b>	<b>\$1,221,483</b>	<b>\$1,260,917</b>

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

1

---

PROVIDENT FINANCIAL HOLDINGS, INC.  
Condensed Consolidated Statements of Operations  
(Unaudited)

In Thousands, Except Per Share Information

	Quarter Ended March 31,		Nine Months Ended March 31,	
	2013	2012	2013	2012
Interest income:				
Loans receivable, net	\$10,290	\$12,205	\$33,209	\$38,215
Investment securities	105	126	329	407
FHLB – San Francisco stock	116	30	280	68
Interest-earning deposits	101	93	258	227
Total interest income	10,612	12,454	34,076	38,917
Interest expense:				
Checking and money market deposits	97	147	307	523
Savings deposits	142	184	434	600
Time deposits	1,326	1,683	4,299	5,413
Borrowings	981	1,464	3,262	5,101
Total interest expense	2,546	3,478	8,302	11,637
Net interest income, before (recovery) provision for loan losses	8,066	8,976	25,774	27,280
(Recovery) provision for loan losses	(517	) 1,622	39	3,726
Net interest income, after (recovery) provision for loan losses	8,583	7,354	25,735	23,554
Non-interest income:				
Loan servicing and other fees	203	256	923	564
Gain on sale of loans, net	13,835	10,138	52,308	23,311
Deposit account fees	605	609	1,845	1,838
Gain (loss) on sale and operations of real estate owned acquired in the settlement of loans, net	218	(215	) 886	(106
Card and processing fees	308	306	944	946
Other	219	215	676	617
Total non-interest income	15,388	11,309	57,582	27,170
Non-interest expense:				
Salaries and employee benefits	11,519	10,349	37,375	27,583
Premises and occupancy	1,090	915	3,340	2,743
Equipment	482	357	1,345	1,081
Professional expenses	370	540	1,176	1,428
Sales and marketing expenses	513	315	1,349	692
Deposit insurance premiums and regulatory assessments	241	364	883	996
Other	1,514	1,757	4,356	4,851
Total non-interest expense	15,729	14,597	49,824	39,374
Income before income taxes	8,242	4,066	33,493	11,350
Provision for income taxes	3,372	1,734	12,953	4,846

Edgar Filing: PROVIDENT FINANCIAL HOLDINGS INC - Form 10-Q

Net income	\$4,870	\$2,332	\$20,540	\$6,504
Basic earnings per share	\$0.46	\$0.21	\$1.93	\$0.57
Diluted earnings per share	\$0.45	\$0.21	\$1.89	\$0.57
Cash dividends per share	\$0.07	\$0.04	\$0.17	\$0.10

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

2

---



PROVIDENT FINANCIAL HOLDINGS, INC.  
 Condensed Consolidated Statements of Comprehensive Income (Loss)  
 (Unaudited)  
 In Thousands

For the Quarters and Nine Months Ended March 31, 2013 and 2012

	For the Quarters Ended		For the Nine Months Ended	
	March 31,		March 31,	
	2013	2012	2013	2012
Net income	\$4,870	\$2,332	\$20,540	\$6,504
Change in unrealized holding gain (loss) on securities available for sale	50	103	3	(43 )
Reclassification of (gains) losses to net income	—	—	—	—
Other comprehensive income (loss), before income tax (benefit) expense	50	103	3	(43 )
Income tax (benefit) expense	(21	)(43	)(1	)18
Other comprehensive income (loss)	29	60	2	(25 )
Total comprehensive income	\$4,899	\$2,392	\$20,542	\$6,479

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

PROVIDENT FINANCIAL HOLDINGS, INC.  
Condensed Consolidated Statements of Stockholders' Equity  
(Unaudited)  
In Thousands, Except Share Information

For the Quarters Ended March 31, 2013 and 2012

	Common Stock		Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income, Net of Tax		Total
	Shares	Amount						
Balance at December 31, 2012	10,597,005	\$176	\$87,278	\$171,155	\$(103,352)	\$599	\$155,856	
Net income				4,870			4,870	
Other comprehensive income						29	29	
Purchase of treasury stock	(160,534 )				(2,815 )		(2,815 )	
Exercise of stock options	14,000	1	98				99	
Amortization of restricted stock			53				53	
Stock options expense			104				104	
Tax benefit from non-qualified equity compensation			14				14	
Cash dividends				(741 )			(741 )	
Balance at March 31, 2013	10,450,471	\$177	\$87,547	\$175,284	\$(106,167)	\$628	\$157,469	

	Common Stock		Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income, Net of Tax		Total
	Shares	Amount						
Balance at December 31, 2011	11,175,761	\$176	\$86,265	\$150,808	\$(95,757)	\$553	\$142,045	
Net income				2,332			2,332	
Other comprehensive income						60	60	
Purchase of treasury stock <sup>(1)</sup>	(181,989 )				(1,851 )		(1,851 )	
Exercise of stock options	9,000		72				72	
Distribution of restricted stock	11,200						—	
Amortization of restricted stock			138				138	
Stock options expense			146				146	
Tax benefit from non-qualified equity compensation			—				—	
Cash dividends				(448 )			(448 )	
Balance at March 31, 2012	11,013,972	\$176	\$86,621	\$152,692	\$(97,608)	\$613	\$142,494	

<sup>(1)</sup> Includes the repurchase of 1,256 shares of distributed restricted stock.

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

4

---

PROVIDENT FINANCIAL HOLDINGS, INC.  
Condensed Consolidated Statements of Stockholders' Equity  
(Unaudited)  
In Thousands, Except Share Information

For the Nine Months Ended March 31, 2013 and 2012

	Common Stock		Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income, Net of Tax		Total
	Shares	Amount				Income,	Total	
Balance at June 30, 2012	10,856,027	\$ 176	\$ 86,758	\$ 156,560	\$(99,343)	\$ 626	\$ 144,777	
Net income				20,540			20,540	
Other comprehensive income						2	2	
Purchase of treasury stock	(448,356)				(6,811)		(6,811)	
Exercise of stock options	42,000	1	295				296	
Distribution of restricted stock	800						—	
Amortization of restricted stock			158				158	
Forfeitures of restricted stock			13		(13)		—	
Stock options expense			238				238	
Tax benefit from non-qualified equity compensation			85				85	
Cash dividends				(1,816)			(1,816)	
Balance at March 31, 2013	10,450,471	\$ 177	\$ 87,547	\$ 175,284	\$(106,167)	\$ 628	\$ 157,469	

	Common Stock		Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss), Net of Tax		Total
	Shares	Amount				Income (Loss),	Total	
Balance at June 30, 2011	11,418,654	\$ 176	\$ 85,432	\$ 147,322	\$(92,650)	\$ 638	\$ 140,918	
Net income				6,504			6,504	
Other comprehensive loss						(25)	(25)	
Purchase of treasury stock <sup>(1)</sup>	(525,182)				(4,958)		(4,958)	
Exercise of stock options	9,000		72				72	
Distribution of restricted stock	111,500						—	
Amortization of restricted stock			555				555	
Forfeitures of restricted stock			—		—		—	
Stock options expense			562				562	
Tax benefit from non-qualified equity compensation			—				—	
Cash dividends				(1,134)			(1,134)	

Balance at March 31, 2012	11,013,972	\$176	\$86,621	\$152,692	\$(97,608)	\$613	\$142,494
---------------------------	------------	-------	----------	-----------	------------	-------	-----------

(1) Includes the repurchase of 12,779 shares of distributed restricted stock.

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

5

---

PROVIDENT FINANCIAL HOLDINGS, INC.  
Condensed Consolidated Statements of Cash Flows  
(Unaudited - In Thousands)

	Nine Months Ended March 31,	
	2013	2012
Cash flows from operating activities:		
Net income	\$20,540	\$6,504
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,261	1,122
Provision for loan losses	39	3,726
Recovery of losses on real estate owned	(118)	(580)
Gain on sale of loans, net	(52,308)	(23,311)
(Gain) loss on sale of real estate owned, net	(1,067)	12
Stock-based compensation	396	1,117
Increase in current and deferred income taxes	(1,277)	(292)
Tax benefit from non-qualified equity compensation	(85)	—
Increase in cash surrender value of the bank owned life insurance	(141)	(142)
Increase in accounts payable and other liabilities	1,613	2,220
Decrease in prepaid expenses and other assets	1,005	906
Loans originated for sale	(2,659,372)	(1,780,636)
Proceeds from sale of loans	2,766,054	1,811,710
Net cash provided by operating activities	76,540	22,356
Cash flows from investing activities:		
Decrease in loans held for investment, net	34,871	39,101
Principal payments from investment securities available for sale	2,329	2,671
Redemption of FHLB – San Francisco stock	5,028	3,566
Proceeds from sale of real estate owned	11,910	15,769
Purchase of premises and equipment	(894)	(1,984)
Net cash provided by investing activities	53,244	59,123
Cash flows from financing activities:		
(Decrease) increase in deposits, net	(26,311)	29,036
Repayments of long-term borrowings	(20,041)	(60,038)
Exercise of stock options	296	72
Tax benefit from non-qualified equity compensation	85	—
Cash dividends	(1,816)	(1,134)
Treasury stock purchases	(6,811)	(4,958)
Net cash used for financing activities	(54,598)	(37,022)
Net increase in cash and cash equivalents	75,186	44,457
Cash and cash equivalents at beginning of period	145,136	142,550
Cash and cash equivalents at end of period	\$220,322	\$187,007
Supplemental information:		
Cash paid for interest	\$8,442	\$11,987
Cash paid for income taxes	\$14,145	\$5,110
Transfer of loans held for sale to held for investment	\$3,527	\$1,545

Real estate acquired in the settlement of loans	\$9,250	\$19,327
---	---------	----------

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

6

---

PROVIDENT FINANCIAL HOLDINGS, INC.

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2013

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 statements of financial condition at June 30, 2012 are 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 ("GAAP") 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, 2012. The results of operations for the quarter and nine months ended March 31, 2013 are not necessarily indicative of results that may be expected for the entire fiscal year ending June 30, 2013.

Note 2: Accounting Standard Updates ("ASU")

ASU 2011-11:

In December 2011, the Financial Accounting Standards Board ("FASB") issued ASU 2011-11, "Balance Sheet (Topic 210) - Disclosures about Offsetting Assets and Liabilities." The amendments in this ASU will enhance disclosures required by GAAP by requiring improved information about financial instruments and derivative instruments that are either (1) offset in accordance with either Section 210-20-45 or Section 815-10-45 or (2) subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset in accordance with either Section 210-20-45 or Section 815-10-45. This information will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements on an entity's financial position, including the effect or potential effect of rights of setoff associated with certain financial instruments and derivative instruments in the scope of this ASU. An entity is required to apply the amendments for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. An entity should provide the disclosures required by those amendments retrospectively for all comparative periods presented. The Corporation has not determined the impact of this ASU on the Corporation's consolidated financial statements.

ASU 2013-01:

In January 2013, the FASB issued ASU 2013-01, "Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities." This ASU amends ASU 2011-11 to clarify that the scope applies to derivatives, repurchase and reverse repurchase agreements, and securities borrowing and lending transactions that are either offset in accordance with Section 210-20-45 or Section 815-10-45 or subject to master netting or similar arrangements. Other types of financial assets and liabilities subject to master netting or similar arrangements are not subject to the disclosure requirements in ASU 2011-11. The amendments are effective for fiscal years beginning on or after January 1, 2013, and interim periods within those annual periods. The Corporation has not determined the impact of this ASU on the Corporation's consolidated financial statements.

ASU 2013-02:



In February 2013, the FASB issued ASU 2013-02, "Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. " This ASU requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. The amendments are effective prospectively for reporting periods beginning after December 15, 2012. The amendments did not have a material impact on the Corporation's consolidated financial statements.

## Note 3: 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.

As of March 31, 2013 and 2012, there were outstanding options to purchase 1,124,500 shares and 1,178,000 shares of the Corporation’s common stock, respectively, of which 586,500 shares and 584,000 shares, respectively, were excluded from the diluted EPS computation as their effect was anti-dilutive.

The following table provides the basic and diluted EPS computations for the quarters and nine months ended March 31, 2013 and 2012, respectively.

(In Thousands, Except Earnings Per Share)	For the Quarter Ended March 31,		For the Nine Months Ended March 31,	
	2013	2012	2013	2012
Numerator:				
Net income – numerator for basic earnings per share and diluted earnings per share - available to common stockholders	\$4,870	\$2,332	\$20,540	\$6,504
Denominator:				
Denominator for basic earnings per share: Weighted-average shares	10,549	11,130	10,668	11,318
Effect of dilutive securities	259	64	218	47
Denominator for diluted earnings per share: Adjusted weighted-average shares and assumed conversions	10,808	11,194	10,886	11,365
Basic earnings per share	\$0.46	\$0.21	\$1.93	\$0.57
Diluted earnings per share	\$0.45	\$0.21	\$1.89	\$0.57

## 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 consolidated statements of operations and total assets for the Corporation’s operating segments for the quarters ended March 31, 2013 and 2012, respectively (in thousands).

	For the Quarter Ended March 31, 2013		
	Provident Bank	Provident Bank Mortgage	Consolidated Totals
Net interest income, before (recovery) provision for loan losses	\$6,911	\$1,155	\$8,066
(Recovery) provision for loan losses	(533)	) 16	(517)
Net interest income, after (recovery) provision for loan losses	7,444	1,139	8,583
Non-interest income:			
Loan servicing and other fees <sup>(1)</sup>	163	40	203
(Loss) gain on sale of loans, net <sup>(2)</sup>	(77)	) 13,912	13,835
Deposit account fees	605	—	605
Gain on sale and operations of real estate owned acquired in the settlement of loans, net	11	207	218
Card and processing fees	308	—	308
Other	219	—	219
Total non-interest income	1,229	14,159	15,388
Non-interest expense:			
Salaries and employee benefits	4,178	7,341	11,519
Premises and occupancy	673	417	1,090
Operating and administrative expenses	1,149	1,971	3,120
Total non-interest expense	6,000	9,729	15,729
Income before income taxes	2,673	5,569	8,242
Provision for income taxes	1,030	2,342	3,372
Net income	\$1,643	\$3,227	\$4,870
Total assets, end of period	\$1,054,837	\$166,646	\$1,221,483

(1) Includes an inter-company charge of \$11 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 \$21 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 March 31, 2012		
	Provident Bank	Provident Bank Mortgage	Consolidated Totals
Net interest income, before provision (recovery) for loan losses	\$7,505	\$1,471	\$8,976
Provision (recovery) for loan losses	1,763	(141)	) 1,622
Net interest income after provision (recovery) for loan losses	5,742	1,612	7,354
Non-interest income:			
Loan servicing and other fees <sup>(1)</sup>	196	60	256
(Loss) gain on sale of loans, net <sup>(2)</sup>	(412)	) 10,550	10,138
Deposit account fees	609	—	609
Loss on sale and operations of real estate owned acquired in the settlement of loans, net	(215)	) —	(215 )
Card and processing fees	306	—	306
Other	215	—	215
Total non-interest income	699	10,610	11,309
Non-interest expense:			
Salaries and employee benefits	4,155	6,194	10,349
Premises and occupancy	557	358	915
Operating and administrative expenses	1,456	1,877	3,333
Total non-interest expense	6,168	8,429	14,597
Income before income taxes	273	3,793	4,066
Provision for income taxes	139	1,595	1,734
Net income	\$134	\$2,198	\$2,332
Total assets, end of period	\$1,105,848	\$180,290	\$1,286,138

(1) Includes an inter-company charge of \$1 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 \$22 credited to PBM by the Bank during the period to compensate PBM for servicing fees on loans sold on a servicing retained basis.

The following tables set forth condensed consolidated statements of operations and total assets for the Corporation's operating segments for the nine months ended March 31, 2013 and 2012, respectively (in thousands).

	For the Nine Months Ended March 31, 2013		
	Provident Bank	Provident Bank Mortgage	Consolidated Totals
Net interest income, before provision (recovery) for loan losses	\$21,388	\$4,386	\$25,774
Provision (recovery) for loan losses	287	(248)	) 39
Net interest income, after provision (recovery) for loan losses	21,101	4,634	25,735
Non-interest income:			
Loan servicing and other fees <sup>(1)</sup>	813	110	923
(Loss) gain on sale of loans, net <sup>(2)</sup>	(85)	) 52,393	52,308
Deposit account fees	1,845	—	1,845
Gain on sale and operations of real estate owned acquired in the settlement of loans, net	672	214	886
Card and processing fees	944	—	944
Other	676	—	676
Total non-interest income	4,865	52,717	57,582
Non-interest expense:			
Salaries and employee benefits	13,174	24,201	37,375
Premises and occupancy	2,081	1,259	3,340
Operating and administrative expenses	3,429	5,680	9,109
Total non-interest expense	18,684	31,140	49,824
Income before taxes	7,282	26,211	33,493
Provision for income taxes	1,932	11,021	12,953
Net income	\$5,350	\$15,190	\$20,540
Total assets, end of period	\$1,054,837	\$166,646	\$1,221,483

(1) Includes an inter-company charge of \$38 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 \$87 credited to PBM by the Bank during the period to compensate PBM for servicing fees on loans sold on a servicing retained basis.

	For the Nine Months Ended March 31, 2012		
	Provident Bank	Provident Bank Mortgage	Consolidated Totals
Net interest income, before provision for loan losses	\$22,703	\$4,577	\$27,280
Provision for loan losses	3,554	172	3,726
Net interest income, after provision for loan losses	19,149	4,405	23,554
Non-interest income:			
Loan servicing and other fees <sup>(1)</sup>	475	89	564
(Loss) gain on sale of loans, net <sup>(2)</sup>	(1,031)	)24,342	23,311
Deposit account fees	1,838	—	1,838
(Loss) gain on sale and operations of real estate owned acquired in the settlement of loans, net	(178)	)72	(106 )
Card and processing fees	946	—	946
Other	617	—	617
Total non-interest income	2,667	24,503	27,170
Non-interest expense:			
Salaries and employee benefits	11,608	15,975	27,583
Premises and occupancy	1,830	913	2,743
Operating and administrative expenses	3,813	5,235	9,048
Total non-interest expense	17,251	22,123	39,374
Income before taxes	4,565	6,785	11,350
Provision for income taxes	1,993	2,853	4,846
Net income	\$2,572	\$3,932	\$6,504
Total assets, end of period	\$1,105,848	\$180,290	\$1,286,138

(1) Includes an inter-company charge of \$1 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 \$81 credited to PBM by the Bank during the period to compensate PBM for servicing fees on loans sold on a servicing retained basis.

#### Note 5: Investment Securities

The amortized cost and estimated fair value of investment securities as of March 31, 2013 and June 30, 2012 were as follows:

March 31, 2013	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value	Carrying Value
(In Thousands)					
Available for sale					
U.S. government agency MBS <sup>(1)</sup>	\$10,870	\$517	\$—	\$11,387	\$11,387
U.S. government sponsored enterprise MBS	7,644	450	—	8,094	8,094
Private issue CMO <sup>(2)</sup>	1,104	—	(7)	)1,097	1,097
Total investment securities	\$19,618	\$967	\$(7)	) \$20,578	\$20,578

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

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

In the third quarter of fiscal 2013 and 2012, the Corporation received MBS principal payments of \$662,000 and \$688,000, respectively, and did not purchase or sell investment securities. For the first nine months of fiscal 2013 and 2012, the Corporation received MBS principal payments of \$2.3 million and \$2.7 million, respectively, and did not purchase or sell investment securities.

The Corporation evaluates individual investment securities quarterly for other-than-temporary declines in market value. As of March 31, 2013 and June 30, 2012, the gross unrealized holding losses relate to one adjustable rate private issue CMO which has been in an unrealized loss position for more than 12 months. The unrealized holding losses were primarily the result of perceived credit and liquidity concerns of privately issued CMO investment securities. Based on the nature of the investments, management concluded that such unrealized losses were not other than temporary as of March 31, 2013 and June 30, 2012. The Corporation does not believe that there are any other-than-temporary impairments at March 31, 2013 and 2012; therefore, no impairment losses have been recorded for the quarters and nine months ended March 31, 2013 and 2012. The Corporation intends and has the ability to hold these CMO investment securities until maturity and will not likely be required to sell the CMO investment securities before realizing a full recovery.

