PROVIDENT FINANCIAL HOLDINGS INC
Form 10-K/A
May 15, 2008

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

FORM 10-K/A

(Mark one) (Amendment No. 1)

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

For the fiscal year ended June 30, 2007 OR

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

Commission File Number: 000-28304

PROVIDENT FINANCIAL HOLDINGS, INC.
(Exact name of registrant as specified in its charter)

Delaware	33-0704889
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
3756 Central Avenue, Riverside, California	92506
(Address of principal executive offices)	(Zip Code)

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

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

Common Stock, par value $.01 per share	The Nasdaq Stock Market LLC
(Title of Each Class)	(Name of Each Exchange on Which Registered)

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

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES NO X .

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES NO X .

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the 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 X NO .

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act (Check One):
Large accelerated filer _____ Accelerated filer X
Non-accelerated filer _____

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

As of September 5, 2007, there were 6,297,318 shares of the Registrant's common stock issued and outstanding. The Registrant's common stock is listed on the Nasdaq Global Market of The Nasdaq Stock Market LLC under the symbol "PROV." The aggregate market value of the common stock held by nonaffiliates of the Registrant, based on the closing sales price of the Registrant's common stock as quoted on The Nasdaq Stock Market LLC on December 29, 2006, was $203.7 million.

DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of the Annual Report to Shareholders are incorporated by reference into Part II.

2. Portions of the definitive Proxy Statement for the fiscal 2007 Annual Meeting of Shareholders ("Proxy Statement") are incorporated by reference into Part III.

EXPLANATORY NOTE

This Amendment No. 1 on Form 10-K/A ("Form 10-K/A") to our Annual Report on Form 10-K for the fiscal year ended June 30, 2007, initially filed with the Securities and Exchange Commission ("SEC") on September 12, 2007 ("Original Form 10-K") is being filed to reflect the restatement of our Consolidated Statements of Financial Condition as of June 30, 2007 and 2006, the related Consolidated Statements of Operations, Consolidated Statements of Stockholders' Equity and Consolidated Statements of Cash Flows for the fiscal years ended June 30, 2007, 2006 and 2005, and the notes related thereto. For a more detailed description of the restatement, see Note 21, "Restatement of Consolidated Financial Statements" to the accompanying consolidated financial statements, and the section entitled "Restatement of Consolidated Financial Statements" under Item 7 of Part II, "Management's Discussion and Analysis of Financial Condition and Results of Operations," contained in this Form 10-K/A.

On April 22, 2008, the Corporation's Audit Committee determined that the financial statements should be restated after concluding that an error occurred in the accounting for the Corporation sponsored Employee Stock Ownership Plan ("ESOP"). The error consisted of releasing fewer shares of common stock than was required to be released commensurate with the repayment of the ESOP loan. The restated financial statements reflect the additional compensation expense required as a result of releasing more shares. For a description of the changes made in connection with the restatement ("Restatement") see Item 7 of Part II, "Management's Discussion and Analysis of Financial Condition and Results of Operations – Restatement of Consolidated Financial Statements" and Note 21, "Restatement of Consolidated Financial Statements" to the accompanying consolidated financial statements contained in this report.

This Form 10-K/A only amends and restates Item 1 of Part I and Items 6, 7, 8, and 9A of Part II, in each case as a result of, and to reflect, the restatement of the Original Form 10-K. In addition, pursuant to the rules of the SEC, Item 15 of Part IV of the Original Form 10-K has been amended to contain the consent of our independent registered public accounting firm and currently dated certifications from our Chief Executive Officer and Chief Financial Officer, as required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002. Except for the forgoing amended information, this Form 10-K/A continues to speak as of the date of the Original Form 10-K and we have not updated the disclosure contained herein to reflect events that have been or will be addressed in our quarterly reports on Form 10-Q for the quarters ended September 30, 2007 and December 31, 2007, as amended, and our current reports on Form 8-K filed subsequent to the Original Form 10-K and any reports filed with the SEC subsequent to the date of this filing.

PROVIDENT FINANCIAL HOLDINGS, INC.

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PART I

Item 1. Business

General

Provident Financial Holdings, Inc. (the "Corporation"), a Delaware corporation, was organized in January 1996 for the purpose of becoming the holding company for Provident Savings Bank, F.S.B. (the "Bank") upon the Bank's conversion from a federal mutual to a federal stock savings bank ("Conversion"). The Conversion was completed on June 27, 1996. At June 30, 2007, the Corporation had total assets of $1.6 billion, total deposits of $998.6 million and stockholders' equity of $128.8 million. The Corporation has not engaged in any significant activity other than holding the stock of the Bank. Accordingly, the information set forth in this Annual Report on Form 10-K/A ("Form 10-K/A"), including financial statements and related data, relates primarily to the Bank and its subsidiaries.

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

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

The Bank's community banking operations primarily consist of accepting deposits from customers within the communities surrounding its full service offices and investing those funds in single-family, multi-family, commercial real estate, construction, commercial business, consumer and other loans. Mortgage banking activities consist of the origination of single-family mortgage loans (including second mortgages and equity lines of credit) for sale and for investment. Through its subsidiary, Provident Financial Corp, the Bank conducts trustee services for the Bank's real estate transactions and has in the past held, and may in the future hold, real estate for investment. The Bank now offers investment and insurance services directly, rather than through its subsidiary. See "Subsidiary Activities" on page 31 of this Form 10-K/A. The Bank's revenues are derived principally from interest earned on its loan and investment portfolios, and fees generated through its community banking and mortgage banking activities.

On June 22, 2006, the Bank established the Provident Savings Bank Charitable Foundation ("Foundation") in order to further its commitment to the local community. The specific purpose of the Foundation is to promote and provide for the betterment of youth, education, housing and the arts in the Bank's primary market areas of Riverside and San Bernardino Counties. The Foundation was funded with a $500,000 charitable contribution made by the Bank in the fourth quarter of fiscal 2006. No additional funds were contributed by the Bank to the Foundation during fiscal 2007.

Subsequent Events:

Cash dividend

On July 26, 2007, the Corporation announced a cash dividend of $0.18 per share on the Corporation's outstanding shares of common stock for shareholders of record at the close of business on August 20, 2007, which was paid on

September 10, 2007.

Market Area

The Bank is headquartered in Riverside, California and operates 12 full-service banking offices in Riverside County and one full-service banking office in San Bernardino County. Management considers Riverside and Western San Bernardino Counties to be the Bank's primary market for deposits. Through the operations of PBM, the Bank has expanded its retail lending market to include a large portion of Southern California and a small portion of Northern California. As of June 30, 2007, there were nine PBM loan production offices located in southern California (primarily in Los Angeles, Riverside, San Bernardino and San Diego Counties) and one PBM loan production office in northern California. PBM's loan production offices include three wholesale loan offices through which the Bank maintains a network of loan correspondents. Most of the Bank's business is conducted in the communities surrounding its full-service branches and loan production offices.

The large geographic area encompassing Riverside and San Bernardino Counties is referred to as the "Inland Empire." According to 2000 Census Bureau population statistics, Riverside and San Bernardino Counties have the sixth and fifth largest county populations in California, respectively. The Bank's market area consists primarily of suburban and urban communities. Western Riverside and San Bernardino Counties are relatively densely populated and are within the greater Los Angeles metropolitan area. The Inland Empire has enjoyed economic strength over the past several years. Many corporations are moving their offices and warehouses to the Inland Empire, which offers more affordable sites and more affordable housing for their employees. This trend has resulted in a significant improvement in real estate property values over the past several years. However, recent slowdowns in the real estate market have affected property values nationwide, including the Inland Empire. The unemployment rate in the Inland Empire in June 2007 was 5.6%, compared to 5.2% in California and 4.5% nationwide, according to U.S. Department of Labor, Bureau of Labor Statistics.

Competition

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

Personnel

As of June 30, 2007, the Bank had 315 full-time equivalent employees, which consisted of 256 full-time, 59 prime-time and 31 part-time employees. The employees are not represented by a collective bargaining unit and the Bank believes that its relationship with employees is good.