Contractual maturities of investment securities as of March 31, 2013 and June 30, 2012 were as follows:

	March 31, 2013		June 30, 2012	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Available for sale				
Due in one year or less	\$—	\$—	\$—	\$—
Due after one through five years	—	—	—	—
Due after five through ten years	—	—	—	—
Due after ten years	19,618	20,578	21,947	22,898
Total investment securities	\$19,618	\$20,578	\$21,947	\$22,898



## Note 6: Loans Held for Investment

Loans held for investment consisted of the following:

	March 31, 2013	June 30, 2012
Mortgage loans:		
Single-family	\$415,616	\$439,024
Multi-family	256,640	278,057
Commercial real estate	94,779	95,302
Other	—	755
Commercial business loans	1,859	2,580
Consumer loans	448	506
Total loans held for investment, gross	769,342	816,224
Deferred loan costs, net	1,925	2,095
Allowance for loan losses	(16,826)	(21,483)
Total loans held for investment, net	\$754,441	\$796,836

As of March 31, 2013, the Corporation had \$34.9 million in mortgage loans that are subject to negative amortization, consisting of \$25.4 million in multi-family loans, \$5.6 million in single-family loans and \$3.9 million in commercial real estate loans. This compares to \$40.2 million of negative amortization mortgage loans at June 30, 2012, consisting of \$26.7 million in multi-family loans, \$6.5 million in single-family loans and \$7.0 million in commercial real estate loans. During the third quarter of fiscal 2013 and 2012, no loan interest income was added to the negative amortization loan balance. For the first nine months of fiscal 2013, no loan interest income was added to the negative amortization loan balance, as compared to \$13,000 of loan interest income in the comparable period of fiscal 2012. Negative amortization involves a greater risk to the Corporation because the loan principal balance may increase by a range of 110% to 115% of the original loan amount during the period of negative amortization and because the loan payment may increase beyond the means of the borrower when loan principal amortization is required. Also, the Corporation has originated interest-only ARM loans, which typically have a fixed interest rate for the first two to five years coupled with an interest only payment, followed by a periodic adjustable rate and a fully amortizing loan payment. As of March 31, 2013 and June 30, 2012, the interest-only ARM loans were \$198.8 million and \$214.2 million, or 25.8% and 26.2% of loans held for investment, respectively.

The following table sets forth information at March 31, 2013 regarding the dollar amount of loans held for investment that are contractually repricing during the periods indicated, segregated between adjustable rate loans and fixed rate loans. Fixed-rate loans comprised 5% of loans held for investment at March 31, 2013, unchanged from June 30, 2012. Adjustable rate loans having no stated repricing dates that reprice when the index they are tied to reprices (e.g. prime rate index) and checking account overdrafts are reported as repricing within one year. The table does not include any estimate of prepayments which may cause the Corporation's actual repricing experience to differ materially from that shown.

(In Thousands)	Adjustable Rate				Fixed Rate	Total
	Within One Year	After One Year Through 3 Years	After 3 Years Through 5 Years	After 5 Years Through 10 Years		
Mortgage loans:						
Single-family	\$376,586	\$15,980	\$7,665	\$1,828	\$13,557	\$415,616
Multi-family	153,313	11,460	73,486	6,811	11,570	256,640
Commercial real estate	47,063	2,445	29,937	781	14,553	94,779
Commercial business loans	884	—	—	—	975	1,859
Consumer loans	430	—	—	—	18	448
Total loans held for investment, gross	\$578,276	\$29,885	\$111,088	\$9,420	\$40,673	\$769,342

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 collectability may not be assured, and determination of the realizable value of the collateral securing the loans. Provisions for loan losses are charged against operations on a quarterly basis, as necessary, to maintain the allowance at appropriate levels. Although management believes it uses the best information available to make such determinations, there can be no assurance that regulators, in reviewing the Corporation's loans held for investment, will not request the Corporation to significantly increase its allowance for loan losses. Future adjustments to the allowance for loan losses may be necessary and results of operations could be significantly and adversely affected as a result of economic, operating, regulatory, and other conditions beyond the Corporation's control.

In compliance with the regulatory reporting requirements of the Office of the Comptroller of the Currency ("OCC"), the Bank's primary federal regulator, non-performing loans are charged-off to their fair market values in the period the loans, or portion thereof, are deemed uncollectible, generally after the loan becomes 150 days delinquent for real estate secured first trust deed loans and 120 days delinquent for commercial business or real estate secured second trust deed loans. For loans that were modified from their original terms, were re-underwritten and identified in the Corporation's asset quality reports as troubled debt restructurings ("restructured loans"), the charge-off occurs when the loan becomes 90 days delinquent; and where borrowers file bankruptcy, the charge-off occurs when the loan becomes 60 days delinquent. The amount of the charge-off is determined by comparing the loan balance to the estimated fair value of the underlying collateral, less disposition costs, with the loan balance in excess of the estimated fair value charged-off against the allowance for loan losses. The allowance for loan losses for non-performing loans is determined by applying Accounting Standards Codification ("ASC") 310, "Receivables,". For restructured loans that are less than 90 days delinquent, the allowance for loan losses are segregated into (a) individually evaluated allowances for those loans with applicable discounted cash flow calculations or (b) collectively evaluated allowances based on the aggregated pooling method. For non-performing loans less than 60 days delinquent where the borrower has filed bankruptcy, the collectively evaluated allowances are assigned based on the aggregated pooling method.

The following tables summarize the Corporation's allowance for loan losses at March 31, 2013 and June 30, 2012:

(In Thousands)	March 31, 2013	June 30, 2012
Collectively evaluated for impairment:		
Mortgage loans:		
Single-family	\$11,319	\$15,189
Multi-family	3,834	3,524
Commercial real estate	1,325	1,810
Other	—	7
Commercial business loans	96	169
Consumer loans	12	13
Total collectively evaluated allowance	16,586	20,712
Individually evaluated for impairment:		
Mortgage loans:		
Single-family	233	744
Multi-family	—	27
Commercial business loans	7	—
Total individually evaluated allowance	240	771
Total loan loss allowance	\$16,826	\$21,483

The following table is provided to disclose additional details on the Corporation's allowance for loan losses (dollars in thousands):

(Dollars in Thousands)	For the Quarter Ended March 31,		For the Nine Months Ended March 31,		
	2013	2012	2013	2012	
Allowance at beginning of period	\$18,530	\$26,901	\$21,483	\$30,482	
(Recovery) provision for loan losses	(517	) 1,622	39	3,726	
Recoveries:					
Mortgage loans:					
Single-family	374	33	537	337	
Construction	—	28	—	28	
Consumer loans	—	—	2	—	
Total recoveries	374	61	539	365	
Charge-offs:					
Mortgage loans:					
Single-family	(1,139	) (3,081	) (4,810	) (9,043	)
Multi-family	—	(534	) —	(534	)
Commercial real estate	(260	) (49	) (260	) (49	)
Other	(159	) (400	) (159	) (400	)
Commercial business loans	—	(256	) —	(256	)
Consumer loans	(3	) (4	) (6	) (31	)
Total charge-offs	(1,561	) (4,324	) (5,235	) (10,313	)
Net charge-offs	(1,187	) (4,263	) (4,696	) (9,948	)
Balance at end of period	\$16,826	\$24,260	\$16,826	\$24,260	
Allowance for loan losses as a percentage of gross loans held for investment	2.18	%2.86	%2.18	%2.86	%
Net charge-offs as a percentage of average loans outstanding during the period (annualized)	0.49	%1.64	%0.62	%1.23	%
Allowance for loan losses as a percentage of gross non-performing loans at the end of the period	73.01	%57.34	%73.01	%57.34	%

The following tables identify the Corporation's total recorded investment in non-performing loans by type, net of allowance for loan losses at March 31, 2013 and June 30, 2012:

(In Thousands)	March 31, 2013		
	Recorded Investment	Allowance for Loan Losses <sup>(1)</sup>	Net Investment
Mortgage loans:			
Single-family:			
With a related allowance	\$8,770	\$(2,044)	)\$6,726
Without a related allowance <sup>(2)</sup>	8,428	—	8,428
Total single-family loans	17,198	(2,044)	)15,154
Multi-family:			
With a related allowance	2,211	(552)	)1,659
Total multi-family loans	2,211	(552)	)1,659
Commercial real estate:			
With a related allowance	1,424	(214)	)1,210
Without a related allowance <sup>(2)</sup>	1,975	—	1,975
Total commercial real estate loans	3,399	(214)	)3,185
Commercial business loans:			
With a related allowance	237	(40)	)197
Total commercial business loans	237	(40)	)197
Total non-performing loans	\$23,045	\$(2,850)	)\$20,195

<sup>(1)</sup> Consists of collectively and individually evaluated allowances, specifically assigned to the individual loan.

<sup>(2)</sup> There was no related allowance for loan losses because the loans have been charged-off to their fair value or the fair value of the collateral is higher than the loan balance.

(In Thousands)	June 30, 2012		
	Recorded Investment	Allowance for Loan Losses <sup>(1)</sup>	Net Investment
Mortgage loans:			
Single-family:			
With a related allowance	\$26,214	\$(5,476)	)\$20,738
Without a related allowance <sup>(2)</sup>	8,352	—	8,352
Total single-family loans	34,566	(5,476)	)29,090
Multi-family:			
With a related allowance	1,806	(349)	)1,457
Total multi-family loans	1,806	(349)	)1,457
Commercial real estate:			
With a related allowance	3,820	(573)	)3,247
Total commercial real estate loans	3,820	(573)	)3,247
Other:			
Without a related allowance <sup>(2)</sup>	522	—	522
Total other loans	522	—	522
Commercial business loans:			
With a related allowance	246	(74)	)172
Total commercial business loans	246	(74)	)172
Total non-performing loans	\$40,960	\$(6,472)	)\$34,488

<sup>(1)</sup> Consists of collectively and individually evaluated allowances, specifically assigned to the individual loan.

<sup>(2)</sup> There was no related allowance for loan losses because the loans have been charged-off to their fair value or the fair value of the collateral is higher than the loan balance.

At March 31, 2013 and June 30, 2012, there were no commitments to lend additional funds to those borrowers whose loans were classified as non-performing.

The following table describes the aging analysis (length of time on non-performing status) of non-performing loans, net of allowance for loan losses or charge offs, as of March 31, 2013:

(In Thousands)	3 Months or Less	Over 3 to 6 Months	Over 6 to 12 Months	Over 12 Months	Total
Mortgage loans:					
Single-family	\$1,811	\$3,650	\$3,094	\$6,599	\$15,154
Multi-family	383	—	900	376	1,659
Commercial real estate	—	213	2,493	479	3,185
Commercial business loans	28	—	—	169	197
Total	\$2,222	\$3,863	\$6,487	\$7,623	\$20,195

For the quarters ended March 31, 2013 and 2012, the Corporation's average investment in non-performing loans was \$20.8 million and \$33.1 million, respectively. The Corporation records payments on non-performing loans utilizing

the cash basis or cost recovery method of accounting during the periods when the loans are on non-performing status. For the quarters ended March

19

---

31, 2013 and 2012, interest income of \$1.4 million and \$1.7 million, respectively, was recognized, based on cash receipts from loan payments on non-performing loans. Foregone interest income, which would have been recorded had the non-performing loans been current in accordance with their original terms, amounted to \$258,000 and \$132,000 for the quarters ended March 31, 2013 and 2012, respectively, and was not included in the results of operations, of which \$142,000 and \$0, respectively, were collected and applied to the principal balances.

For the nine months ended March 31, 2013 and 2012, the Corporation's average investment in non-performing loans was \$25.4 million and \$35.1 million, respectively. For the nine months ended March 31, 2013 and 2012, interest income of \$4.4 million and \$4.8 million, respectively, was recognized, based on cash receipts from loan payments on non-performing loans. Foregone interest income amounted to \$762,000 and \$706,000 for the quarters ended March 31, 2013 and 2012, respectively, and was not included in the results of operations, of which \$400,000 and \$0, respectively, were collected and applied to the principal balances.

For the quarter ended March 31, 2013, there were no new loans that were modified from their original terms, re-underwritten or identified in the Corporation's asset quality reports as restructured loans. For the quarter ended March 31, 2012, six loans totaling \$3.1 million were re-underwritten and identified as restructured loans. During the quarter ended March 31, 2013 and 2012, one restructured loan with a balance of \$739,000 was in default within a 12-month period subsequent to their original restructuring and required an additional provision of \$260,000. Additionally, during the quarter ended March 31, 2013, there were no loans whose modification were extended beyond the initial maturity of the modification. For the quarter ended March 31, 2012, three loans totaling \$1.0 million had their modification extended beyond the initial maturity of the modification.

For the nine months ended March 31, 2013, there were no new loans that were modified from their original terms, re-underwritten or identified in the Corporation's asset quality reports as restructured loans. This compares to 22 loans for \$8.9 million that were re-underwritten and identified as restructured loans during the nine months ended March 31, 2012. During the nine months ended March 31, 2013, two restructured loans with a total balance of \$1.2 million was in default within a 12-month period subsequent to its original restructuring and required an additional provision of \$480,000. This compares to two restructured loans with a total balance of \$771,000 during the nine months ended March 31, 2012 that were in default within a 12-month period subsequent to their original restructuring and required an additional provision of \$200,000. Additionally, during the nine months ended March 31, 2013, there was one loan for \$131,000 whose modification was extended beyond the initial maturity of the modification. For the nine months ended March 31, 2012, eight loans for \$4.3 million had their modification extended beyond the initial maturity of the modification.

As of March 31, 2013, the net outstanding balance of the 31 restructured loans was \$13.3 million: three were classified in accordance with the Corporation's risk rating system as pass and remain on accrual status (\$1.5 million); two were classified as special mention and remain on accrual status (\$1.0 million); and 26 were classified as substandard (\$10.8 million total, with 25 of the 26 loans or \$8.0 million on non-accrual status). Substandard assets have one or more defined weaknesses and are characterized by the distinct possibility that the Corporation will sustain some loss if the deficiencies are not corrected. Assets that do not currently expose the Corporation to sufficient risk to warrant adverse classification but possess weaknesses are designated as special mention and are closely monitored by the Corporation. As of March 31, 2013, \$9.4 million, or 71 percent, of the restructured loans were current with respect to their payment status.

The Corporation upgrades restructured single-family loans to the pass category if the borrower has demonstrated satisfactory contractual payments for at least six consecutive months; 12 months for those loans that were restructured more than once; and if the borrower has demonstrated satisfactory contractual payments beyond 12 consecutive months, the loan is no longer categorized as a restructured loan for the United States Securities and Exchange Commission ("SEC") reporting purposes. In addition to the payment history described above, multi-family, commercial



real estate, construction and commercial business loans (which are sometimes referred to in this report as “preferred loans”) must also demonstrate a combination of the following characteristics to be upgraded: satisfactory cash flow, satisfactory guarantor support, and additional collateral support, among others.

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

The following table summarizes at the dates indicated the restructured loan balances, net of allowance for loan losses, by loan type and non-accrual versus accrual status:

(In Thousands)	March 31, 2013	June 30, 2012
Restructured loans on non-accrual status:		
Mortgage loans:		
Single-family	\$5,850	\$11,995
Multi-family	759	490
Commercial real estate	1,227	2,483
Other	—	522
Commercial business loans	163	165
Total	7,999	15,655
Restructured loans on accrual status:		
Mortgage loans:		
Single-family	2,575	6,148
Multi-family	2,755	3,266
Commercial business loans	—	33
Total	5,330	9,447
Total restructured loans	\$13,329	\$25,102

The following table shows the restructured loans by type, net of allowance for loan losses, at March 31, 2013 and June 30, 2012:

(In Thousands)	March 31, 2013		
	Recorded Investment	Allowance for Loan Losses <sup>(1)</sup>	Net Investment
Mortgage loans:			
Single-family:			
With a related allowance	\$3,500	\$(526)	)\$2,974
Without a related allowance <sup>(2)</sup>	5,451	—	5,451
Total single-family loans	8,951	(526)	)8,425
Multi-family:			
With a related allowance	1,012	(253)	)759
Without a related allowance <sup>(2)</sup>	2,755	—	2,755
Total multi-family loans	3,767	(253)	)3,514
Commercial real estate:			
With a related allowance	880	(132)	)748
Without a related allowance <sup>(2)</sup>	479	—	479
Total commercial real estate loans	1,359	(132)	)1,227
Commercial business loans:			
With a related allowance	187	(24)	)163
Total commercial business loans	187	(24)	)163
Total restructured loans	\$14,264	\$(935)	)\$13,329

<sup>(1)</sup> Consists of collectively and individually evaluated allowances, specifically assigned to the individual loan.

<sup>(2)</sup> There was no related allowance for loan losses because the loans have been charged-off to their fair value or the fair value of the collateral is higher than the loan balance.

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

<sup>(1)</sup> Consists of collectively and individually evaluated allowances, specifically assigned to the individual loan.

<sup>(2)</sup> There was no related allowance for loan losses because the loans have been charged-off to their fair value or the fair value of the collateral is higher than the loan balance.

During the quarter ended March 31, 2013, six properties were acquired in the settlement of loans, while eight previously foreclosed upon properties were sold. For the nine months ended March 31, 2013, twenty-two properties were acquired in the settlement of loans, while 36 previously foreclosed upon properties were sold. As of March 31, 2013, real estate owned was comprised of 10 properties with a net fair value of \$2.2 million, primarily located in Southern California. This compares to 24 real estate owned properties, primarily located in Southern California, with a net fair value of \$5.5 million at June 30, 2012. A new appraisal was obtained on each of the properties at the time of foreclosure and fair value was calculated by using the lower of the appraised value or the listing price of the property, net of disposition costs. Any initial loss was recorded as a charge to the allowance for loan losses before being transferred to real estate owned. Subsequently, if there is further deterioration in real estate values, specific real estate owned loss reserves are established and charged to the statement of operations. In addition, the Corporation records costs to carry real estate owned as real estate operating expenses as incurred.

#### Note 7: 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, loan sale commitments to third parties and option contracts. These instruments involve, to varying degrees, elements of credit and interest-rate risk in excess of the amount recognized in the accompanying Condensed Consolidated Statements of Financial Condition. The Corporation's exposure to credit loss, in the event of non-performance by the counterparty to these financial instruments, is represented by the contractual amount of these instruments. The

23

---

Corporation uses the same credit policies in entering into financial instruments with off-balance sheet risk as it does for on-balance sheet instruments. As of March 31, 2013 and June 30, 2012, the Corporation had commitments to extend credit (on loans to be held for investment and loans to be held for sale) of \$213.8 million and \$222.1 million, respectively.

The following table provides information at the dates indicated regarding undisbursed funds to borrowers on existing lines of credit with the Corporation as well as commitments to originate loans to be held for investment at the dates indicated below.

Commitments	March 31, 2013	June 30, 2012
(In Thousands)		
Undisbursed lines of credit – Mortgage loans	\$849	\$1,028
Undisbursed lines of credit – Commercial business loans	1,239	1,340
Undisbursed lines of credit – Consumer loans	779	863
Commitments to extend credit on loans to be held for investment	2,033	1,720
Total	\$4,900	\$4,951

In accordance with ASC 815, “Derivatives and Hedging,” 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, loan sale commitments, to be announced (“TBA”) MBS trades, put option contracts and call option contracts are recorded at fair value on the Condensed Consolidated Statements of Financial Condition. At March 31, 2013, \$3.5 million was included in other assets and \$795,000 was included in other liabilities; at June 30, 2012, \$4.0 million was included in other assets and \$1.3 million was included in 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 following table provides information regarding the allowance for loan losses for the undisbursed funds and commitments to extend credit on loans to be held for investment for the quarters and nine months ended March 31, 2013 and 2012.

(In Thousands)	For the Quarters Ended March 31,		For the Nine Months Ended March 31,	
	2013	2012	2013	2012
Balance, beginning of the period	\$63	\$72	\$66	\$94
Provision (recovery)	24	(1	) 21	(23
Balance, end of the period	\$87	\$71	\$87	\$71

The net impact of derivative financial instruments on the gain on sale of loans contained in the Condensed Consolidated Statements of Operations during the quarters ended March 31, 2013 and 2012 was as follows:

Derivative Financial Instruments (In Thousands)	For the Quarters Ended March 31,		For the Nine Months Ended March 31,	
	2013	2012	2013	2012
Commitments to extend credit on loans to be held for sale	\$181	\$288	\$(562	)\$1,768
	(463	)2,056	521	(441

Mandatory loan sale commitments and TBA MBS

trades

Option contracts	(51	)—	(492	)(289	)
Total	\$(333	)\$2,344	\$(533	)\$1,038	)

24

---

The outstanding derivative financial instruments at the dates indicated were as follows:

Derivative Financial Instruments (In Thousands)	March 31, 2013		June 30, 2012	
	Amount	Fair Value	Amount	Fair Value
Commitments to extend credit on loans to be held for sale <sup>(1)</sup>	\$211,754	\$3,419	\$220,357	\$3,981
Best efforts loan sale commitments	(32,211)	)—	(30,498)	)—
Mandatory loan sale commitments and TBA MBS trades	(326,274)	) (795)	(408,636)	) (1,316)
Option contracts	(20,000)	) 72	(15,000)	) 36
Total	\$(166,731)	) \$2,696	\$(233,777)	) \$2,701

<sup>(1)</sup> Net of 25.3% percent at March 31, 2013 and 33.8% percent at June 30, 2012 of commitments, which management has estimated may not fund.

#### Note 8: Income Taxes

ASC 740, "Income Taxes," requires the affirmative evaluation that it is more likely than not, based on the technical merits of a tax position, that an enterprise is entitled to economic benefits resulting from positions taken in income tax returns. If a tax position does not meet the more-likely-than-not recognition threshold, the benefit of that position is not recognized in the financial statements. Management has determined that there are no unrecognized tax benefits to be reported in the Corporation's financial statements.