Segment Reporting

Financial information regarding the Corporation's operating segments is contained in Note 17 to the audited consolidated financial statements included in Item 8 of this report.

Internet Website

The Corporation maintains a website at www.myprovident.com. The information contained on that website is not included as a part of, or incorporated by reference into, this Annual Report on Form 10-K/A. Other than an investor's

own internet access charges, the Corporation makes available free of charge through that website the Corporation's Annual Report on Form 10-K, Form 10-K/A (if any), quarterly reports on Form 10-Q, Form 10-Q/A (if any) and current reports on Form 8-K, and amendments to these reports, as soon as reasonably practicable after these materials have been electronically filed with, or furnished to, the Securities and Exchange Commission.

Lending Activities

General. The lending activity of the Bank is predominately comprised of the origination of conventional mortgage loans secured by single-family residential properties for investment (predominantly adjustable rate) and sale (predominantly fixed rate). The Bank also originates multi-family, commercial real estate, construction, commercial business, consumer and other loans to be held for investment. The Bank's net loans held for investment were $1.35 billion at June 30, 2007, representing approximately 81.9% of consolidated total assets. This compares to $1.26 billion, or 77.8% of consolidated total assets, at June 30, 2006.

Loans Held For Investment Analysis. The following table sets forth the composition of the Bank's loans held for investment at the dates indicated.

	At June 30,									
	2007		2006		2005		2004		2003	
(Dollars In Thousands)	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Mortgage loans:										
Single-family	$ 826,249	59.68%	$ 828,091	61.16%	$ 808,732	65.56%	$ 620,087	65.48%	$ 531,255	64.89%
Multi-family	330,231	23.85	219,072	16.18	119,715	9.70	68,804	7.27	49,699	6.07
Commercial real estate	147,545	10.66	127,342	9.41	122,354	9.92	99,919	10.55	89,666	10.95
Construction	60,571	4.37	149,517	11.05	155,975	12.65	136,265	14.39	118,784	14.51
Total mortgage loans	1,364,596	98.56	1,324,022	97.80	1,206,776	97.83	925,075	97.69	789,404	96.42
Commercial business loans	10,054	0.73	12,911	0.95	15,268	1.24	13,770	1.45	22,489	2.75
Consumer loans	509	0.04	734	0.05	778	0.06	730	0.08	1,086	0.13
Other loans	9,307	0.67	16,244	1.20	10,767	0.87	7,371	0.78	5,724	0.70
Total loans held for investment	1,384,466	100.00%	1,353,911	100.00%	1,233,589	100.00%	946,946	100.00%	818,703	100.00%
Undisbursed loan funds	(25,484)		(84,024)		(95,162)		(78,137)		(67,868)	
Deferred loan costs	5,152		3,417		2,693		1,340		602	
Allowance for loan losses	(14,845)		(10,307)		(9,215)		(7,614)		(7,218)	
Total loans held for investment, net	$ 1,349,289		$ 1,262,997		$ 1,131,905		$ 862,535		$ 744,219	
Loans held for sale, at lower of cost or market	$ 1,337		$ 4,713		$ 5,691		$ 20,127		$ 4,247	

Maturity of Loans Held for Investment. The following table sets forth information at June 30, 2007 regarding the dollar amount of principal payments becoming contractually due during the periods indicated for loans held for investment. Demand loans, loans having no stated schedule of principal payments, loans having no stated maturity, and overdrafts are reported as becoming due within one year. The table does not include any estimate of prepayments, which can significantly shorten the average life of loans held for investment and may cause the Bank's actual principal payment experience to differ materially from that shown below.