ASC 740 requires that when determining the need for a valuation allowance against a deferred tax asset, management must assess both positive and negative evidence with regard to the realizability of the tax losses represented by that asset. To the extent available sources of taxable income are insufficient to absorb tax losses, a valuation allowance is necessary. Sources of taxable income for this analysis include prior years' tax returns, the expected reversals of taxable temporary differences between book and tax income, prudent and feasible tax-planning strategies, and future taxable income. The deferred tax asset related to the allowance will be realized when actual charge-offs are made against the allowance. Based on the availability of loss carry-backs and projected taxable income during the periods for which loss carry-forwards are available, management believes it is more likely than not the Corporation will realize the deferred tax asset. The Corporation continues to monitor the deferred tax asset on a quarterly basis for a valuation allowance. The future realization of these tax benefits primarily hinges on adequate future earnings to utilize the tax benefit. Prospective earnings or losses, tax law changes or capital changes could prompt the Corporation to reevaluate the assumptions which may be used to establish a valuation allowance. As of March 31, 2013, the estimated deferred tax asset was \$9.1 million, a \$449,000 or five percent increase, from \$8.6 million at June 30, 2012. The Corporation maintains net deferred income tax assets for deductible temporary tax differences, such as loss reserves, deferred compensation, non-accrued interest and unrealized gains, the increase in the deferred tax asset resulted primarily from items related to non-accruing loans, fair value adjustments, loss reserve adjustments and FHLB stock dividend redemptions. The Corporation did not have any liabilities for uncertain tax positions or any known unrecognized tax benefit at March 31, 2013 or June 30, 2012, other than the \$825,000 tax liability at June 30, 2012 related to the prior period adjustment for fiscal 2009 established as a result of the Corporation's overstatement of certain income items for tax reporting purposes from 2006 through 2007, resulting in an overpayment of taxes and an understatement of the deferred tax liability.

The Corporation files income tax returns for the United States and state of California jurisdictions. The Internal Revenue Service has audited the Bank's income tax returns through 1996 and the California Franchise Tax Board has



audited the Bank through 1990. Also, the Internal Revenue Service completed a review of the Corporation's income tax returns for fiscal 2006 and 2007; and the California Franchise Tax Board completed a review of the Corporation's income tax returns for fiscal 2007 and 2008. The Corporation is under examination by the California Franchise Tax Board for the fiscal years 2009 and 2010. Tax years subsequent to fiscal 2009 remain subject to federal examination, while the California state tax returns for years subsequent to fiscal 2008 are subject to examination by state taxing authorities. The Corporation believes that we have adequately provided or paid income tax issues not yet resolved with federal and state.

On August 2, 2012, the Corporation received a notification from the tax authorities indicating the acceptance of the accounting method change attributable to the Corporation's overstatement of certain income items for tax reporting purposes from 2006 through 2007. As a result, the Corporation reversed the \$825,000 tax liability recorded in the quarter ended June 30, 2012, decreasing the provision for income taxes for the quarter ended September 30, 2012.

It is the Corporation's policy to record any penalties or interest charges arising from federal or state taxes as a component of income tax expense. For the quarters ended March 31, 2013 and 2012, there were no tax penalties or interest charges. For the nine months ended March 31, 2013, there were no tax penalties or interest charges; while for the nine months ended March 31, 2012, a total of \$14,000 in interest charges (related to the State of California tax return for fiscal 2007) was paid with no penalties.

#### Note 9: Fair Value of Financial Instruments

The Corporation adopted ASC 820, "Fair Value Measurements and Disclosures," and elected the fair value option pursuant to ASC 825, "Financial Instruments" on loans originated for sale by PBM. ASC 820 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. ASC 825 permits entities to elect to measure many financial instruments and certain other assets and liabilities at fair value on an instrument-by-instrument basis (the "Fair Value Option") at specified election dates. At each subsequent reporting date, an entity is required to report unrealized gains and losses on items in earnings for which the fair value option has been elected. The objective of the Fair Value Option is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions.

The following table describes the difference at the dates indicated between the aggregate fair value and the aggregate unpaid principal balance of loans held for sale at fair value.

(In Thousands)	Aggregate Fair Value	Aggregate Unpaid Principal Balance	Net Unrealized Gain
As of March 31, 2013:			
Loans held for sale, measured at fair value	\$ 169,571	\$ 164,000	\$ 5,571
As of June 30, 2012:			
Loans held for sale, measured at fair value	\$ 231,639	\$ 220,849	\$ 10,790

ASC 820-10-65-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly," provides additional guidance for estimating fair value in accordance with ASC 820, "Fair Value Measurements," when the volume and level of activity for the asset or liability have significantly decreased.

ASC 820 establishes a three-level valuation hierarchy that prioritizes inputs to valuation techniques used in fair value calculations. The three levels of inputs are defined as follows:

Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities that the Corporation has the ability to access at the measurement date.

Level 2 - Observable inputs other than Level 1 such as: quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated to observable market data for substantially the full term of the asset or liability.

Level 3 -

Unobservable inputs for the asset or liability that use significant assumptions, including assumptions of risks. These unobservable assumptions reflect the Corporation's estimate of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include the use of pricing models, discounted cash flow models and similar techniques.

ASC 820 requires the Corporation to maximize the use of observable inputs and minimize the use of unobservable inputs. If a financial instrument uses inputs that fall in different levels of the hierarchy, the instrument will be categorized based upon the lowest level of input that is significant to the fair value calculation.

The Corporation's financial assets and liabilities measured at fair value on a recurring basis consist of investment securities, loans held for sale at fair value, interest-only strips and derivative financial instruments; while non-performing loans, mortgage servicing assets ("MSA") and real estate owned are measured at fair value on a nonrecurring basis.

Investment securities are primarily comprised of U.S. government agency MBS, U.S. government sponsored enterprise MBS and private issue CMO. The Corporation utilizes unadjusted quoted prices in active markets for identical securities for its fair value measurement of debt securities, quoted prices in active and less than active markets for similar securities for its fair value measurement of MBS and debt securities (Level 2), and broker price indications for similar securities in non-active markets for its fair value measurement of CMO (Level 3).

Derivative financial instruments are comprised of commitments to extend credit on loans to be held for sale, mandatory loan sale commitments, TBA-MBS trades and option contracts. The fair value of TBA-MBS trades is determined using quoted secondary-market prices (Level 2). The fair values of other derivative financial instruments are determined by quoted prices for a similar commitment or commitments, adjusted for the specific attributes of each commitment (Level 3).

Loans held for sale at fair value are primarily single-family loans. The fair value is determined, when possible, using quoted secondary-market prices such as mandatory loan sale commitments. If no such quoted price exists, the fair value of a loan is determined by quoted prices for a similar loan or loans, adjusted for the specific attributes of each loan (Level 2).

Non-performing loans are loans which are inadequately protected by the current net worth and paying capacity of the borrowers or of the collateral pledged. The non-performing loans are characterized by the distinct possibility that the Corporation will sustain some loss if the deficiencies are not corrected. The fair value of a non-performing loan is determined based on an observable market price or current appraised value of the underlying collateral. Appraised and reported values may be discounted based on management's historical knowledge, changes in market conditions from the time of valuation, and/or management's expertise and knowledge of the borrower. For non-performing loans which are restructured loans, the fair value is derived from discounted cash flow analysis (Level 3), except those which are in the process of foreclosure or 90 days delinquent for which the fair value is derived from the appraised value of its collateral (Level 2). For other non-performing loans which are not restructured loans, the fair value is derived from historical experience and management estimates by loan type for which collectively evaluated allowances are assigned (Level 3), or the appraised value of its collateral for loans which are in the process of foreclosure or where borrowers file bankruptcy, for which the charge-off will occur when the loan becomes 60 days delinquent (Level 2). Non-performing loans are reviewed and evaluated on at least a quarterly basis for additional allowance and adjusted accordingly, based on the same factors identified above. This loss is not recorded directly as an adjustment to current earnings or other comprehensive income (loss), but rather as a component in determining the overall adequacy of the allowance for loan losses. These adjustments to the estimated fair value of non-performing loans may result in increases or decreases to the provision for loan losses recorded in current earnings.

The Corporation uses the amortization method for its MSA, which amortizes the MSA in proportion to and over the period of estimated net servicing income and assesses the MSA for impairment based on fair value at each reporting date. The fair value of MSA is calculated using the present value method; which includes a third party's prepayment projections of similar instruments, weighted-average coupon rates and the estimated average life (Level 3).

The rights to future income from serviced loans that exceed contractually specified servicing fees are recorded as interest-only strips. The fair value of interest-only strips is calculated using the same assumptions that are used to value the related MSA (Level 3).

The fair value of real estate owned is derived from the lower of the appraised value at the time of foreclosure or the listing price, net of estimated disposition costs (Level 2).

The Corporation's valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While management believes the Corporation's valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The following fair value hierarchy table presents information at the dates indicated about the Corporation's assets measured at fair value on a recurring basis:

(In Thousands)	Fair Value Measurement at March 31, 2013 Using:			
	Level 1	Level 2	Level 3	Total
Assets:				
Investment securities:				
U.S. government agency MBS	\$—	\$11,387	\$—	\$11,387
U.S. government sponsored enterprise MBS	—	8,094	—	8,094
Private issue CMO	—	—	1,097	1,097
Investment securities	—	19,481	1,097	20,578
Loans held for sale, at fair value	—	169,571	—	169,571
Interest-only strips	—	—	125	125
Derivative assets:				
Commitments to extend credit on loans to be held for sale	—	—	3,434	3,434
Mandatory loan sale commitments	—	—	18	18
TBA MBS trades	—	43	—	43
Option contracts	—	—	72	72
Derivative assets	—	43	3,524	3,567
Total assets	\$—	\$189,095	\$4,746	\$193,841
Liabilities:				
Derivative liabilities:				
Commitments to extend credit on loans to be held for sale	\$—	\$—	\$15	\$15
Mandatory loan sale commitments	—	—	18	18
TBA MBS trades	—	838	—	838
Derivative liabilities	—	838	33	871
Total liabilities	\$—	\$838	\$33	\$871

(In Thousands)	Fair Value Measurement at June 30, 2012 Using:			
	Level 1	Level 2	Level 3	Total
Assets:				
Investment securities:				
U.S. government agency MBS	\$—	\$12,314	\$—	\$12,314
U.S. government sponsored enterprise MBS	—	9,342	—	9,342
Private issue CMO	—	—	1,242	1,242
Investment securities	—	21,656	1,242	22,898
Loans held for sale, at fair value	—	231,639	—	231,639
Interest-only strips	—	—	130	130
Derivative assets:				
Commitments to extend credit on loans to be held for sale	—	—	3,998	3,998
Mandatory loan sale commitments	—	—	38	38
TBA MBS trades	—	121	—	121
Option contracts	—	—	36	36
Derivative assets	—	121	4,072	4,193
Total assets	\$—	\$253,416	\$5,444	\$258,860
Liabilities:				
Derivative liabilities:				
Commitments to extend credit on loans to be held for sale	\$—	\$—	\$17	\$17
Mandatory loan sale commitments	—	—	201	201
TBA MBS trades	—	1,274	—	1,274
Derivative liabilities	—	1,274	218	1,492
Total liabilities	\$—	\$1,274	\$218	\$1,492

The following is a reconciliation of the beginning and ending balances during the periods shown of recurring fair value measurements recognized in the Condensed Consolidated Statements of Financial Condition using Level 3 inputs:

(In Thousands)	Fair Value Measurement Using Significant Other Unobservable Inputs (Level 3)					
	Private Issue CMO	Interest- Only Strips	Loan Commit- ments to originate <sup>(1)</sup>	Manda- tory Commit- ments <sup>(2)</sup>	Option Contracts	Total
Beginning balance at December 31, 2012	\$ 1,156	\$ 130	\$ 3,238	\$(71)	\$47	\$4,500
Total gains or losses (realized/unrealized):						
Included in earnings	—	—	(3,238)	)71	(47	)(3,214 )
Included in other comprehensive loss	—	(5	)—	—	—	(5 )
Purchases	—	—	—	—	72	72
Issuances	—	—	3,419	—	—	3,419
Settlements	(59	)—	—	—	—	(59 )
Transfers in and/or out of Level 3	—	—	—	—	—	—
Ending balance at March 31, 2013	\$ 1,097	\$ 125	\$ 3,419	\$—	\$72	\$4,713

(1) Consists of commitments to extend credit on loans to be held for sale.

(2) Consists of mandatory loan sale commitments.

(In Thousands)	Fair Value Measurement Using Significant Other Unobservable Inputs (Level 3)					
	Private Issue CMO	Interest- Only Strips	Loan Commit- ments to originate <sup>(1)</sup>	Manda- tory Commit- ments <sup>(2)</sup>	Option Contracts	Total
Beginning balance at December 31, 2011	\$ 1,244	\$ 156	\$ 2,118	\$(2	)\$—	\$3,516
Total gains or losses (realized/unrealized):						
Included in earnings	—	—	(2,118	)2	—	(2,116 )
Included in other comprehensive loss	73	(21	)—	—	—	52
Purchases	—	—	—	165	—	165
Issuances	—	—	2,406	—	—	2,406
Settlements	(26	)—	—	—	—	(26 )
Transfers in and/or out of Level 3	—	—	—	—	—	—
Ending balance at March 31, 2012	\$ 1,291	\$ 135	\$ 2,406	\$ 165	\$—	\$3,997

(1) Consists of commitments to extend credit on loans to be held for sale.

(2) Consists of mandatory loan sale commitments.



Fair Value Measurement  
Using Significant Other Unobservable Inputs  
(Level 3)

(In Thousands)	Private Issue CMO	Interest- Only Strips	Loan Commit- ments to originate <sup>(1)</sup>	Manda- tory Commit- ments <sup>(2)</sup>	Option Contracts	Total
Beginning balance at June 30, 2012	\$ 1,242	\$ 130	\$ 3,981	\$(163)	\$ 36	\$ 5,226
Total gains or losses (realized/unrealized):						
Included in earnings	—	—	(15,589)	) 1,348	(148	)(14,389 )
Included in other comprehensive loss	(6	)(5	)—	—	—	(11 )
Purchases	—	—	—	(1,185	) 184	(1,001 )
Issuances	—	—	15,027	—	—	15,027
Settlements	(139	)—	—	—	—	(139 )
Transfers in and/or out of Level 3	—	—	—	—	—	—
Ending balance at March 31, 2013	\$ 1,097	\$ 125	\$ 3,419	\$—	\$ 72	\$ 4,713

(1) Consists of commitments to extend credit on loans to be held for sale.

(2) Consists of mandatory loan sale commitments.

Fair Value Measurement  
Using Significant Other Unobservable Inputs  
(Level 3)

(In Thousands)	Private Issue CMO	Interest- Only Strips	Loan Commit- ments to originate <sup>(1)</sup>	Manda- tory Commit- ments <sup>(2)</sup>	Option Contracts	Total
Beginning balance at June 30, 2011	\$ 1,367	\$ 200	\$ 638	\$ 403	\$ 99	\$ 2,707
Total gains or losses (realized/unrealized):						
Included in earnings	—	—	(6,219	)(271	)(241	)(6,731 )
Included in other comprehensive loss	32	(65	)—	—	—	(33 )
Purchases	—	—	—	33	142	175
Issuances	—	—	7,987	—	—	7,987
Settlements	(108	)—	—	—	—	(108 )
Transfers in and/or out of Level 3	—	—	—	—	—	—
Ending balance at March 31, 2012	\$ 1,291	\$ 135	\$ 2,406	\$ 165	\$—	\$ 3,997

(1) Consists of commitments to extend credit on loans to be held for sale.

(2) Consists of mandatory loan sale commitments.

The following fair value hierarchy table presents information about the Corporation's assets measured at fair value at the dates indicated on a nonrecurring basis:

(In Thousands)	Fair Value Measurement at March 31, 2013 Using:			
	Level 1	Level 2	Level 3	Total
Non-performing loans	\$—	\$10,801	\$9,394	\$20,195
Mortgage servicing assets	—	—	263	263
Real estate owned, net	—	2,227	—	2,227
Total	\$—	\$13,028	\$9,657	\$22,685

(In Thousands)	Fair Value Measurement at June 30, 2012 Using:			
	Level 1	Level 2	Level 3	Total
Non-performing loans	\$—	\$10,335	\$25,006	\$35,341
Mortgage servicing assets	—	—	227	227
Real estate owned, net	—	5,976	—	5,976
Total	\$—	\$16,311	\$25,233	\$41,544

Edgar Filing: PROVIDENT FINANCIAL HOLDINGS INC - Form 10-Q

The following table presents additional information about valuation techniques and inputs used for assets and liabilities, including derivative financial instruments, which are measured at fair value and categorized within Level 3 as of March 31, 2013 (dollars in thousands):

	Fair Value As of March 31, 2013	Valuation Techniques	Unobservable Inputs	Range <sup>(1)</sup> (Weighted Average)	Impact to Valuation from an Increase in Inputs <sup>(2)</sup>
<b>Assets:</b>					
Securities available-for sale: Private issue CMO	\$1,097	Discounted cash flow	Probability of default Loss severity Prepayment speed	0.6% – 1.4% (0.8%) 35.8% - 37.6% (37.3%) 4.2% – 13.7% (7.1%)	Decrease Decrease Decrease
Non-performing loans	\$1,935	Discounted cash flow	Default rates Loss severity	23.8% 6.1%	Decrease Decrease
Non-performing loans	\$7,459	Relative value analysis	Default rates Loss severity	17.7% 3.5%	Decrease Decrease
MSA	\$263	Discounted cash flow	Prepayment speed (CPR) Discount rate	2.4% - 60.0% (23.5%) 9.0% - 10.5% (9.1%)	Decrease Decrease
Interest-only strips	\$125	Discounted cash flow	Prepayment speed (CPR) Discount rate	0.0% - 27.0% (15.1%) 9.0%	Decrease Decrease
Commitments to extend credit on loans to be held for sale	\$3,434	Relative value analysis	TBA-MBS broker quotes Fall-out ratio <sup>(3)</sup>	97.6% – 105.2% (101.9%) of par 17.7% - 26.0% (25.3%)	Decrease Decrease
Mandatory loan sale commitments	\$18	Relative value analysis	Investor quotes TBA-MBS broker quotes Roll-forward costs <sup>(4)</sup>	104.1% – 106.6% (104.7%) of par 101.5% of par 0.00%	Decrease Decrease Decrease
Option contracts	\$72	Relative value analysis	Broker quotes	102.9% – 103.2% (103.0%) of par	Increase
<b>Liabilities:</b>					
Commitments to extend credit on loans to be held for sale	\$15	Relative value analysis	TBA-MBS broker quotes Fall-out ratio <sup>(3)</sup>	100.0% – 102.5% (100.9%) of par 17.7% - 26.0% (25.3%)	Decrease Decrease

Mandatory loan sale commitments	\$18	Relative value analysis	Investor quotes	102.9% – 106.6% (105.0%) of par	Decrease
---------------------------------	------	-------------------------	-----------------	---------------------------------	----------

- (1) The range is based on the historical estimated fair values and management estimates. Unless otherwise noted, this column represents the directional change in the fair value of the Level 3 investments that would result from an increase to the corresponding unobservable input. A decrease to the unobservable input would have the opposite effect. Significant changes in these inputs in isolation could result in significantly higher or lower fair value measurements.
- (2) The percentage of commitments to extend credit on loans to be held for sale which management has estimated may not fund.
- (3) An estimated cost to roll forward the mandatory loan sale commitments which management has estimated may not be delivered to the corresponding investors in a timely manner.

The significant unobservable inputs used in the fair value measurement of the Corporation's assets and liabilities include the following: CMO offered quotes, prepayment speeds, discount rates, MBS – TBA quotes, fallout ratios, investor quotes and roll-forward costs, among others. Significant increases or decreases in any of these inputs in isolation could result in significantly

lower or higher fair value measurement. The various unobservable inputs used to determine valuations may have similar or diverging impacts on valuation.

The carrying amount and fair value of the Corporation's other financial instruments as of March 31, 2013 and June 30, 2012 were as follows (dollars in thousands):

	March 31, 2013				
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Loans held for investment, net	\$754,441	\$752,582	—	—	\$752,582
FHLB – San Francisco stock	\$17,227	\$17,227	—	\$17,227	—
Financial liabilities:					
Deposits	\$935,100	\$917,894	—	—	\$917,894
Borrowings	\$106,505	\$113,361	—	—	\$113,361
	June 30, 2012				
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Loans held for investment, net	\$796,836	\$801,081	—	—	\$801,081
FHLB – San Francisco stock	\$22,255	\$22,255	—	\$22,255	—
Financial liabilities:					
Deposits	\$961,411	\$948,985	—	—	\$948,985
Borrowings	\$126,546	\$134,936	—	—	\$134,936

Loans held for investment: For loans that reprice frequently at market rates, the carrying amount approximates the fair value. For fixed-rate loans, the fair value is determined by either (i) discounting the estimated future cash flows of such loans over their estimated remaining contractual maturities using a current interest rate at which such loans would be made to borrowers, or (ii) quoted market prices. The allowance for loan losses is subtracted as an estimate of the underlying credit risk.

FHLB – San Francisco stock: The carrying amount reported for FHLB – San Francisco stock approximates fair value. When redeemed, the Corporation will receive an amount equal to the par value of the stock.

Deposits: The fair value of time deposits is estimated using a discounted cash flow calculation. The discount rate is based upon rates currently offered for deposits of similar remaining maturities. The fair value of transaction accounts (checking, money market and savings accounts) is based on management estimates, consistent with current market conditions.

Borrowings: The fair value of borrowings has been estimated using a discounted cash flow calculation. The discount rate on such borrowings is based upon rates currently offered for borrowings of similar remaining maturities.

The Corporation has various processes and controls in place to ensure that fair value is reasonably estimated. The Corporation generally determines fair value of their Level 3 assets and liabilities by using internally developed models which primarily utilize discounted cash flow techniques and prices obtained from independent management services or brokers. The Corporation performs due diligence procedures over third-party pricing service providers in order to support their use in the valuation process. The fair values of investment securities, commitments to extend credit on

loans held for sale, mandatory commitments and option contracts are determined from the independent management services or brokers; while the fair value of MSA and interest only strips are determined using the internally developed models which are based on discounted cash flow analysis. The fair value of non-performing loans is determined by calculating discounted cash flows, collectively evaluated allowances or collateral value, less selling costs.

While the Corporation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different

estimate of fair value at the reporting date. During the quarter ended March 31, 2013, there were no significant changes to the Corporation's valuation techniques that had, or are expected to have, a material impact on its consolidated financial position or results of operations.

#### Note 10: Incentive Plans

As of March 31, 2013, the Corporation had four share-based compensation plans, which are described below. These plans are the 2010 Equity Incentive Plan ("2010 Plan"), the 2006 Equity Incentive Plan ("2006 Plan"), the 2003 Stock Option Plan and the 1996 Stock Option Plan.

For the quarters ended March 31, 2013 and 2012, the compensation cost for these plans was \$157,000 and \$284,000, respectively. The income tax benefit recognized in the Condensed Consolidated Statements of Operations for share-based compensation plans was \$14,000 for the quarter ended March 31, 2013 and no income tax benefit was recognized in the quarter ended March 31, 2012.

For the nine months ended March 31, 2013 and 2012, the compensation cost for these plans was \$396,000 and \$1.1 million, respectively. The income tax benefit recognized in the Condensed Consolidated Statements of Operations for share-based compensation plans was \$85,000 for the nine months ended March 31, 2013 and no income tax benefit was recognized in the nine months ended March 31, 2012.

**Equity Incentive Plan.** The Corporation established and the shareholders approved the 2010 Plan and the 2006 Plan for directors, advisory directors, directors emeriti, officers and employees of the Corporation and its subsidiary. The 2010 Plan authorizes 586,250 stock options and 288,750 shares of restricted stock. The 2010 Plan also provides that no person may be granted more than 117,250 stock options or 43,312 shares of restricted stock in any one year. The 2006 Plan authorizes 365,000 stock options and 185,000 shares of restricted stock. The 2006 Plan also provides that no person may be granted more than 73,000 stock options or 27,750 shares of restricted stock in any one year.

**Equity Incentive Plan - Stock Options.** Under the 2010 Plan and 2006 Plan (collectively, "the Plans"), options may not be granted at a price less than the fair market value at the date of the grant. Options typically vest over a five-year or shorter period as long as the director, advisory director, director emeritus, officer or employee remains in service to 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.

The fair value of each option grant is estimated on the date of the grant using the Black-Scholes option valuation model with the following assumptions. The expected volatility is based on implied volatility from historical common stock closing prices for the prior 84 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 note rate with a term similar to the underlying stock option on the particular grant date.

There was no activity under the Plans in the third quarter of either fiscal 2013 or 2012, other than the exercise of 14,000 options and 9,000 options, respectively. For the first nine months of fiscal 2013 and 2012, there was no activity under the Plans, other than the grant of 20,000 options, the exercise of 42,000 options and the forfeiture of 24,000 options in the first nine months of fiscal 2013 and the exercise of 9,000 options in the first nine months of fiscal 2012. As of March 31, 2013 and 2012, there were 188,450 stock options and 193,450 stock options available for future grants under the Plans, respectively.





The following table summarizes the stock option activity in the Plans for the quarter and nine months ended March 31, 2013.

Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (\$000)
Outstanding at December 31, 2012	725,800	\$12.60		
Granted	—	\$—		
Exercised	(14,000)	\$7.03		
Forfeited	—	\$—		
Outstanding at March 31, 2013	711,800	\$12.71	6.68	\$5,025
Vested and expected to vest at March 31, 2013	630,000	\$13.34	6.47	\$4,277
Exercisable at March 31, 2013	302,350	\$19.24	4.50	\$1,287

Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (\$000)
Outstanding at June 30, 2012	757,800	\$12.13		
Granted	20,000	\$16.47		
Exercised	(42,000)	\$7.03		
Forfeited	(24,000)	\$7.41		
Outstanding at March 31, 2013	711,800	\$12.71	6.68	\$5,025
Vested and expected to vest at March 31, 2013	630,000	\$13.34	6.47	\$4,277
Exercisable at March 31, 2013	302,350	\$19.24	4.50	\$1,287

As of March 31, 2013 and 2012, there was \$1.1 million and \$1.3 million of unrecognized compensation expense, respectively, related to unvested share-based compensation arrangements under the Plans. The expense is expected to be recognized over a weighted-average period of 2.4 years and 3.2 years, respectively. The forfeiture rate during the first nine months of fiscal 2013 and 2012 was 20 percent for both periods, and was calculated by using the historical forfeiture experience of all fully vested stock option grants and is reviewed annually.

**Equity Incentive Plan – Restricted Stock.** The Corporation used 288,750 shares and 185,000 shares of its treasury stock to fund the 2010 Plan and the 2006 Plan, respectively. Awarded shares typically vest over a five-year or shorter period as long as the director, advisory director, director emeriti, officer or employee remains in service to the Corporation. Once vested, a recipient of restricted stock will have all rights of a shareholder, including the power to vote and the right to receive dividends. The Corporation recognizes compensation expense for the restricted stock awards based on the fair value of the shares at the award date.

There was no restricted stock activity for either the third quarter of fiscal 2013 and 2012, other than the vesting and distribution of 11,200 shares in the third quarter of fiscal 2012. For the first nine months of fiscal 2013, there was no restricted stock activity, other than the vesting and distribution of 800 shares and the forfeiture of 1,500 shares. This compares to the vesting and distribution of 111,500 shares of restricted stock in the first nine months of fiscal 2012. As of March 31, 2013 and 2012, there were 169,600 shares and 168,100 shares of restricted stock available for future awards under the Plans, respectively.



The following table summarizes the unvested restricted stock activity in the quarter and nine months ended March 31, 2013.

Unvested Shares	Shares	Weighted-Average Award Date Fair Value
Unvested at December 31, 2012	144,500	\$7.07
Granted	—	\$—
Vested	—	\$—
Forfeited	—	\$—
Unvested at March 31, 2013	144,500	\$7.07
Expected to vest at March 31, 2013	115,600	\$7.07

  

Unvested Shares	Shares	Weighted-Average Award Date Fair Value
Unvested at June 30, 2012	146,800	\$7.13
Granted	—	\$—
Vested	(800	) \$18.09
Forfeited	(1,500	) \$7.07
Unvested at March 31, 2013	144,500	\$7.07
Expected to vest at March 31, 2013	115,600	\$7.07

As of March 31, 2013 and 2012, the unrecognized compensation expense was \$568,000 and \$878,000, respectively, related to unvested share-based compensation arrangements under the Plans, and reported as a reduction to stockholders' equity. This expense is expected to be recognized over a weighted-average period of 2.2 years and 3.2 years, respectively. Similar to stock options, a forfeiture rate of 20 percent has been applied for the restricted stock compensation expense calculations in the first nine months of fiscal 2013 and 2012, for both periods. For the nine months ended March 31, 2013 and 2012, the fair value of shares vested and distributed was \$9,000 and \$922,000, respectively.

**Stock Option Plans.** The Corporation established the 2003 Stock Option Plan and the 1996 Stock Option Plan (collectively, the "Stock Option Plans") for key employees and eligible directors under which options to acquire up to 352,500 shares and 1.15 million shares of common stock, respectively, may be granted. Under the Stock Option Plans, stock options may not be granted at a price less than the fair market value at the date of the grant. Stock options typically vest over a five-year period on a pro-rata basis as long as the employee or director remains in service to the Corporation. The stock options are exercisable after vesting for up to the remaining term of the original grant. The maximum term of the stock options granted is 10 years. As of March 31, 2013 and 2012, the number of stock options available for future grants under the 2003 Stock Option Plan was 14,900 stock options. No stock options remain available for future grant under the 1996 Stock Option Plan, which expired in January 2007.

The fair value of each stock option grant is estimated on the date of the grant using the Black-Scholes option valuation model with the following assumptions. The expected volatility is based on implied volatility from historical common stock closing prices for the prior 84 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 note rate with a term similar to the underlying stock option on the particular grant date.

For the third quarter of fiscal 2013 and 2012, there was no activity in the Stock Option Plans. For the first nine months of fiscal 2013 and 2012, there was no activity in the Stock Option Plans, except forfeitures of 7,500 shares and 62,700 shares, respectively. As of March 31, 2013 and 2012, there were 14,900 stock options and 14,900 stock options available for future grants under the Stock Option Plans, respectively.

Edgar Filing: PROVIDENT FINANCIAL HOLDINGS INC - Form 10-Q

The following is a summary of the activity in the Stock Option Plans for the quarter and nine months ended March 31, 2013.

Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (\$000)
Outstanding at December 31, 2012	412,700	\$24.30		
Granted	—	\$—		
Exercised	—	\$—		
Forfeited	—	\$—		
Outstanding at March 31, 2013	412,700	\$24.30	1.76	\$—
Vested and expected to vest at March 31, 2013	412,700	\$24.30	1.76	\$—
Exercisable at March 31, 2013	412,700	\$24.30	1.76	\$—

Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (\$000)
Outstanding at June 30, 2012	420,200	\$24.11		
Granted	—	\$—		
Exercised	—	\$—		
Forfeited	(7,500)	)\$13.67		
Outstanding at March 31, 2013	412,700	\$24.30	1.76	\$—
Vested and expected to vest at March 31, 2013	412,700	\$24.30	1.76	\$—
Exercisable at March 31, 2013	412,700	\$24.30	1.76	\$—

As of March 31, 2013, there was no unrecognized compensation expense. This compares to unrecognized compensation expense of \$18,000 at March 31, 2012, related to unvested share-based compensation arrangements under the Stock Option Plans. This expense is expected to be recognized over a weighted-average period of 0.3 years. The forfeiture rate during the first nine months of fiscal 2012 was 20 percent, and was calculated by using the historical forfeiture experience of all fully vested stock option grants and is reviewed annually.

Note 11: Reclassification adjustment of Accumulated Other Comprehensive Income ("AOCI")

ASU 2013-02 requires disclosure of reclassification adjustments of AOCI, including changes in AOCI balances by component and significant items reclassified out of AOCI.

The following table provides the changes in AOCI by component for the quarter and nine months ended March 31, 2013 (dollars in thousands, net of statutory taxes).

	Unrealized Gain and Losses on Available-for-sale Securities	Total
Beginning balance at December 31, 2013	\$599	\$599
Other comprehensive income before reclassifications	29	29

Edgar Filing: PROVIDENT FINANCIAL HOLDINGS INC - Form 10-Q

Amount reclassified from accumulated other comprehensive income	—	—
Net other comprehensive income	29	29
Ending balance at March 31, 2013	\$628	\$628

38

---

	Unrealized Gain and Losses on Available-for-sale Securities	Total
Beginning balance at June 30, 2012	\$626	\$626
Other comprehensive income before reclassifications	2	2
Amount reclassified from accumulated other comprehensive income	—	—
Net other comprehensive income	2	2
Ending balance at March 31, 2013	\$628	\$628

There were no significant items reclassified out of AOCI for the quarter and nine months ended March 31, 2013.

#### Note 12: Subsequent Events

On April 30, 2013, the Corporation announced that the Corporation's Board of Directors declared a quarterly cash dividend of \$0.07 per share. Shareholders of the Corporation's common stock at the close of business on May 22, 2013 will be entitled to receive the cash dividend. The cash dividend will be payable on June 11, 2013.

## 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. The Corporation is regulated by the Federal Reserve Board ("FRB"). At March 31, 2013, the Corporation had total assets of \$1.22 billion, total deposits of \$935.1 million and total stockholders' equity of \$157.5 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. As used in this report, the terms "we," "our," "us," and "Corporation" refer to Provident Financial Holdings, Inc. and its consolidated subsidiaries, unless the context indicates otherwise.

The Bank, founded in 1956, is a federally chartered stock savings bank headquartered in Riverside, California. The Bank is regulated by the Office of the Comptroller of the Currency ("OCC"), its primary federal regulator, and the Federal Deposit Insurance

Corporation (“FDIC”), the insurer of its deposits. The Bank’s deposits are federally insured up to applicable limits by the FDIC. The Bank has been a member of the Federal Home Loan Bank System since 1956.

The Corporation’s business consists of community banking activities and mortgage banking activities, conducted by Provident Bank and Provident Bank Mortgage, a division of the Bank. 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, purchase and sale of mortgage loans secured primarily by single-family residences. The Bank currently operates 15 retail/business banking offices in Riverside County and San Bernardino County (commonly known as the Inland Empire). Provident Bank Mortgage operates two wholesale loan production offices: one in Pleasanton and one in Rancho Cucamonga, California; and 17 retail loan production offices in City of Industry, Escondido, Fairfield, Glendora, Hermosa Beach, Pleasanton, Rancho Cucamonga (2), Riverside (4), Roseville, San Diego, San Rafael, Santa Barbara and Stockton, California. The Corporation’s revenues are derived principally from interest on its loans and investment securities and fees generated through its community banking and mortgage banking activities. There are various risks inherent in the Corporation’s business including, among others, the general business environment, interest rates, the California real estate market, the demand for loans, the prepayment of loans, the repurchase of loans previously sold to investors, the secondary market conditions to sell loans, competitive conditions, legislative and regulatory changes, fraud and other risks.

The Corporation began to distribute quarterly cash dividends in the quarter ended September 30, 2002. On January 24, 2013, the Corporation declared a quarterly cash dividend of \$0.07 per share for the Corporation’s shareholders of record at the close of business on February 13, 2013, which was paid on March 5, 2013. Future declarations or payments of dividends will be subject to the consideration of the Corporation’s Board of Directors, which will take into account the Corporation’s financial condition, results of operations, tax considerations, capital requirements, industry standards, legal restrictions, economic conditions and other factors, including the regulatory restrictions which affect the payment of dividends by the Bank to the Corporation. Under Delaware law, dividends may be paid either out of surplus or, if there is no surplus, out of net profits for the current fiscal year and/or the preceding fiscal year in which the dividend is declared.

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 Form 10-Q constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. This Form 10-Q contains statements that the Corporation believes are “forward-looking statements.” These statements relate to the Corporation’s financial condition, results of operations, plans, objectives, future performance or business. You should not place undue reliance on these statements, as they are subject to risks and uncertainties. When considering these forward-looking statements, you should keep in mind these risks and uncertainties, as well as any cautionary statements the Corporation may make. Moreover, you should treat these statements as speaking only as of the date they are made and based only on information then actually known to the Corporation. There are a number of important factors that could cause future results to differ materially from historical performance and these forward-looking statements. Factors which could cause actual results to differ materially include, but are not limited to, the credit risks of lending activities, including changes in the level and trend



of loan delinquencies and charge-offs and changes in our allowance for loan losses and provision for loan losses that may be impacted by deterioration in the residential and commercial real estate markets and may lead to increased losses and non-performing assets and may result in our allowance for loan losses not being adequate to cover actual losses and require us to materially increase our reserve; changes in general economic conditions, either nationally or in our market areas; changes in the levels of general interest rates, and the relative differences between short and long term interest rates, deposit interest rates, our net interest margin and funding sources; fluctuations in the demand for loans, the number of unsold homes, land and other properties and fluctuations in real estate values in our market areas; secondary market conditions for loans and our ability to sell loans in the secondary market; results of examinations of the Corporation by the FRB or of the Bank by the OCC or other regulatory authorities, including the possibility that any such regulatory authority may, among other things, require us to enter into a formal enforcement action or to increase our allowance for loan losses, write-down assets, change our regulatory capital position or affect our ability to borrow funds or maintain or increase deposits, or impose additional requirements and restrictions on us, any of which could adversely affect our liquidity and earnings; legislative or regulatory changes, such as the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") and its implementing regulations, that adversely affect our business, as well as changes in regulatory policies and principles or the interpretation of regulatory capital or other rules, including changes related to Basel III;

our ability to attract and retain deposits; increases in premiums for deposit insurance; our ability to control operating costs and expenses; the use of estimates in determining fair value of certain of our assets, which estimates may prove to be incorrect and result in significant declines in valuation; difficulties in reducing risk associated with the loans on our balance sheet; staffing fluctuations in response to product demand or the implementation of corporate strategies that affect our workforce and potential associated charges; computer systems on which we depend could fail or experience a security breach; our ability to implement our branch expansion strategy; our ability to successfully integrate any assets, liabilities, customers, systems, and management personnel we have acquired or may in the future acquire into our operations and our ability to realize related revenue synergies and cost savings within expected time frames and any goodwill charges related thereto; our ability to manage loan delinquency rates; our ability to retain key members of our senior management team; costs and effects of litigation, including settlements and judgments; increased competitive pressures among financial services companies; changes in consumer spending, borrowing and savings habits; the availability of resources to address changes in laws, rules, or regulations or to respond to regulatory actions; our ability to pay dividends on our common stock; adverse changes in the securities markets; the inability of key third-party providers to perform their obligations to us; changes in accounting policies and practices, as may be adopted by the financial institution regulatory agencies or the Financial Accounting Standards Board, including additional guidance and interpretation on accounting issues and details of the implementation of new accounting methods; war or terrorist activities; and other economic, competitive, governmental, regulatory, and technological factors affecting our operations, pricing, products and services and other risks detailed in this report and in the Corporation's other reports filed with or furnished to the SEC, including its Annual Report on Form 10-K for the fiscal year ended June 30, 2012 and subsequently filed Quarterly Reports on Form 10-Q.

### Critical Accounting Policies

The discussion and analysis of the Corporation's financial condition and results of operations is based upon the Corporation's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities at the date of the financial statements. Actual results may differ from these estimates under different assumptions or conditions.

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

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

investment. The use of these techniques is inherently subjective and the actual losses could be greater or less than the estimates, which, can materially affect amounts recognized in the Condensed Consolidated Statements of Financial Condition and Condensed Consolidated Statements of Operations.

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

In compliance with the OCC's regulatory reporting requirements, non-performing loans are charged-off to their fair values in the period the loans, or portion thereof, are deemed uncollectible, generally after the loan becomes 150 days delinquent for real estate secured first trust deed loans and 120 days delinquent for commercial business or real estate secured second trust deed loans. For

restructured loans, the charge-off occurs when the loans becomes 90 days delinquent; and where borrowers file bankruptcy, the charge-off occurs when the loan becomes 60 days delinquent. The amount of the charge-off is determined by comparing the loan balance to the estimated fair value of the underlying collateral, less disposition costs, with the loan balance in excess of the estimated fair value charged-off against the allowance for loan losses. The allowance for loan losses for non-performing loans is determined by applying ASC 310. For restructured loans that are less than 90 days delinquent, the allowance for loan losses are segregated into (a) individually evaluated allowances for those loans with applicable discounted cash flow calculations or (b) collectively evaluated allowances based on the aggregated pooling method. For non-performing loans less than 60 days delinquent where the borrower has filed bankruptcy, the collectively evaluated allowances are assigned based on the aggregated pooling method.

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

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

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

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

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

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

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

When a loan is categorized as non-performing, all previously accrued but uncollected interest is reversed in the current operating results. When a full recovery of the outstanding principal loan balance is in doubt, subsequent payments received are first applied to unpaid principal and then to uncollected interest. This is referred to as the cost recovery method. A loan may be returned to accrual status at such time as the loan is brought fully current as to both principal and interest, and, in management's judgment, such loan is considered to be fully collectible on timely basis. However, the Corporation's policy also allows management to continue the recognition of interest income on certain non-performing loans. This is referred to as the cash basis method under which the accrual of interest is suspended and interest income is recognized only when collected. This policy applies to non-performing loans that are considered to be fully collectible but the timely collection of payments is in doubt.

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

and current market trends. The fair value adjustments of the derivatives are recorded in the Condensed Consolidated Statements of Operations with offsets to other assets or other liabilities in the Condensed Consolidated Statements of Financial Condition.

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

#### Executive Summary and Operating Strategy

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

Community banking operations primarily consist of accepting deposits from customers within the communities surrounding the Corporation's full service offices and investing those funds in single-family, multi-family and commercial real estate loans. Also, to a lesser extent, the Corporation makes construction, commercial business, consumer and other loans. The primary source of income in community banking is net interest income, which is the difference between the interest income earned on loans and investment securities, and the interest expense paid on interest-bearing deposits and borrowed funds. Additionally, certain fees are collected from depositors, such as returned check fees, deposit account service charges, ATM fees, IRA/KEOGH fees, safe deposit box fees, travelers check fees, wire transfer fees and overdraft protection fees, among others.

During the next three years, subject to market conditions, the Corporation intends to improve its community banking business by moderately growing total assets; by decreasing the concentration of single-family mortgage loans within loans held for investment; and by increasing the concentration of higher yielding preferred loans (i.e., multi-family, commercial real estate, construction and commercial business loans). In addition, the Corporation intends to decrease the percentage of time deposits in its deposit base and to increase the percentage of lower cost checking and savings accounts. This strategy is intended to improve core revenue through a higher net interest margin and ultimately, coupled with the growth of the Corporation, an increase in net interest income. While the Corporation's long-term strategy is for moderate growth, management recognizes that the total balance sheet may decline or stabilize in response to current weaknesses in general economic conditions, which may improve capital ratios and mitigate credit and liquidity risk.

Mortgage banking operations primarily consist of the origination, purchase and sale of mortgage loans secured by single-family residences. The primary sources of income in mortgage banking are gain on sale of loans and certain fees collected from borrowers in connection with the loan origination process. The Corporation will continue to

modify its operations in response to the rapidly changing mortgage banking environment. Most recently, the Corporation has been increasing the number of mortgage banking personnel to capitalize on the increasing loan demand which is the result of significantly lower mortgage interest rates. Changes may also include a different product mix, further tightening of underwriting standards, variations in its operating expenses or a combination of these and other changes.

Provident Financial Corp performs trustee services for the Bank's real estate secured loan transactions and has in the past held, and may in the future hold real estate for investment. Investment services operations primarily consist of selling alternative investment products such as annuities and mutual funds to the Bank's depositors. Investment services and trustee services contribute a very small percentage of gross revenue.

There are a number of risks associated with the business activities of the Corporation, many of which are beyond the Corporation's control, including: changes in accounting principles, laws, regulation, interest rates and the economy, among others. The Corporation attempts to mitigate many of these risks through prudent banking practices, such as interest rate risk management, credit risk management, operational risk management, and liquidity risk management. The current economic environment presents heightened risk for the Corporation primarily with respect to falling real estate values and higher loan delinquencies. Declining

real estate values may lead to higher loan losses since the majority of the Corporation's loans are secured by real estate located within California. Significant declines in the value of California real estate may also inhibit the Corporation's ability to recover on defaulted loans by selling the underlying real estate. The Corporation's operating costs may increase significantly as a result of the Dodd-Frank Act. Many aspects of the Dodd-Frank Act are subject to rulemaking and will take effect over several years, making it difficult to anticipate the overall financial impact on the Corporation. For further details on risk factors, see "Safe-Harbor Statement" and "Item 1A – Risk Factors."

#### Off-Balance Sheet Financing Arrangements and Contractual Obligations

The following table summarizes the Corporation's contractual obligations at March 31, 2013 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				Total
	Less than 1 year	1 to less than 3 years	3 to 5 years	Over 5 years	
Operating obligations	\$1,579	\$2,142	\$1,419	\$509	\$5,649
Pension benefits	—	220	439	7,336	7,995
Time deposits	257,169	140,843	20,510	1,639	420,161
FHLB – San Francisco advances	57,417	12,666	12,686	34,008	116,777
FHLB – San Francisco letter of credit	7,500	—	—	—	7,500
FHLB – San Francisco MPF credit enhancement <sup>(1)</sup>	2,548	—	—	—	2,548
Total	\$326,213	\$155,871	\$35,054	\$43,492	\$560,630

Represents the recourse provision for loans previously sold by the Bank to the FHLB – San Francisco under its <sup>(1)</sup> Mortgage Partnership Finance ("MPF") program. The FHLB – San Francisco discontinued the MPF program on October 6, 2006. As of March 31, 2013, the Bank serviced \$56.3 million of loans under this program.

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

In addition to the off-balance sheet financing arrangements and contractual obligations mentioned above, the Corporation has derivatives and other financial instruments with off-balance sheet risks as described in Note 7 of the Notes to Unaudited Interim Condensed Consolidated Financial Statements.

#### Comparison of Financial Condition at March 31, 2013 and June 30, 2012

Total assets decreased \$39.4 million to \$1.22 billion at March 31, 2013 from \$1.26 billion at June 30, 2012. The decrease was primarily attributable to decreases in loans held for sale and loans held for investment and cash and cash equivalents deployed to fund decreases in deposits and borrowings.

Total cash and cash equivalents, primarily excess cash deposited with the Federal Reserve Bank of San Francisco, increased \$75.2 million, or 52 percent, to \$220.3 million at March 31, 2013 from \$145.1 million at June 30, 2012. The increase was primarily attributable to proceeds received reflecting the decreases in loans held for sale and loans held for investment, partly offset by the decreases in deposits and borrowings. The relatively high balance in cash and cash equivalents were consistent with the Corporation's strategy of managing credit and liquidity risk.



Total investment securities decreased \$2.3 million, or 10 percent, to \$20.6 million at March 31, 2013 from \$22.9 million at June 30, 2012. The decrease was primarily the result of scheduled and accelerated principal payments on mortgage-backed securities. For further analysis on investment securities, see Note 5 of the Notes to Unaudited Interim Condensed Consolidated Financial Statements.

Loans held for investment decreased \$42.4 million, or five percent, to \$754.4 million at March 31, 2013 from \$796.8 million at June 30, 2012. Total loan principal payments during the first nine months of fiscal 2013 were \$107.1 million, a 13 percent increase from \$95.2 million in the comparable period in fiscal 2012. In addition, real estate owned acquired in the settlement of loans in

the first nine months of fiscal 2013 was \$9.2 million, a 52 percent decline from \$19.3 million in the same period last year. During the first nine months of fiscal 2013, the Corporation originated \$63.9 million of loans held for investment, consisting primarily of multi-family and commercial real estate loans, compared to \$40.7 million, primarily in multi-family loans, for the same period last year. During the first nine months of fiscal 2013, the Corporation did not purchase any loans to be held for investment. This compares to the same period in fiscal 2012 when the Corporation purchased \$7.1 million of loans to be held for investment, consisting primarily of multi-family loans. The balance of preferred loans decreased to \$353.3 million at March 31, 2013, compared to \$375.9 million at June 30, 2012, and represented 46 percent of loans held for investment at both dates. There were no construction loans outstanding at March 31, 2013 and June 30, 2012. The balance of single-family loans held for investment decreased five percent to \$415.6 million at March 31, 2013, compared to \$439.0 million at June 30, 2012, and represented approximately 54 percent of loans held for investment at both dates.

The table below describes the geographic dispersion of gross real estate secured loans held for investment at March 31, 2013 and June 30, 2012, as a percentage of the total dollar amount outstanding (dollars in thousands):

As of March 31, 2013

Loan Category	Inland Empire		Southern California <sup>(1)</sup>		Other California		Other States		Total	
	Balance	%	Balance	%	Balance	%	Balance	%	Balance	%
Single-family	\$123,833	30	\$226,958	54	\$61,252	15	\$3,573	1	\$415,616	100
Multi-family	42,500	17	157,119	61	53,555	21	3,466	1	256,640	100
Commercial real estate	52,037	55	40,008	42	2,734	3	—	—	94,779	100
Total	\$218,370	29	\$424,085	55	\$117,541	15	\$7,039	1	\$767,035	100

<sup>(1)</sup> Other than the Inland Empire.

As of June 30, 2012

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

<sup>(1)</sup> Other than the Inland Empire.

Loans held for sale decreased \$62.0 million, or 27 percent, to \$169.6 million at March 31, 2013 from \$231.6 million at June 30, 2012. The decrease was primarily due to the lower volume of loans originated for sale reflecting a reduction in refinancing transactions and the timing difference between loan fundings and loan sale settlements.

Total deposits decreased \$26.3 million, or three percent, to \$935.1 million at March 31, 2013 from \$961.4 million at June 30, 2012. Transaction accounts increased \$6.3 million, or one percent, to \$521.9 million at March 31, 2013 from \$515.6 million at June 30, 2012; and time deposits decreased \$32.6 million, or seven percent, to \$413.2 million at March 31, 2013 from \$445.8 million at June 30, 2012. The increase in transaction accounts as compared to time deposits was primarily attributable to the Corporation's marketing strategy to promote transaction accounts and the

strategic decision to compete less aggressively on time deposit interest rates.

Borrowings, consisting of FHLB – San Francisco advances, decreased \$20.0 million, or 16 percent, to \$106.5 million from \$126.5 million at June 30, 2012, primarily due to scheduled maturities during the quarter ended March 31, 2013. The weighted-average maturity of the Corporation’s FHLB – San Francisco advances was approximately 35 months at March 31, 2013, down from 39 months at June 30, 2012.

45

---

Total stockholders' equity increased \$12.7 million, or nine percent, to \$157.5 million at March 31, 2013, from \$144.8 million at June 30, 2012, primarily as a result of net income, partly offset by stock repurchases (See Part II, Item 2, "Unregistered Sales of Equity Securities and Use of Proceeds") and quarterly cash dividends paid during the first nine months of fiscal 2013.

#### Comparison of Operating Results for the Quarters and Nine Months Ended March 31, 2013 and 2012

The Corporation's net income for the third quarter of fiscal 2013 was \$4.9 million, an increase of \$2.6 million, or 113 percent, from \$2.3 million in the same period of fiscal 2012. For the first nine months of fiscal 2013, the Corporation's net income was \$20.5 million, an increase of \$14.0 million, or 215 percent, from \$6.5 million in the same period of fiscal 2012. The increase in net income for each period was attributable to the increase in non-interest income and the decrease in the provision for loan losses, partially offset by the decrease in net interest income (before provision for loan losses) and the increase in non-interest expenses.

The Corporation's efficiency ratio, defined as non-interest expense divided by the sum of net interest income (before provision for loan losses) and non-interest income, improved to 67 percent for the third quarter of fiscal 2013 from 72 percent for the same period of fiscal 2012. For the first nine months of fiscal 2013, the Corporation's efficiency ratio improved to 60 percent from 72 percent for the same period of fiscal 2012. The improvement in the efficiency ratio for each period was primarily the result of a significant increase in non-interest income outpacing the increase in non-interest expense and a decrease in net interest income (before provision for loan losses).

Return on average assets for the third quarter of fiscal 2013 was 1.59 percent, up 86 basis points from 0.73 percent in the same period last year. For the first nine months of fiscal 2013, return on average assets was 2.20 percent, up 153 basis points from 0.67 percent in the same period last year.

Return on average equity for the third quarter of fiscal 2013 was 12.48 percent compared to 6.54 percent for the same period last year. For the first nine months of fiscal 2013, return on average equity was 18.02 percent compared to 6.09 percent for the same period last year.

Diluted earnings per share for the third quarter of fiscal 2013 were \$0.45, a 114 percent increase from \$0.21 in the same period last year. For the first nine months of fiscal 2013, diluted earnings per share were \$1.89, a 232 percent increase from \$0.57 in the same period last year.

#### Net Interest Income:

For the Quarters Ended March 31, 2013 and 2012. Net interest income (before the provision for loan losses) decreased \$910,000, or 10 percent, to \$8.1 million for the third quarter of fiscal 2013 from \$9.0 million for the comparable period in fiscal 2012, due to a lower net interest margin and, to a lesser extent, a lower average earning asset balance. The net interest margin was 2.76 percent in the third quarter of fiscal 2013, down 15 basis points from 2.91 percent in the same period of fiscal 2012 due to the decline in the average yield of interest-earning assets outpacing the declining cost of liabilities. The weighted-average yield of interest-earning assets decreased by 40 basis points to 3.63 percent, while the weighted-average cost of interest-bearing liabilities decreased by 26 basis points to 0.99 percent for the third quarter of fiscal 2013 as compared to the same period last year. The average balance of earning assets decreased \$67.2 million, or five percent, to \$1.17 billion in the third quarter of fiscal 2013 from \$1.24 billion in the comparable period of fiscal 2012, consistent with the Corporation's strategy of managing liquidity and credit risk.

For the Nine Months Ended March 31, 2013 and 2012. Net interest income (before the provision for loan losses) decreased \$1.5 million, or five percent, to \$25.8 million for the first nine months of fiscal 2013 from \$27.3 million for the comparable period in fiscal 2012, due to a lower net interest margin and, to a lesser extent, a lower average earning asset balance. The net interest margin was 2.87 percent in the first nine months of fiscal 2013, down three basis points from 2.90 percent in the same period of fiscal 2012 due to the decline in the average yield on interest-earning assets outpacing the declining cost of liabilities. The weighted-average yield on interest-earning assets decreased by 34 basis points to 3.80 percent, while the weighted-average cost of interest-bearing liabilities decreased by 32 basis points to 1.04 percent for the first nine months of fiscal 2013 as compared to the same period last year. The average balance of earning assets decreased \$56.4 million, or five percent, to \$1.20 billion in the first nine months of fiscal 2013 from \$1.25 billion in the comparable period of fiscal 2012, consistent with the Corporation's strategy of managing liquidity and credit risk.

Interest Income:

For the Quarters Ended March 31, 2013 and 2012. Total interest income decreased by \$1.9 million, or 15 percent, to \$10.6 million for the third quarter of fiscal 2013 from \$12.5 million in the same quarter of fiscal 2012. This decrease was the result of the lower average earning asset yield and, to a lesser extent, the lower average balance of earning assets.

Loans receivable interest income decreased \$1.9 million, or 16 percent, to \$10.3 million in the third quarter of fiscal 2013 from \$12.2 million for the same quarter of fiscal 2012. This decrease was attributable to a lower average loan yield and, to a lesser extent, a lower average loan balance. The average loan yield during the third quarter of fiscal 2013 decreased 44 basis points to 4.27 percent from 4.71 percent during the same quarter last year. The decrease in the average loan yield was primarily attributable to the repricing of adjustable rate loans to lower interest rates, payoffs of loans which carried a higher average yield than the average yield of loans receivable and a slightly higher average balance of loans held for sale at lower average yield. The average balance of loans receivable, including loans held for sale, decreased \$73.2 million, or seven percent, to \$964.2 million for the third quarter of fiscal 2013 as compared to \$1.04 billion in the same quarter of fiscal 2012.

Interest income from investment securities decreased \$21,000, or 17 percent, to \$105,000 for the third quarter of fiscal 2013 from \$126,000 in the same quarter of fiscal 2012. This decrease was attributable to a lower average balance of investment securities and, to a lesser extent, a lower average yield. The average balance of investment securities decreased \$3.0 million, or 13 percent, to \$20.8 million during the third quarter of fiscal 2013 from \$23.8 million during the same quarter of fiscal 2012. The decrease in the average balance was primarily due to scheduled and accelerated principal payments on mortgage-backed securities. The average yield on investment securities decreased 10 basis points to 2.02 percent during the quarter ended March 31, 2013 from 2.12 percent during the quarter ended March 31, 2012. The decrease in the average yield of investment securities was primarily attributable to the repricing of adjustable rate mortgage-backed securities to lower interest rates. During the third quarter of fiscal 2013, the Corporation did not purchase any investment securities, while \$662,000 of principal payments were received on mortgage-backed securities.

The FHLB – San Francisco cash dividend received in the third quarter of fiscal 2013 was \$116,000, compared to \$30,000 in the same quarter of fiscal 2012. In the third quarter of fiscal 2013, the Bank received a \$1.9 million partial redemption of the FHLB – San Francisco excess capital stock at par, as compared to the \$1.2 million capital stock redemption in the same period of fiscal 2012.

Interest income from interest-earning deposits, primarily cash deposited at the Federal Reserve Bank of San Francisco, was \$101,000 in the third quarter of fiscal 2013, up nine percent from \$93,000 in the same quarter of fiscal 2012. The increase was due to a higher average balance for the third quarter of fiscal 2013 as compared to the same period last year as the average yield was unchanged at 25 basis points during both periods. The average balance of the interest-earning deposits in the third quarter of fiscal 2013 was \$163.9 million, an increase of \$14.4 million or 10 percent, from \$149.5 million in the same quarter of fiscal 2012.

For the Nine Months Ended March 31, 2013 and 2012. Total interest income decreased by \$4.8 million, or 12 percent, to \$34.1 million for the first nine months of fiscal 2013 from \$38.9 million in the same period of fiscal 2012. This decrease was the result of the lower average earning asset yield and, to a lesser extent, the lower average balance of earning assets.

Loans receivable interest income decreased \$5.0 million, or 13 percent, to \$33.2 million in the first nine months of fiscal 2013 from \$38.2 million for the same period of fiscal 2012. This decrease was attributable to a lower average loan yield and, to a lesser extent, a lower average loan balance. The average loan yield during the first nine months of

fiscal 2013 decreased 35 basis points to 4.36 percent from 4.71 percent during the same period last year. The decrease in the average loan yield was primarily attributable to the repricing of adjustable rate loans to lower interest rates, payoffs of loans which carried a higher average yield than the average yield of loans receivable and a higher average balance of loans held for sale at lower average yield. The average balance of loans receivable, including loans held for sale, decreased \$66.3 million, or six percent, to \$1.02 billion for the first nine months of fiscal 2013 as compared to \$1.08 billion in the same period of fiscal 2012.

Interest income from investment securities decreased \$78,000, or 19 percent, to \$329,000 for the first nine months of fiscal 2013 from \$407,000 in the same period of fiscal 2012. This decrease was attributable to a lower average balance of investment securities and, to a lesser extent, a lower average yield. The average balance of investment securities decreased \$3.1 million, or 13 percent, to \$21.7 million during the first nine months of fiscal 2013 from \$24.8 million during the same period of fiscal 2012. The decrease in the average balance was primarily due to scheduled and accelerated principal payments on mortgage-backed securities. The average yield on investment securities decreased 17 basis points to 2.02 percent during the nine months ended March 31, 2013 from 2.19 percent during the period ended March 31, 2012. The decrease in the average yield of investment securities was primarily attributable to the repricing of adjustable rate mortgage-backed securities to lower interest rates. During the first nine months of

fiscal 2013, the Corporation did not purchase any investment securities, while \$2.3 million of principal payments were received on mortgage-backed securities.

The FHLB – San Francisco cash dividend received in the first nine months of fiscal 2013 was \$280,000, compared to \$68,000 in the same period of fiscal 2012. In the first nine months of fiscal 2013, the Bank received a \$5.0 million partial redemption of the FHLB – San Francisco excess capital stock at par, as compared to the \$3.6 million capital stock redemption in the same period of fiscal 2012.

Interest income from interest-earning deposits, primarily cash deposited at the Federal Reserve Bank of San Francisco, was \$258,000 in the first nine months of fiscal 2013, up 14 percent from \$227,000 in the same period of fiscal 2012. The increase was due to a higher average balance for the first nine months of fiscal 2013 as compared to the same period last year as the average yield was unchanged at 25 basis points during both nine month periods. The average balance of the interest-earning deposits in the first nine months of fiscal 2013 was \$137.6 million, an increase of \$17.9 million or 15 percent, from \$119.7 million in the same period of fiscal 2012.

#### Interest Expense:

For the Quarters Ended March 31, 2013 and 2012. Total interest expense for the third quarter of fiscal 2013 was \$2.5 million as compared to \$3.5 million for the same period last year, a decrease of \$1.0 million, or 29 percent. This decrease was primarily attributable to a lower average balance of interest-bearing liabilities, particularly borrowings, and, to a lesser extent, a lower average cost of interest-bearing liabilities.

Interest expense on deposits for the third quarter of fiscal 2013 was \$1.6 million as compared to \$2.0 million for the same period last year, a decrease of \$449,000, or 22 percent. The decrease in interest expense on deposits was primarily attributable to a lower average cost and, to a lesser extent, a lower average balance. The average cost of deposits decreased to 0.68 percent during the third quarter of fiscal 2013 from 0.84 percent during the same quarter last year, a decrease of 16 basis points. The decrease in the average cost of deposits was attributable to interest rate reductions in checking, savings and money market (“core”) deposits and new time deposits with a lower average cost replacing maturing time deposits with a higher average cost, consistent with current relatively low market interest rates. The average balance of deposits decreased \$28.3 million to \$931.7 million during the quarter ended March 31, 2013 from \$960.0 million during the same period last year. The decrease in the average balance was primarily attributable to a decrease in time deposits. Strategically, the Corporation has been promoting core deposits and competing less aggressively for time deposits. The Corporation believes the increase in core deposits was also attributable to the impact of depositors seeking an alternative to lower yielding time deposits in light of the current low interest rate environment. The average balance of core deposits to total deposits in the third quarter of fiscal 2013 was 55 percent, compared to 52 percent in the same period of fiscal 2012.

Interest expense on borrowings, consisting of FHLB – San Francisco advances, for the third quarter of fiscal 2013 decreased \$483,000, or 33 percent, to \$981,000 from \$1.5 million for the same period last year. The decrease in interest expense on borrowings was the result of a lower average balance and, to a much lesser extent, lower average cost. The average balance of borrowings decreased \$46.7 million, or 30 percent, to \$110.7 million during the quarter ended March 31, 2013 from \$157.4 million during the same period last year. The decrease in the average balance was due to scheduled maturities. The average cost of borrowings decreased to 3.59 percent for the quarter ended March 31, 2013 from 3.74 percent in the same quarter last year, a decrease of 15 basis points. The decrease in average cost was due to maturities of higher costing advances.

For the Nine Months Ended March 31, 2013 and 2012. Total interest expense for the first nine months of fiscal 2013 was \$8.3 million as compared to \$11.6 million for the same period last year, a decrease of \$3.3 million, or 28 percent. This decrease was primarily attributable to a lower average balance of interest-bearing liabilities, particularly



borrowings, and, to a lesser extent, a lower average cost of interest-bearing liabilities.

Interest expense on deposits for the first nine months of fiscal 2013 was \$5.0 million as compared to \$6.5 million for the same period last year, a decrease of \$1.5 million, or 23 percent. The decrease in interest expense on deposits was primarily attributable to a lower average cost and, to a lesser extent, a lower average balance. The average cost of deposits decreased to 0.71 percent during the first nine months of fiscal 2013 from 0.91 percent during the same period last year, a decrease of 20 basis points. The decrease in the average cost of deposits was attributable to interest rate reductions in core deposits and new time deposits with a lower average cost replacing maturing time deposits with a higher average cost, consistent with current relatively low market interest rates. The average balance of deposits decreased \$10.6 million, or one percent, to \$946.0 million during the nine months ended March 31, 2013 from \$956.6 million during the same period last year. The decrease in the average balance was primarily attributable to a decrease in time deposits, partly offset by an increase in core deposits. The average balance of core deposits to total deposits in the first nine months of fiscal 2013 was 54 percent, compared to 51 percent in the same period of fiscal 2012.

Interest expense on borrowings, consisting of FHLB – San Francisco advances, for the first nine months of fiscal 2013 decreased \$1.8 million, or 35 percent, to \$3.3 million from \$5.1 million for the same period last year. The decrease in interest expense on borrowings was the result of a lower average balance and, to a much lesser extent, lower average cost. The average balance of borrowings decreased \$58.6 million, or 33 percent, to \$121.3 million during the nine months ended March 31, 2013 from \$179.9 million during the same period last year. The decrease in the average balance was due to scheduled maturities. The average cost of borrowings decreased to 3.58 percent for the nine months ended March 31, 2013 from 3.77 percent in the same period last year, a decrease of 19 basis points. The decrease in average cost was due to maturities of higher costing advances.

Edgar Filing: PROVIDENT FINANCIAL HOLDINGS INC - Form 10-Q

The following tables present the average balance sheets for the quarters and nine months ended March 31, 2013 and 2012, respectively:

Average Balance Sheets  
(Dollars in thousands)

	Quarter Ended March 31, 2013			Quarter Ended March 31, 2012			Yield/ Cost	
	Average Balance	Interest	Yield/ Cost	Average Balance	Interest	Yield/ Cost		
Interest-earning assets:								
Loans receivable, net <sup>(1)</sup>	\$964,154	\$10,290	4.27	%	\$1,037,449	\$12,205	4.71	%
Investment securities	20,838	105	2.02	%	23,803	126	2.12	%
FHLB – San Francisco stock	19,020	116	2.44	%	24,378	30	0.49	%
Interest-earning deposits	163,911	101	0.25	%	149,459	93	0.25	%
Total interest-earning assets	1,167,923	10,612	3.63	%	1,235,089	12,454	4.03	%
Non interest-earning assets	56,209				47,013			
Total assets	\$1,224,132				\$1,282,102			
Interest-bearing liabilities:								
Checking and money market accounts <sup>(2)</sup>	\$288,151	97	0.14	%	\$283,344	147	0.21	%
Savings accounts	226,606	142	0.25	%	218,128	184	0.34	%
Time deposits	416,958	1,326	1.29	%	458,563	1,683	1.48	%
Total deposits	931,715	1,565	0.68	%	960,035	2,014	0.84	%
Borrowings	110,733	981	3.59	%	157,389	1,464	3.74	%
Total interest-bearing liabilities	1,042,448	2,546	0.99	%	1,117,424	3,478	1.25	%
Non interest-bearing liabilities	25,632				21,955			
Total liabilities	1,068,080				1,139,379			
Stockholders' equity	156,052				142,723			
Total liabilities and stockholders' equity	\$1,224,132				\$1,282,102			
Net interest income		\$8,066				\$8,976		
Interest rate spread <sup>(3)</sup>			2.64	%			2.78	%
Net interest margin <sup>(4)</sup>			2.76	%			2.91	%
Ratio of average interest-earning assets to average interest-bearing liabilities			112.04	%			110.53	%
Return on average assets			1.59	%			0.73	%
Return on average equity			12.48	%			6.54	%

(1)

Includes loans held for sale and non-performing loans, as well as net deferred loan cost amortization of \$122 and \$128 for the quarters ended March 31, 2013 and 2012, respectively.

- (2) Includes the average balance of non interest-bearing checking accounts of \$53.2 million and \$52.8 million during the quarters ended March 31, 2013 and 2012, 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.

Average Balance Sheets  
 (Dollars in thousands)

	Nine Months Ended March 31, 2013			Nine Months Ended March 31, 2012				
	Average Balance	Interest	Yield/ Cost		Average Balance	Interest	Yield/ Cost	
Interest-earning assets:								
Loans receivable, net <sup>(1)</sup>	\$1,016,543	\$33,209	4.36	%	\$1,082,755	\$38,215	4.71	%
Investment securities	21,749	329	2.02	%	24,767	407	2.19	%
FHLB – San Francisco stock	20,270	280	1.83	%	25,302	68	0.35	%
Interest-earning deposits	137,585	258	0.25	%	119,662	227	0.25	%
Total interest-earning assets	1,196,147	34,076	3.80	%	1,252,486	38,917	4.14	%
Non interest-earning assets	49,209				48,301			
Total assets	\$1,245,356				\$1,300,787			
Interest-bearing liabilities:								
Checking and money market accounts <sup>(2)</sup>	\$286,510	307	0.14	%	\$276,523	523	0.25	%
Savings accounts	228,212	434	0.25	%	214,538	600	0.37	%
Time deposits	431,249	4,299	1.33	%	465,553	5,413	1.55	%
Total deposits	945,971	5,040	0.71	%	956,614	6,536	0.91	%
Borrowings	121,342	3,262	3.58	%	179,947	5,101	3.77	%
Total interest-bearing liabilities	1,067,313	8,302	1.04	%	1,136,561	11,637	1.36	%
Non interest-bearing liabilities	26,057				21,829			
Total liabilities	1,093,370				1,158,390			
Stockholders' equity	151,986				142,397			
Total liabilities and stockholders' equity	\$1,245,356				\$1,300,787			
Net interest income		\$25,774				\$27,280		
Interest rate spread <sup>(3)</sup>			2.76	%			2.78	%
Net interest margin <sup>(4)</sup>			2.87	%			2.90	%
Ratio of average interest-earning assets to average interest-bearing liabilities			112.07	%			110.20	%
Return on average assets			2.20	%			0.67	%
Return on average equity			18.02	%			6.09	%

(1) Includes loans held for sale and non-performing loans, as well as net deferred loan cost amortization of \$469 and \$501 for the nine months ended March 31, 2013 and 2012, respectively.

(2) Includes the average balance of non interest-bearing checking accounts of \$52.8 million and \$48.1 million during the nine months ended March 31, 2013 and 2012, 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.

The following table provides the rate/volume variances for the quarters and nine months ended March 31, 2013 and 2012, respectively:

Rate/Volume Variance  
(In Thousands)

	Quarter Ended March 31, 2013 Compared To Quarter Ended March 31, 2012 Increase (Decrease) Due to			
	Rate	Volume	Rate/ Volume	Net
<b>Interest-earning assets:</b>				
Loans receivable <sup>(1)</sup>	\$(1,133	) \$(863	) \$81	\$(1,915 )
Investment securities	(6	) (16	) 1	(21 )
FHLB – San Francisco stock	119	(7	) (26	) 86
Interest-bearing deposits	—	8	—	8
Total net change in income on interest-earning assets	(1,020	) (878	) 56	(1,842 )
<b>Interest-bearing liabilities:</b>				
Checking and money market accounts	(51	) 2	(1	) (50 )
Savings accounts	(47	) 7	(2	) (42 )
Time deposits	(224	) (152	) 19	(357 )
Borrowings	(70	) (430	) 17	(483 )
Total net change in expense on interest-bearing liabilities	(392	) (573	) 33	(932 )
Net (decrease) increase in net interest income	\$(628	) \$(305	) \$23	\$(910 )

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

	Nine Months Ended March 31, 2013 Compared To Nine Months Ended March 31, 2012 Increase (Decrease) Due to			
	Rate	Volume	Rate/ Volume	Net
<b>Interest-earning assets:</b>				
Loans receivable <sup>(1)</sup>	\$(2,841	) \$(2,339	) \$174	\$(5,006 )
Investment securities	(32	) (50	) 4	(78 )
FHLB – San Francisco stock	281	(13	) (56	) 212
Interest-bearing deposits	—	31	—	31
Total net change in income on interest-earning assets	(2,592	) (2,371	) 122	(4,841 )
<b>Interest-bearing liabilities:</b>				
Checking and money market accounts	(227	) 19	(8	) (216 )
Savings accounts	(192	) 38	(12	) (166 )
Time deposits	(772	) (399	) 57	(1,114 )
Borrowings	(264	) (1,659	) 84	(1,839 )
Total net change in expense on interest-bearing liabilities	(1,455	) (2,001	) 121	(3,335 )
Net (decrease) increase in net interest income	\$(1,137	) \$(370	) \$1	\$(1,506 )

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



Provision for Loan Losses:

For the Quarters Ended March 31, 2013 and 2012. During the third quarter of fiscal 2013, the Corporation recorded a recovery from the allowance for loan losses of \$(517,000), an improvement of \$2.1 million, or 132 percent, from a provision for loan losses of \$1.6 million in the same period of fiscal 2012. The improvement in the third quarter of fiscal 2013 was primarily attributable to the improvement in loan quality. Non-performing loans declined to \$20.2 million at March 31, 2013 as compared to \$34.5 million at June 30, 2012 and \$32.1 million at March 31, 2012. Net charge-offs also declined to \$1.2 million in the third quarter of fiscal 2013 as compared to \$4.3 million in the same quarter of fiscal 2012. Total classified loans were \$42.0 million at March 31, 2013 as compared \$53.0 million at June 30, 2012 and to \$55.4 million at March 31, 2012.

For the Nine Months Ended March 31, 2013 and 2012. During the first nine months of fiscal 2013, the Corporation recorded a provision for loan losses of \$39,000, a decline of \$3.7 million, or almost 100 percent, from \$3.7 million in the same period of fiscal 2012. The lower loan loss provision in the first nine months of fiscal 2013 was primarily attributable to an improvement in loan quality. Net charge-offs declined to \$4.7 million in the first nine months of fiscal 2013 as compared to \$9.9 million in the same period of fiscal 2012.

The allowance for loan losses was determined through quantitative and qualitative adjustments including the charge-off experience and to reflect the impact on loans held for investment resulting from the current general economic conditions of the U.S. and California economy such as the improving unemployment rate, and higher home prices in California. See related discussion of "Asset Quality" below.

At March 31, 2013, the allowance for loan losses was \$16.8 million, comprised of collectively evaluated allowances of \$16.6 million and individually evaluated allowances of \$240,000; in comparison to the allowance for loan losses of \$21.5 million at June 30, 2012, comprised of collectively evaluated allowances of \$20.7 million and individually evaluated allowances of \$771,000. The allowance for loan losses as a percentage of gross loans held for investment was 2.18 percent at March 31, 2013 compared to 2.63 percent at June 30, 2012. Management considers, based on currently available information, the allowance for loan losses sufficient to absorb potential losses inherent in loans held for investment. For further analysis on the allowance for loan losses, see Note 6 of the Notes to Unaudited Interim Condensed Consolidated Financial Statements.

Non-Interest Income:

For the Quarters Ended March 31, 2013 and 2012. Total non-interest income increased \$4.1 million, or 36 percent, to \$15.4 million for the quarter ended March 31, 2013 from \$11.3 million for the same period last year. The increase was primarily attributable to an increase in the gain on sale of loans and an improvement in the gain on sale and operations of real estate owned acquired in the settlements of loans.

The net gain on sale of loans increased \$3.7 million, or 37 percent, to \$13.8 million for the third quarter of fiscal 2013 from \$10.1 million in the same quarter of fiscal 2012 reflecting the impact of a higher loan sale volume and higher average loan sale margin. Total loans sold for the quarter ended March 31, 2013 were \$908.1 million, an increase of \$284.7 million or 46 percent, from \$623.4 million for the same quarter last year. The average loan sale margin for PBM during the third quarter of fiscal 2013 was 1.78 percent, up 13 basis points from 1.65 percent for the same period of fiscal 2012. The gain on sale of loans for the third quarter of fiscal 2013 includes a \$27,000 recourse provision on loans sold that are subject to repurchase, compared to an \$811,000 recourse provision in the comparable quarter last year. As of March 31, 2013, the total recourse reserve for loans sold that are subject to repurchase was \$2.3 million, compared to \$6.2 million at June 30, 2012 and \$5.9 million at March 31, 2012. See "Asset Quality" for additional information related to the recourse liability. The gain on sale of loans also includes an unfavorable fair-value adjustment on derivative financial instruments pursuant to ASC 815 and ASC 825, a net loss of \$(6.0 million), in the

third quarter of fiscal 2013 as compared to an unfavorable fair-value adjustment, a net loss of \$(1.3 million), in the same period last year. As of March 31, 2013, the fair value of derivative financial instruments pursuant to ASC 815 and ASC 825 was \$8.3 million, compared to \$13.5 million at June 30, 2012 and \$8.1 million at March 31, 2012.

Total loans originated and purchased for sale increased \$206.5 million, or 35 percent, to \$790.1 million in the third quarter of fiscal 2013 from \$583.6 million for the same period last year. The loan origination volumes were achieved as a result of continuing favorable liquidity in the secondary mortgage markets particularly in FHA/VA, Fannie Mae and Freddie Mac loan products, and a relatively high volume of activity resulting from relatively low mortgage interest rates. The mortgage banking environment, although showing improvement as a result of relatively low mortgage interest rates, remains highly volatile as a result of the well-publicized weakness of the single-family real estate market.

The net gain on sale and operations of real estate owned acquired in the settlement of loans was \$218,000 in the third quarter of fiscal 2013 compared to a net loss of \$(215,000) in the same quarter last year. The net gain in the third quarter of fiscal 2013 was

primarily due to a \$321,000 net gain on the sale of real estate owned, partly offset by real estate owned operating expenses of \$103,000. Eight real estate owned properties were sold in the quarter ended March 31, 2013 as compared to 24 real estate owned properties sold in the quarter ended March 31, 2012. See the related discussion on “Asset Quality”.

For the Nine Months Ended March 31, 2013 and 2012. Total non-interest income increased \$30.4 million, or 112 percent, to \$57.6 million for the nine months ended March 31, 2013 from \$27.2 million for the same period last year. The increase was primarily attributable to an increase in the gain on sale of loans and an improvement in the gain on sale and operations of real estate owned acquired in the settlements of loans.

The net gain on sale of loans increased \$29.0 million, or 124 percent, to \$52.3 million for the first nine months of fiscal 2013 from \$23.3 million in the same period of fiscal 2012 reflecting the impact of a higher loan sale volume and higher average loan sale margin. Total loans sold for the nine months ended March 31, 2013 were \$2.71 billion, an increase of \$926.8 million or 52 percent, from \$1.78 billion for the same period last year. The average loan sale margin for PBM during the first nine months of fiscal 2013 was 1.98 percent, up 67 basis points from 1.31 percent for the same period of fiscal 2012. The gain on sale of loans for the first nine months of fiscal 2013 includes a \$1.9 million recourse provision on loans sold that are subject to repurchase, compared to a \$2.6 million recourse provision in the comparable period last year. This increase in the recourse provision includes the \$1.5 million accrual for a global settlement with Bank’s largest legacy loan investor, discussed below. The gain on sale of loans also includes an unfavorable fair-value adjustment on derivative financial instruments pursuant to ASC 815 and ASC 825, a net loss of \$(5.8 million) in the first nine months of fiscal 2013 as compared to a favorable fair-value adjustment, a net gain of \$381,000, in the same period last year.

In December 2012, the Bank accrued for a global settlement with the Bank’s largest legacy loan investor, which eliminated all past, current and future repurchase claims from this particular investor. The settlement agreement was executed and paid in February 2013. The settlement required an additional recourse provision of \$1.5 million during the second quarter of fiscal 2013 which fully funded the settlement amount in addition to the recourse reserve of \$4.0 million that had already been provided in prior periods for this investor. This investor purchased approximately 39 percent of the Corporation’s total loan sale volume from January 1, 2005 through December 31, 2011 and accounted for approximately 64 percent of all recourse claims paid prior to the settlement.

Total loans originated and purchased for sale increased \$878.8 million, or 49 percent, to \$2.66 billion in the first nine months of fiscal 2013 from \$1.78 billion for the same period last year.

The net gain on sale and operations of real estate owned acquired in the settlement of loans was \$886,000 in the first nine months of fiscal 2013 compared to a net loss of \$(106,000) in the same period last year. The net gain in the first nine months of fiscal 2013 was primarily due to a \$1.1 million net gain on the sale of real estate owned and a \$118,000 recovery for losses on real estate owned, partly offset by real estate owned operating expenses of \$300,000. Thirty-six real estate owned properties were sold in the nine months ended March 31, 2013 as compared to 82 real estate owned properties sold in the same period ended March 31, 2012.

#### Non-Interest Expense:

For the Quarters Ended March 31, 2013 and 2012. Total non-interest expense in the quarter ended March 31, 2013 was \$15.7 million, an increase of \$1.1 million or eight percent, as compared to \$14.6 million in the same quarter of fiscal 2012. The increase in non-interest expense was due to increases in salaries and employee benefits, premises and occupancy, equipment and sales and marketing expenses related to mortgage banking operations, partly offset by decreases in professional expenses, deposit insurance premiums and regulatory assessments and other operating expenses.

Total salaries and employee benefits increased \$1.2 million, or 12 percent, to \$11.5 million in the third quarter of fiscal 2013 from \$10.3 million in the same period of fiscal 2012. The increase was primarily attributable to higher incentive compensation related to PBM, resulting from an increase in loan originations.

For the Nine Months Ended March 31, 2013 and 2012. Total non-interest expense in the nine months ended March 31, 2013 was \$49.8 million, an increase of \$10.4 million or 26 percent, as compared to \$39.4 million in the same period of fiscal 2012. The increase in non-interest expense was due to increases in salaries and employee benefits, premises and occupancy, equipment, and sales and marketing expenses related to mortgage banking operations, partly offset by decreases in professional expenses, deposit insurance premiums and regulatory assessments and other operating expenses.

Total salaries and employee benefits increased \$9.8 million, or 36 percent, to \$37.4 million in the first nine months of fiscal 2013 from \$27.6 million in the same period of fiscal 2012. The increase was primarily attributable to higher incentive compensation related to PBM, resulting from an increase in loan originations.

Premises and occupancy increased \$597,000, or 22 percent, to \$3.3 million in the first nine months of fiscal 2013 from \$2.7 million in the same period of fiscal 2012. Equipment expense increased \$264,000, or 24 percent, to \$1.3 million in the first nine months of fiscal 2013 from \$1.1 million in the same period of fiscal 2012. The increases in premises and occupancy and equipment expenses were primarily due to new PBM offices in northern California and a newly opened retail banking office in La Quinta, California. Sales and marketing expense increased \$657,000, or 95 percent, to \$1.3 million in the first nine months of fiscal 2013 from \$692,000 in the same period of fiscal 2012. The increase in sales and marketing expense was primarily related to PBM.

Provision for income taxes:

The income tax provision reflects accruals for taxes at the applicable rates for federal income tax and California franchise tax based upon reported pre-tax income, adjusted for the effect of all permanent differences between income for tax and financial reporting purposes, such as non-deductible stock-based compensation, bank-owned life insurance policies and certain California tax-exempt loans. Therefore, there are fluctuations in the effective income tax rate from period to period based on the relationship of net permanent differences to income before tax.

For the Quarters Ended March 31, 2013 and 2012. The income tax provision was \$3.4 million for the quarter ended March 31, 2013 as compared to \$1.7 million for the same period last year. The effective income tax rate for the quarter ended March 31, 2013 was 40.9 percent as compared to 42.6 percent in the same quarter last year. The Corporation believes that the effective income tax rate applied in the third quarter of fiscal 2013 reflects its current income tax obligations.

For the Nine Months Ended March 31, 2013 and 2012. The income tax provision was \$13.0 million for the nine months ended March 31, 2013 as compared to \$4.8 million for the same period last year. The income tax provision in the nine months ended March 31, 2013 included a net tax recovery from prior period adjustments of \$1.2 million, which includes a tax liability reversal of \$825,000 as a result of the August 2, 2012 notification from the tax authorities indicating the acceptance of an accounting method change. The effective income tax rate for the nine months ended March 31, 2013 was 38.7 percent as compared to 42.7 percent in the same period last year. The Corporation believes that the effective income tax rate applied in the first nine months of fiscal 2013 reflects its current income tax obligations.

#### Asset Quality

Non-performing loans, net of allowance for loan losses, consisting of loans with collateral primarily located in Southern California, decreased \$14.3 million, or 41 percent, to \$20.2 million at March 31, 2013 from \$34.5 million at June 30, 2012. Non-performing loans as a percentage of loans held for investment improved to 2.68 percent at March 31, 2013 from 4.33 percent at June 30, 2012. The non-performing loans at March 31, 2013 were primarily comprised of 54 single-family loans (\$15.1 million); seven commercial real estate loans (\$3.2 million); five multi-family loans (\$1.7 million) and five commercial business loans (\$197,000). This compared to the non-performing loans at June 30, 2012 which were primarily comprised of 87 single-family loans (\$29.1 million); six commercial real estate loans (\$3.2 million); four multi-family loans (\$1.5 million); one other mortgage loan (\$522,000) and six commercial business loans (\$172,000). No interest accruals were made for loans that were past due 90 days or more or if the loans were deemed non-performing.

When a loan is considered non-performing, as defined by ASC 310 "Receivables," the Corporation measures impairment based on the present value of expected future cash flows discounted at the loan's effective interest rate. However, if the loan is "collateral-dependent" or foreclosure is probable, impairment is measured based on the fair value of the collateral. At least quarterly, management reviews non-performing loans. When the measured value of an individually identified non-performing loan is less than the recorded investment in the loan, the Corporation records an individually evaluated allowance equal to the excess of the recorded investment in the loan over its measured value. A collectively evaluated allowance is provided on loans not individually identified as non-performing and determined based on a quantitative and a qualitative analysis using a loss migration methodology. The loans are classified by type and loan grade, and the historical loss migration is tracked for the various stratifications. Loss experience is quantified for the most recent four quarters, and that loss experience is applied to the stratified portfolio at each quarter end. The qualitative analysis data includes current unemployment rates, retail sales, gross domestic product, employment growth, real estate value trends, home sales, and commercial real estate vacancy rates, among other current economic data.

As of March 31, 2013, total restructured loans, net of allowance for loan losses, declined to \$13.3 million from \$25.1 million at June 30, 2012, a decrease of \$11.8 million, or 47 percent. At March 31, 2013 and June 30, 2012, \$8.0 million and \$15.7 million, respectively, of these restructured loans were classified as non-performing. As of March 31, 2013, \$9.4 million, or 71 percent, of the restructured loans have a current payment status; this compares to \$18.5 million, or 74 percent, of restructured loans that had a current payment status as of June 30, 2012.

Real estate owned was \$2.2 million at March 31, 2013, a decrease of \$3.3 million or 60 percent from \$5.5 million at June 30, 2012. Real estate owned at March 31, 2013 was comprised of seven single-family properties (\$2.2 million), two undeveloped lots (\$9,000) and one commercial real estate property (fully reserved). The Corporation has not suspended foreclosure activity because, to date, the Corporation has not been in a situation where its foreclosure documentation, process or legal standing has been challenged by a court. The Corporation maintains the original promissory note and deed of trust for loans held for investment. As a result, the Corporation does not rely on lost-note affidavits to fulfill foreclosure filing requirements.

Non-performing assets, which includes non-performing loans and real estate owned, decreased 44 percent to \$22.4 million or 1.84 percent of total assets at March 31, 2013 from \$40.0 million or 3.17 percent of total assets at June 30, 2012. Restructured loans which are performing in accordance with their modified terms and are not otherwise classified non-accrual are not included in non-performing assets. For further analysis on non-performing loans and restructured loans, see Note 6 of the Notes to Unaudited Interim Condensed Consolidated Financial Statements.

Occasionally, the Corporation is required to repurchase loans sold to Freddie Mac, Fannie Mae or other institutional investors if it is determined that such loans do not meet the credit requirements of the investor, or if one of the parties involved in the loan misrepresented pertinent facts, committed fraud, or if such loans were 90-days past due within 120 days of the loan funding date. During the third quarter and nine months of fiscal 2013, the Corporation repurchased two loans, totaling \$483,000, and three loans, totaling \$790,000, respectively, from investors pursuant to the recourse/repurchase covenants contained in the Corporation's loan sale agreements, while additional repurchase requests were settled that did not result in the repurchase of the loan itself. In the third quarter of fiscal 2012, the Corporation did not repurchase any loans; however, in the first nine months of fiscal 2012, the Corporation repurchased four loans, totaling \$1.3 million from investors pursuant to the recourse/repurchase covenants contained in the loan sale agreements, while additional repurchase requests were settled that did not result in the repurchase of the loan itself. The primary reasons for honoring the repurchase requests were borrower fraud, undisclosed liabilities on borrower applications, and documentation, verification and appraisal disputes. For the third quarter and nine months of fiscal 2013, the Corporation had settled claims for \$5.5 million and \$5.8 million, respectively; and decreased the recourse reserve by \$5.5 million and \$3.9 million, respectively. This compares to the third quarter and nine months of fiscal 2012 when the Corporation settled claims for \$201,000 and \$889,000, respectively; and increased the recourse reserve by \$600,000 and \$1.7 million, respectively. As of March 31, 2013, the total recourse reserve for loans sold that are subject to repurchase was \$2.3 million, compared to \$6.2 million at June 30, 2012 and \$5.9 million at March 31, 2012. The decrease in the recourse reserve in the third quarter and nine months of fiscal 2013 was due primarily to the \$5.5 million payment of the global settlement with the Corporation's largest legacy loan investor described previously. Beginning in 2008, in connection with the down turn in real estate market, the Corporation has implemented tighter underwriting standards to reduce potential loan repurchase requests, including requiring higher credit scores, generally lower debt-to-income ratios, and verification of income and assets, among other criteria. Despite management's diligent estimate of the recourse reserve, the Corporation is still subject to risks and uncertainties associated with potentially higher loan repurchase claims from investors, primarily those related to loans originated and sold in the calendar years 2004 through 2007.

The following table shows the summary of the recourse liability for the quarters and nine months ended March 31, 2013 and 2012:

	For the Quarters Ended		For the Nine Months Ended	
	March 31, 2013	2012	March 31, 2013	2012
Recourse Liability (In Thousands)				
Balance, beginning of the period	\$7,776	\$5,301	\$6,183	\$4,216

Edgar Filing: PROVIDENT FINANCIAL HOLDINGS INC - Form 10-Q

Provision	27	811	1,930	2,584
Net settlements in lieu of loan repurchases	(5,501	) (201	) (5,811	) (889
Balance, end of the period	\$2,302	\$5,911	\$2,302	\$5,911

A decline in real estate values subsequent to the time of origination of the Corporation's real estate secured loans could result in higher loan delinquency levels, foreclosures, provisions for loan losses and net charge-offs. Real estate values and real estate markets are beyond the Corporation's control and are generally affected by changes in national, regional or local economic conditions and other factors. These factors include fluctuations in interest rates and the availability of loans to potential purchasers, changes in tax laws and other governmental statutes, regulations and policies and acts of nature, such as earthquakes and national disasters particular to California where substantially all of the Corporation's real estate collateral is located. If real estate values continue to decline further from the levels described in the following tables (which were calculated at the time of loan origination),



the value of the real estate collateral securing the Corporation's loans could be significantly reduced. The Corporation's ability to recover on defaulted loans by foreclosing and selling the real estate collateral would then be diminished and it would be more likely to suffer losses on defaulted loans. The Corporation generally does not update the loan-to-value ratio ("LTV") on its loans held for investment by obtaining new appraisals or broker price opinions (nor does the Corporation intend to do so in the future as a result of the costs and inefficiencies associated with completing the task) unless a specific loan has demonstrated deterioration or the Corporation receives a loan modification request from a borrower (in which case individually evaluated allowances are established, if required). Therefore, it is reasonable to assume that the LTV ratios disclosed in the following tables may be understated in comparison to their current LTV ratios as a result of their year of origination, the subsequent general decline in real estate values that occurred and the specific location of the individual properties. The Corporation has not quantified the current LTVs of its loans held for investment nor the impact the decline in real estate values has had on the original LTVs of its loans held for investment.

The following table describes certain credit risk characteristics of the Corporation's single-family, first trust deed, mortgage loans held for investment as of March 31, 2013 (dollars in thousands):

	Outstanding Balance <sup>(1)</sup>	Weighted- Average FICO <sup>(2)</sup>	Weighted- Average LTV <sup>(3)</sup>	Weighted- Average Seasoning <sup>(4)</sup>
Interest only	\$193,812	734	72%	6.56 years
Stated income <sup>(5)</sup>	\$206,987	732	69%	7.26 years
FICO less than or equal to 660	\$13,582	642	66%	7.49 years
Over 30-year amortization	\$16,631	733	66%	7.61 years

The outstanding balance presented on this table may overlap more than one category. Of the outstanding balance, <sup>(1)</sup> \$6.3 million of "interest only," \$11.3 million of "stated income," \$1.6 million of "FICO less than or equal to 660," and \$239 of "over 30-year amortization" balances were non-performing.

Based on borrowers' FICO scores at the time of loan origination. The FICO score represents the creditworthiness of a borrower based on the borrower's credit history, as reported by an independent third party. A higher FICO score indicates a greater degree of creditworthiness. Bank regulators have issued guidance stating that a FICO score of 660 and below is indicative of a "subprime" borrower. <sup>(2)</sup>

<sup>(3)</sup> LTV is the ratio calculated by dividing the current loan balance by the lower of the original appraised value or purchase price of the real estate collateral.

<sup>(4)</sup> Seasoning describes the number of years since the funding date of the loan.

<sup>(5)</sup> Stated income is defined as borrower stated income on his/her loan application which was not subject to verification during the loan origination process.

The following table summarizes the amortization schedule of the Corporation's interest only single-family, first trust deed, mortgage loans held for investment, including the percentage of those which are identified as non-performing or 30 - 89 days delinquent as of March 31, 2013 (dollars in thousands):

	Balance	Non-Performing <sup>(1)</sup>	30 - 89 Days Delinquent
Fully amortize in the next 12 months	\$3,839	—%	—%
Fully amortize between 1 year and 5 years	180,699	4%	1%
Fully amortize after 5 years	9,274	—%	—%
Total	\$193,812	3%	—%

<sup>(1)</sup> As a percentage of each category.



Edgar Filing: PROVIDENT FINANCIAL HOLDINGS INC - Form 10-Q

The following table summarizes the interest rate reset (repricing) schedule of the Corporation's stated income single-family, first trust deed, mortgage loans held for investment, including the percentage of those which are identified as non-performing or 30 – 89 days delinquent as of March 31, 2013 (dollars in thousands):

	Balance <sup>(1)</sup>	Non-Performing <sup>(1)</sup>	30 - 89 Days Delinquent <sup>(1)</sup>
Interest rate reset in the next 12 months	\$198,464	5%	—%
Interest rate reset between 1 year and 5 years	8,523	22%	—%
Interest rate reset after 5 years	—	—%	—%
Total	\$206,987	5%	—%

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

The reset of interest rates on adjustable rate mortgage loans (primarily interest only single-family loans) to a fully-amortizing status has not created a payment shock for most of the Corporation's borrowers primarily because the majority of the loans are repricing at a 2.75% margin over six-month LIBOR which has resulted in a lower interest rate than the borrowers pre-adjustment interest rate. Management expects that, although there are signs that the economy is stabilizing, the economic recovery from the recent recession will be slow to develop, which may translate to an extended period of lower interest rates and a reduced risk of mortgage payment shock for the foreseeable future.

The following table describes certain credit risk characteristics, geographic locations and the calendar year of loan origination of the Corporation's single-family, first trust deed, mortgage loans held for investment, at March 31, 2013:

	Calendar Year of Origination									Total
	Prior	2005	2006	2007	2008	2009	2010	2011-2012	YTD 2013	
Loan balance (in thousands)	\$82,082	\$124,357	\$105,647	\$60,668	\$27,571	\$1,385	\$451	\$8,949	\$2,224	\$413,334
Weighted-average LTV <sup>(1)</sup>	65%	69%	70%	72%	76%	63%	87%	59%	57%	69%
Weighted-average age (in years)	9.70	7.67	6.73	5.75	5.00	3.67	2.64	0.91	0.12	7.17
Weighted-average FICO <sup>(2)</sup>	721	730	742	732	743	732	744	749	749	733
Number of loans	370	339	245	123	51	5	3	35	12	1,183
Geographic breakdown (%)										
Inland Empire	32%	29%	30%	29%	27%	77%	51%	24%	24%	29%
Southern California <sup>(3)</sup>	63%	66%	51%	39%	39%	23%	49%	36%	49%	55%
Other California <sup>(4)</sup>	5%	5%	17%	31%	34%	—%	—%	40%	27%	15%
Other States	—%	—%	2%	1%	—%	—%	—%	—%	—%	1%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

<sup>(1)</sup> LTV is the ratio calculated by dividing the current loan balance by the lower of the original appraised value or purchase price of the real estate collateral.

- (2) At time of loan origination.
- (3) Other than the Inland Empire.
- (4) Other than the Inland Empire and Southern California.

Edgar Filing: PROVIDENT FINANCIAL HOLDINGS INC - Form 10-Q

The following table describes certain credit risk characteristics, geographic locations and the calendar year of loan origination of the Corporation's multi-family loans held for investment, at March 31, 2013:

	Calendar Year of Origination									Total
	2004 & Prior	2005	2006	2007	2008	2009	2010	2011-2012	YTD 2013	
Loan balance (in thousands)	\$42,490	\$35,856	\$46,688	\$44,486	\$8,369	—	\$947	\$68,206	\$9,598	\$256,640
Weighted-average LTV <sup>(1)</sup>	45%	51%	52%	55%	47%	—%	67%	58%	56%	53%
Weighted-average DCR <sup>(2)</sup>	1.54x	1.24x	1.29x	1.27x	1.39x	-x	1.33x	1.61x	2.04x	1.44x
Weighted-average age (in years)	9.29	7.76	6.77	5.68	4.93	—	2.92	1.04	0.13	5.29
Weighted-average FICO <sup>(3)</sup>	715	711	681	697	756	—	715	737	764	726
Number of loans	71	58	57	65	11	—	4	73	15	354
Geographic breakdown (%)										
Inland Empire	21%	7%	13%	6%	17%	—%	—%	25%	36%	17%
Southern California <sup>(4)</sup>	74%	62%	40%	87%	83%	—%	33%	54%	21%	61%
Other California <sup>(5)</sup>	4%	30%	41%	7%	—%	—%	67%	21%	43%	21%
Other States	1%	1%	6%	—%	—%	—%	—%	—%	—%	1%
Total	100%	100%	100%	100%	100%	—%	100%	100%	100%	100%

(1) LTV is the ratio calculated by dividing the current loan balance by the lower of the original appraised value or purchase price of the real estate collateral.

(2) Debt Coverage Ratio ("DCR") at time of origination.

(3) At time of loan origination.

(4) Other than the Inland Empire.

(5) Other than the Inland Empire and Southern California.

The following table summarizes the interest rate reset or maturity schedule of the Corporation's multi-family loans held for investment, including the percentage of those which are identified as non-performing, 30 – 89 days delinquent or not fully amortizing as of March 31, 2013 (dollars in thousands):

	Balance	Non-Performing <sup>(1)</sup>	30 - 89 Days Delinquent	Percentage Not Fully Amortizing <sup>(1)</sup>
Interest rate reset or mature in the next 12 months	\$153,313	1%	—%	39%
Interest rate reset or mature between 1 year and 5 years	92,312	1%	—%	7%
Interest rate reset or mature after 5 years	11,015	—%	—%	38%
Total	\$256,640	1%	—%	27%

(1) As a percentage of each category.



Edgar Filing: PROVIDENT FINANCIAL HOLDINGS INC - Form 10-Q

The following table describes certain credit risk characteristics, geographic locations and the calendar year of loan origination of the Corporation's commercial real estate loans held for investment, at March 31, 2013:

	Calendar Year of Origination								YTD 2013	Total <sup>(5)(6)</sup>
	2004 & Prior	2005	2006	2007	2008	2009	2010	2011-2012		
Loan balance (in thousands)	\$12,906	\$12,548	\$13,346	\$14,401	\$3,925	\$8,845	\$381	\$21,892	\$6,535	\$94,779
Weighted-average LTV <sup>(1)</sup>	44%	45%	57%	54%	35%	59%	59%	54%	50%	51%
Weighted-average DCR <sup>(2)</sup>	2.03x	2.14x	2.42x	2.53x	1.83x	1.23x	1.26x	1.84x	2.35x	2.07x
Weighted-average age (in years)	10.35	7.66	6.62	5.80	4.96	3.70	2.85	0.57	0.13	4.94
Weighted-average FICO <sup>(2)</sup>	722	689	720	719	758	722	705	751	752	728
Number of loans	30	17	13	15	8	3	2	23	4	115
Geographic breakdown (%):										
Inland Empire	41%	72%	23%	46%	10%	100%	52%	67%	60%	55%
Southern California <sup>(3)</sup>	59%	28%	77%	42%	90%	—%	48%	33%	26%	42%
Other California <sup>(4)</sup>	—%	—%	—%	12%	—%	—%	—%	—%	14%	3%
Other States	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

(1) LTV is the ratio calculated by dividing the current loan balance by the lower of the original appraised value or purchase price of the real estate collateral.

(2) At time of loan origination.

(3) Other than the Inland Empire.

(4) Other than the Inland Empire and Southern California.

Comprised of the following: \$22.0 million in Office; \$21.8 million in Retail; \$13.2 million in Mixed Use; \$7.9 million in Medical/Dental Office; \$6.3 million in Light Industrial/Manufacturing; \$5.3 million in Mobile Home Park; \$4.2 million in Warehouse; \$3.9 million in Mini-Storage; \$2.8 million in Research and Development; \$1.8 million in Automotive – Non Gasoline; \$1.8 million in Hotel and Motel; \$1.8 million in Restaurant/Fast Food; \$1.5 million in Schools; and \$478 in Other.

(6) Consisting of \$65.7 million or 69.3% in investment properties and \$29.1 million or 30.7% in owner occupied properties.

The following table summarizes the interest rate reset or maturity schedule of the Corporation's commercial real estate loans held for investment, including the percentage of those which are identified as non-performing, 30 – 89 days delinquent or not fully amortizing as of March 31, 2013 (dollars in thousands):

	Balance	Non-Performing <sup>(1)</sup>	30 - 89 Days Delinquent	Percentage Not Fully Amortizing <sup>(1)</sup>
Interest rate reset or mature in the next 12 months	\$48,731	2%	—%	93%

Edgar Filing: PROVIDENT FINANCIAL HOLDINGS INC - Form 10-Q

Interest rate reset or mature between 1 year and 5 years	44,361	5%	—%	75%
Interest rate reset or mature after 5 years	1,687	—%	—%	39%
Total	\$94,779	4%	—%	83%

(1) As a percentage of each category.

60

---



The following table sets forth information with respect to the Corporation's non-performing assets and restructured loans, net of allowance for loan losses, at the dates indicated (dollars in thousands):

	At March 31, 2013	At June 30, 2012	
Loans on non-accrual status (excluding restructured loans):			
Mortgage loans:			
Single-family	\$9,304	\$17,095	
Multi-family	900	967	
Commercial real estate	1,958	764	
Commercial business loans	34	7	
Total	12,196	18,833	
Accruing loans past due 90 days or more	—	—	
Restructured loans on non-accrual status:			
Mortgage loans:			
Single-family	5,850	11,995	
Multi-family	759	490	
Commercial real estate	1,227	2,483	
Other	—	522	
Commercial business loans	163	165	
Total	7,999	15,655	
Total non-performing loans	20,195	34,488	
Real estate owned, net	2,227	5,489	
Total non-performing assets	\$22,422	\$39,977	
Restructured loans on accrual status:			
Mortgage loans:			
Single-family	\$2,575	\$6,148	
Multi-family	2,755	3,266	
Commercial business loans	—	33	
Total	\$5,330	\$9,447	
Non-performing loans as a percentage of loans held for investment, net of allowance for loan losses	2.68	%4.33	%
Non-performing loans as a percentage of total assets	1.65	%2.74	%
Non-performing assets as a percentage of total assets	1.84	%3.17	%

The following table describes the non-performing loans, net of allowance for loan losses, by the calendar year of origination as of March 31, 2013 (dollars in thousands):

	Calendar Year of Origination									Total
	2004 & Prior	2005	2006	2007	2008	2009	2010	2011-2012	YTD 2013	
Mortgage loans:										
Single-family	\$3,331	\$4,956	\$3,090	\$2,484	\$842	\$—	\$—	\$451	\$—	\$15,154
Multi-family	190	—	1,237	232	—	—	—	—	—	1,659
Commercial real estate	463	332	415	—	—	1,496	—	479	—	3,185
Commercial business loans	—	—	—	—	—	145	—	24	28	197
Total	\$3,984	\$5,288	\$4,742	\$2,716	\$842	\$1,641	\$—	\$954	\$28	\$20,195

The following table describes the non-performing loans, net of allowance for loan losses, by the geographic location as of March 31, 2013 (dollars in thousands):

	Southern		Other		Total
	Inland Empire	California <sup>(1)</sup>	California <sup>(2)</sup>	Other States	
Mortgage loans:					
Single-family	\$5,776	\$7,490	\$1,888	\$—	\$15,154
Multi-family	798	383	478	—	1,659
Commercial real estate	3,185	—	—	—	3,185
Commercial business loans	191	—	6	—	197
Total	\$9,950	\$7,873	\$2,372	\$—	\$20,195

(1) Other than the Inland Empire.

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

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

	At March 31, 2013		At June 30, 2012	
	Balance	Count	Balance	Count
Special mention loans:				
Mortgage loans:				
Single-family	\$4,341	14	\$2,118	5
Multi-family	1,982	2	2,755	1
Commercial real estate	606	2	—	—
Commercial business loans	—	—	33	1
Total special mention loans	6,929	18	4,906	7
Substandard loans:				
Mortgage loans:				
Single-family	15,232	55	29,594	92
Multi-family	11,148	10	7,668	7
Commercial real estate	8,430	12	10,114	12
Other	—	—	522	1
Commercial business loans	197	5	173	6
Total substandard loans	35,007	82	48,071	118
Total classified loans	41,936	100	52,977	125
Real estate owned:				
Single-family	2,218	7	4,737	18
Multi-family	—	—	366	1
Commercial real estate	—	1	—	1
Other	9	2	386	4
Total real estate owned	2,227	10	5,489	24
Total classified assets	\$44,163	110	\$58,466	149

## Loan Volume Activities

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

	For the Quarter Ended March 31,		For the Nine Months Ended March 31,	
	2013	2012	2013	2012
Loans originated and purchased for sale:				
Retail originations	\$369,884	\$233,101	\$1,262,590	\$660,922
Wholesale originations and purchases	420,198	350,531	1,396,782	1,119,714
Total loans originated and purchased for sale <sup>(1)</sup>	790,082	583,632	2,659,372	1,780,636
Loans sold:				
Servicing released	(904,900	)(621,151	)(2,696,370	)(1,773,297
Servicing retained	(3,159	)(2,205	)(13,836	)(10,068
Total loans sold <sup>(2)</sup>	(908,059	)(623,356	)(2,710,206	)(1,783,365
Loans originated for investment:				
Mortgage loans:				
Single-family	2,589	539	7,766	1,519
Multi-family	9,608	8,995	33,948	32,633
Commercial real estate	6,539	1,990	22,044	6,170
Commercial business loans	40	75	100	375
Consumer loans	—	—	—	13
Total loans originated for investment <sup>(3)</sup>	18,776	11,599	63,858	40,710
Loans purchased for investment:				
Mortgage loans:				
Multi-family	—	—	—	7,053
Total loans purchased for investment	—	—	—	7,053
Mortgage loan principal payments	(36,759	)(26,810	)(107,120	)(95,249
Real estate acquired in settlement of loans	(2,474	)(7,242	)(9,250	)(19,327
(Decrease) increase in other items, net <sup>(4)</sup>	(4,045	)(2,140	)(1,117	)4,203
Net decrease in loans held for investment and loans held for sale at fair value	\$(142,479	)\$ (64,317	)\$ (104,463	)\$ (65,339

(1) Includes PBM loans originated and purchased for sale during the quarters and nine months ended March 31, 2013 and 2012 totaling \$790.1 million, \$583.6 million, \$2.66 billion and \$1.78 billion, respectively.

(2) Includes PBM loans sold during the quarters and nine months ended March 31, 2013 and 2012 totaling \$908.1 billion, \$623.4 million, \$2.71 billion and \$1.78 billion, respectively.

(3) Includes PBM loans originated for investment during the quarters and nine months ended March 31, 2013 and 2012 totaling \$2.6 million, \$539, \$7.8 million and \$1.5 million, respectively.

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

Loans that the Corporation has originated for sale are primarily sold on a servicing released basis. Clear ownership is conveyed to the investor by endorsing the original note in favor of the investor; transferring the servicing to a new servicer consistent with investor instructions; communicating the servicing transfer to the borrower as required by law; and sending the loan file and

64

---

collateral instruments electronically to the investor contemporaneous with receiving the cash proceeds from the sale of the loan. Additionally, the Corporation registers the change of ownership in the mortgage electronic registration system known as MERS as required by the contractual terms of the loan sale agreement. The Corporation does not believe that completing this additional registration clouds ownership of the note since the steps previously described have also been taken. Also, the Corporation retains an imaged copy of the entire loan file and collateral instruments as an abundance of caution in the event questions arise that can only be answered by reviewing the loan file. Additionally, the Corporation does not originate or sponsor mortgage-backed securities.

#### Liquidity and Capital Resources

The Corporation's primary sources of funds are deposits, proceeds from the sale of loans originated and purchased for sale, proceeds from principal and interest payments on loans, proceeds from the maturity and sale of investment securities, FHLB – San Francisco advances, and access to the discount window facility at the Federal Reserve Bank of San Francisco. While maturities and scheduled amortization of loans and investment securities are a relatively predictable source of funds, deposit flows, mortgage prepayments and loan sales are greatly influenced by general interest rates, economic conditions and competition.

The primary investing activity of the Corporation is the origination and purchase of loans held for investment and loans held for sale. During the first nine months of fiscal 2013 and 2012, the Corporation originated and purchased \$2.72 billion and \$1.83 billion of loans, respectively. The total loans sold in the first nine months of fiscal 2013 and 2012 were \$2.71 billion and \$1.78 billion, respectively. At March 31, 2013, the Corporation had loan origination commitments totaling \$213.8 million and undisbursed lines of credit totaling \$2.9 million. The Corporation anticipates that it will have sufficient funds available to meet its current loan commitments.

The Corporation's primary financing activity is gathering deposits. During the first nine months of fiscal 2013, the net decrease in deposits was \$26.3 million, primarily due to the decline in time deposits, which was partially offset by the increase in core deposits. The decrease in the deposits was consistent with the Corporation's operating strategy. On March 31, 2013, time deposits scheduled to mature in one year or less were \$253.7 million and total time deposits with a principal amount of \$100,000 or higher were \$199.2 million. Historically, the Corporation has been able to retain a significant percentage of its time deposits as they mature by adjusting deposit rates to the current interest rate environment.

The Corporation must maintain an adequate level of liquidity to ensure the availability of sufficient funds to support loan growth and deposit withdrawals, to satisfy financial commitments and to take advantage of investment opportunities. The Corporation generally maintains sufficient cash and cash equivalents to meet short-term liquidity needs. At March 31, 2013, total cash and cash equivalents were \$220.3 million, or 18 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 for part of its liquidity needs. As of March 31, 2013, the financing availability at FHLB – San Francisco was limited to 35 percent of total assets; the remaining borrowing facility was \$320.3 million and the remaining unused collateral was \$357.1 million. In addition, the Bank has secured an \$18.1 million discount window facility at the Federal Reserve Bank of San Francisco, collateralized by investment securities with a fair market value of \$19.1 million. As of March 31, 2013, there was no outstanding borrowing under this facility.

Regulations require thrifts to maintain adequate liquidity to assure safe and sound operations. The Bank's average liquidity ratio (defined as the ratio of average qualifying liquid assets to average deposits and borrowings) for the quarter ended March 31, 2013 increased to 40.4 percent from 38.4 percent for the quarter ended June 30, 2012. The relatively high level of liquidity is consistent with the Corporation's strategy to mitigate liquidity risk during this period of economic uncertainty.



The Bank is required to maintain specific amounts of capital pursuant to OCC requirements. Under the OCC prompt corrective action provisions, a minimum of 5.0 percent for Tier 1 Leverage Capital, 6.0 percent for Tier 1 Risk-Based Capital and 10.0 percent for Total Risk-Based Capital is required to be deemed “well capitalized.” As of March 31, 2013, the Bank exceeded all regulatory capital requirements to be deemed “well capitalized.” The Bank’s actual and required capital amounts and ratios as of March 31, 2013 were as follows (dollars in thousands):

	Amount	Percent	
Tier 1 leverage capital	\$ 153,233	12.55	%
Requirement to be “Well Capitalized”	61,027	5.00	
Excess over requirement	\$ 92,206	7.55	%
Tier 1 risk-based capital	\$ 153,233	20.76	%
Requirement to be “Well Capitalized”	44,295	6.00	
Excess over requirement	\$ 108,938	14.76	%
Total risk-based capital	\$ 162,556	22.02	%
Requirement to be “Well Capitalized”	73,825	10.00	
Excess over requirement	\$ 88,731	12.02	%

The ability of the Corporation to pay dividends to stockholders 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 regulatory capital requirements imposed by federal regulation. In the third quarter of fiscal 2013, the Bank declared and paid a cash dividend of \$5.0 million to the Corporation, while the Corporation paid \$741,000 of cash dividends to its shareholders. For the first nine months of fiscal 2013, the Bank declared and paid cash dividends of \$10.0 million to the Corporation, while the Corporation paid \$1.8 million of cash dividends to its shareholders.

#### 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, loan sale agreements to third parties and option contracts. These instruments involve, to varying degrees, elements of credit and interest-rate risk in excess of the amount recognized in the accompanying Condensed Consolidated Statements of Financial Condition. The Corporation’s exposure to credit loss, in the event of non-performance by the counterparty to these financial instruments, is represented by the contractual amount of these instruments. The Corporation uses the same credit policies in entering into financial instruments with off-balance sheet risk as it does for on-balance sheet instruments. For a discussion on commitments and derivative financial instruments, see Note 7 of the Notes to Unaudited Interim Condensed Consolidated Financial Statements.

#### Supplemental Information



Edgar Filing: PROVIDENT FINANCIAL HOLDINGS INC - Form 10-Q

	At March 31, 2013	At June 30, 2012	At March 31, 2012
Loans serviced for others (in thousands)	\$95,935	\$98,875	\$101,183
Book value per share	\$15.07	\$13.34	\$12.94

66

---

## ITEM 3 – Quantitative and Qualitative Disclosures about Market Risk.

One of the Corporation's principal financial objectives is to achieve long-term profitability while reducing its exposure to fluctuating interest rates. The Corporation has sought to reduce the exposure of its earnings to changes in interest rates by attempting to manage the repricing mismatch between interest-earning assets and interest-bearing liabilities. The principal element in achieving this objective is to increase the interest-rate sensitivity of the Corporation's interest-earning assets by retaining for its portfolio new loan originations with interest rates subject to periodic adjustment to market conditions and by selling fixed-rate, single-family mortgage loans. In addition, the Corporation maintains an investment portfolio, which is largely in U.S. government agency MBS and U.S. government sponsored enterprise MBS with contractual maturities of up to 30 years that reprices frequently. The Corporation relies on retail deposits as its primary source of funds while utilizing FHLB – San Francisco advances as a secondary source of funding. Management believes retail deposits, unlike brokered deposits, reduces the effects of interest rate fluctuations because they generally represent a more stable source of funds. As part of its interest rate risk management strategy, the Corporation promotes transaction accounts and time deposits with terms up to five years.

Through the use of an internal interest rate risk model, the Corporation 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 defined as the net present value of expected future cash flows from assets, liabilities and off-balance sheet contracts. The calculation is intended to illustrate the change in NPV that would occur in the event of an immediate change in interest rates of -100, +100, +200, +300 and +400 basis points ("bp") with no effect given to steps that management might take to counter the effect of the interest rate movement. The current federal funds rate is 0.25% making an immediate change of -200 and -300 basis points improbable.

The following table is derived from the internal interest rate risk model and represents the NPV based on the indicated changes in interest rates as of March 31, 2013 (dollars in thousands).

Basis Points ("bp") Change in Rates	Net Portfolio Value	NPV Change <sup>(1)</sup>	Portfolio Value of Assets	NPV as Percentage of Portfolio Value Assets <sup>(2)</sup>	Sensitivity Measure <sup>(3)</sup>
+400 bp	\$247,908	\$78,959	\$1,301,145	19.05%	+552 bp
+300 bp	\$230,056	\$61,107	\$1,288,940	17.85%	+432 bp
+200 bp	\$216,813	\$47,864	\$1,281,653	16.92%	+339 bp
+100 bp	\$198,043	\$29,094	\$1,268,843	15.61%	+208 bp
0 bp	\$168,949	\$—	\$1,248,838	13.53%	- bp
-100 bp	\$156,211	\$(12,738)	\$1,236,895	12.63%	-90 bp

(1) Represents the increase (decrease) of the NPV at the indicated interest rate change in comparison to the NPV at March 31, 2013 ("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).

The following table is derived from the internal interest rate risk model and represents the change in the NPV at a -100 basis point rate shock at March 31, 2013 and June 30, 2012.

Edgar Filing: PROVIDENT FINANCIAL HOLDINGS INC - Form 10-Q

	At March 31, 2013 (-100 bp rate shock)	At June 30, 2012 (-100 bp rate shock)
Pre-Shock NPV Ratio: NPV as a % of PV Assets	13.53%	12.00%
Post-Shock NPV Ratio: NPV as a % of PV Assets	12.63%	12.08%
Sensitivity Measure: Change in NPV Ratio	90 bp	8 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 results described in 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 in this section 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 Corporation, nor does it represent amounts that would be available for distribution to shareholders in the event of the liquidation of the Corporation.

The Corporation 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 Corporation’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 400, 300, 200 and 100 and minus 100 basis points. The following table describes the results of the analysis at March 31, 2013 and June 30, 2012.

At March 31, 2013		At June 30, 2012	
Basis Point (bp)	Change in	Basis Point (bp)	Change in
Change in Rates	Net Interest Income	Change in Rates	Net Interest Income
+400 bp	20.99%	+400 bp	29.57%
+300 bp	23.53%	+300 bp	30.42%
+200 bp	16.48%	+200 bp	23.10%
+100 bp	10.45%	+100 bp	18.09%
-100 bp	(13.25)%	-100 bp	(4.69)%

At both March 31, 2013 and June 30, 2012, the Corporation was asset sensitive as its interest-earning assets are expected to reprice more quickly than its interest-bearing liabilities during the subsequent 12-month period. Therefore, in a rising interest rate environment, the model projects an increase in net interest income over the subsequent 12-month period. In a falling interest rate environment, the results project a decrease in net interest income over the subsequent 12-month period.

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, particularly with respect to the 12-month business plan when asset growth is forecast. Therefore, the model results that the Corporation discloses should be thought of as a risk management tool to compare the trends of the Corporation’s current disclosure to previous disclosures, over time, within the context of the actual performance of the treasury yield curve.

ITEM 4 – Controls and Procedures.

a) An evaluation of the Corporation's disclosure controls and procedures (as defined in Section 13a-15(e) or 15d-15(e) of the Securities Exchange Act of 1934 (the "Act")) was carried out under the supervision and with the participation of the Corporation's Chief Executive Officer, Chief Financial Officer and the Corporation's Disclosure Committee as of the end of the period covered by this quarterly report. In designing and evaluating the Corporation's disclosure controls and procedures, management recognizes that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Also, because of the inherent limitations in all control procedures, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Corporation have been detected. Additionally, in designing disclosure controls and procedures, management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any disclosure controls and procedures is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Based on their evaluation, the Corporation's Chief Executive Officer and Chief Financial Officer concluded that the

Corporation's disclosure controls and procedures as of March 31, 2013 are effective, at the reasonable assurance level, 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.

b) There have been no changes in the Corporation's internal control over financial reporting (as defined in Rule 13a-15(f) of the Act) that occurred during the quarter and nine months ended March 31, 2013, that has materially affected, or is reasonably likely to materially affect, the Corporation's internal control over financial reporting. The Corporation does not expect that its internal control over financial reporting will prevent all error and all fraud. A control procedure, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control procedure are met. Because of the inherent limitations in all control procedures, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Corporation have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any control procedure is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control procedure, misstatements due to error or fraud may occur and not be detected.

## 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 have been no material changes in the risk factors previously disclosed in Part I, Item IA of our Annual Report of Form 10-K for the year ended June 30, 2012.

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

The table below represents the Corporation's purchases of its equity securities for the third quarter of fiscal 2013.

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 <sup>(1)</sup>
January 1 – 31, 2013	2,800	\$16.93	2,800	157,734
February 1 – 28, 2013	103,412	17.61	103,412	54,322

Edgar Filing: PROVIDENT FINANCIAL HOLDINGS INC - Form 10-Q

March 1 – 31, 2013 <sup>(1)</sup>	54,322	17.42	54,322	522,523
Total	160,534	\$17.53	160,534	522,523

The April 2012 stock repurchase program which authorized 547,772 shares was completed in March 2013. On (1) March 21, 2013, the Corporation announced a new stock repurchase plan to repurchase up to 522,523 shares, which expires on March 21, 2014. As of March 31, 2013, no shares were purchased under the March 2013 stock repurchase plan.

During the quarter ended March 31, 2013, the Corporation purchased 160,534 shares of the Corporation's common stock at an average cost of \$17.53 per share. For the nine months ended March 31, 2013, the Corporation purchased 448,356 shares of the Corporation's common stock at an average cost of \$15.19 per share. The Corporation did not sell any securities that were not registered under the Securities Act of 1933.

Item 3. Defaults Upon Senior Securities.

Not applicable.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

Not applicable.

Item 6. Exhibits.

Exhibits:

- 3.1 (a) Certificate of Incorporation of Provident Financial Holdings, Inc. (incorporated by reference to Exhibit 3.1 to the Corporation's Registration Statement on Form S-1 (File No. 333-2230))
- 3.1 (b) Certificate of Amendment to Certificate of Incorporation of Provident Financial Holdings, Inc. as filed with the Delaware Secretary of State on November 24, 2009
- 3.2 Bylaws of Provident Financial Holdings, Inc. (incorporated by reference to Exhibit 3.2 to the Corporation's Current Report on Form 8-K filed on October 26, 2007)
- 10.1 Employment Agreement with Craig G. Blunden (incorporated by reference to Exhibit 10.1 to the Corporation's Form 8-K dated December 19, 2005)
- 10.2 Post-Retirement Compensation Agreement with Craig G. Blunden (incorporated by reference to Exhibit 10.2 to the Corporation's Form 8-K dated December 19, 2005)
- 10.3 1996 Stock Option Plan (incorporated by reference to Exhibit A to the Corporation's proxy statement dated December 12, 1996)
- 10.4 1996 Management Recognition Plan (incorporated by reference to Exhibit B to the Corporation's proxy statement dated December 12, 1996)
- 10.5 Form of Severance Agreement with Richard L. Gale, Kathryn R. Gonzales, Lilian Salter, Donavon P. Ternes and David S. Weiant (incorporated by reference to Exhibit 10.1 and 10.2 in the Corporation's Form 8-K dated February 24, 2012)
- 10.6 2003 Stock Option Plan (incorporated by reference to Exhibit A to the Corporation's proxy statement dated October 21, 2003)
- 10.7



Edgar Filing: PROVIDENT FINANCIAL HOLDINGS INC - Form 10-Q

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

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

70

---

- 10.9 2006 Equity Incentive Plan (incorporated by reference to Exhibit A to the Corporation's proxy statement dated October 12, 2006)
- 10.1 Form of Incentive Stock Option Agreement for options granted under the 2006 Equity Incentive Plan (incorporated by reference to Exhibit 10.10 in the Corporation's Form 10-Q for the quarter ended December 31, 2006)
- 10.1 Form of Non-Qualified Stock Option Agreement for options granted under the 2006 Equity Incentive Plan (incorporated by reference to Exhibit 10.11 in the Corporation's Form 10-Q for the quarter ended December 31, 2006)
- 10.1 Form of Restricted Stock Agreement for restricted shares awarded under the 2006 Equity Incentive Plan (incorporated by reference to Exhibit 10.12 in the Corporation's Form 10-Q for the quarter ended December 31, 2006)
- 10.1 2010 Equity Incentive Plan (incorporated by reference to Exhibit A to the Corporation's proxy statement dated October 28, 2010)
- 10.1 Form of Incentive Stock Option Agreement for options granted under the 2010 Equity Incentive Plan (incorporated by reference to Exhibit 10.1 in the Corporation's Form 8-K dated November 30, 2010)
- 10.2 Form of Non-Qualified Stock Option Agreement for options granted under the 2010 Equity Incentive Plan (incorporated by reference to Exhibit 10.2 in the Corporation's Form 8-K dated November 30, 2010)
- 10.2 Form of Restricted Stock Agreement for restricted shares awarded under the 2010 Equity Incentive Plan (incorporated by reference to Exhibit 10.3 in the Corporation's Form 8-K dated November 30, 2010)
- 10.2 Post-Retirement Compensation Agreement with Donavon P. Ternes (incorporated by reference to Exhibit 10.13 to the Corporation's Form 8-K dated July 7, 2009)
- 14.0 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 dated September 12, 2007)
- 31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 101 The following materials from the Corporation's Quarterly Report on Form 10-Q for the quarter ended March 31, 2013, formatted in Extensible Business Reporting Language (XBRL): (1) Condensed Consolidated Statements of Financial Condition; (2) Condensed Consolidated Statements of Operations; (3) Condensed Consolidated Statements of Comprehensive Income (Loss); (4) Condensed Consolidated Statements of Stockholders' Equity; (5) Condensed Consolidated Statements of Cash Flows; and (6) Selected Notes to Condensed Consolidated Financial Statements.\*
- (\* Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933 or Section 18 of

the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Provident Financial Holdings, Inc.

Date: May 10, 2013

/s/ Craig G. Blunden  
Craig G. Blunden  
Chairman and Chief Executive Officer  
(Principal Executive Officer)

Date: May 10, 2013

/s/ Donavon P. Ternes  
Donavon P. Ternes  
President, Chief Operating Officer and  
Chief Financial Officer  
(Principal Financial and Accounting Officer)



Exhibit Index

- 31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

101 The following materials from the Corporation's Quarterly Report on Form 10-Q for the quarter ended March 31, 2013, formatted in Extensible Business Reporting Language (XBRL): (1) Condensed Consolidated Statements of Financial Condition; (2) Condensed Consolidated Statements of Operations; (3) Condensed Consolidated Statements of Comprehensive Income (Loss); (4) Condensed Consolidated Statements of Stockholders' Equity; (5) Condensed Consolidated Statements of Cash Flows; and (6) Selected Notes to Condensed Consolidated Financial Statements.\*

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