(In Thousands)	Within One Year	After One Year Through 3 Years	After 3 Years Through 5 Years	After 5 Years Through 10 Years	Beyond 10 Years	Total
Mortgage loans:						
Single-family	$ 1,720	$ 526	$ 1,988	$ 5,665	$ 816,350	$ 826,249
Multi-family	1,446	2,292	3,068	103,643	219,782	330,231
Commercial real estate	4,718	1,767	10,726	119,851	10,483	147,545
Construction	54,590	-	-	-	5,981	60,571
Commercial business loans	3,420	3,784	2,025	825	-	10,054
Consumer loans	503	6	-	-	-	509
Other loans	8,755	552	-	-	-	9,307
Total loans held for investment	$ 75,152	$ 8,927	$ 17,807	$ 229,984	$ 1,052,596	$ 1,384,466

The following table sets forth the dollar amount of all loans held for investment due after June 30, 2008 which have fixed and floating or adjustable interest rates.

(In Thousands)	Fixed-Rate	Floating or Adjustable Rate
Mortgage loans:		
Single-family	$ 11,714	$ 812,815
Multi-family	15,546	313,239
Commercial real estate	17,529	125,298
Construction	-	5,981
Commercial business loans	2,932	3,702
Consumer loans	6	-
Other loans	552	-
Total loans held for investment	$ 48,279	$ 1,261,035

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

higher than current market interest rates.

Single-Family Mortgage Loans. The Bank's predominant lending activity is the origination by PBM of loans secured by first mortgages on owner-occupied, single-family (one to four units) residences in the communities where the Bank has established full service branches and loan production offices. At June 30, 2007, total single-family loans held for investment decreased to $826.2 million, or 59.7% of the total loans held for investment from

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$828.1 million, or 61.2% of the total loans held for investment at June 30, 2006. The decrease in the single-family loans in fiscal 2007 was primarily attributable to loan prepayments, partly offset by $204.4 million of new loan originations.

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

The Bank offers closed-end, fixed-rate home equity loans that are secured by the borrower's primary residence. These loans do not exceed 100% of the appraised value of the residence and have terms of up to 15 years requiring monthly payments of principal and interest. At June 30, 2007, home equity loans amounted to $6.6 million, or 0.8% of single-family loans as compared to $2.0 million, or 0.2% of single-family loans at June 30, 2006. The Bank also offers secured lines of credit, which are generally secured by a second mortgage on the borrower's primary residence. Secured lines of credit have an interest rate that is typically one to two percentage points above the prime lending rate. As of June 30, 2007 and 2006, the outstanding secured lines of credit were $886,000 and $1.3 million, respectively.

The Bank offers adjustable rate mortgage ("ARM") loans at rates and terms competitive with market conditions. Substantially all of the ARM loans originated by the Bank meet the underwriting standards of the secondary market. The Bank offers several ARM products, which adjust monthly, semi-annually, or annually after an initial fixed period ranging from one month to five years subject to a limitation on the annual increase of one to two percentage points and an overall limitation of three to six percentage points. The ARM loans in the Bank's loans held for investment utilize the London Interbank Offered Rate index ("LIBOR"), the FHLB Eleventh District cost of funds index ("COFI"), the 12-month average Treasury index ("12 MAT") or the weekly average yield on one year U.S. Treasury securities adjusted to a constant maturity of one year index ("CMT"), plus a margin of 2.00% to 3.25%. Loans based on the LIBOR index constitute a majority of the Bank's loans held for investment. The majority of the ARM loans held for investment have three- or five-year fixed periods prior to the first adjustment ("3/1 or 5/1 hybrids"), and do not require principal amortization for up to 120 months. Loans of this type have embedded interest rate risk if interest rates should rise during the initial fixed rate period. To coincide with the Bank's 50th Anniversary, the Bank began offering 50-year single-family mortgage loans in fiscal 2006. The Bank had a total of 51 loans for $20.7 million with a 50-year term at June 30, 2007, compared to a total of 27 loans for $11.0 million at June 30, 2006.

As of June 30, 2007, the Bank had $87.4 million in mortgage loans that are subject to negative amortization, $12.6 million of which were single-family loans. This compares to $95.4 million at June 30, 2006, with $20.7 million of single-family loans. Negative amortization involves a greater risk to the Bank. During a period of high interest rates, the loan principal balance may increase by up to 115% of the original loan amount. Borrower demand for ARM loans versus fixed-rate mortgage loans is a function of the level of interest rates, the expectations of changes in the level of interest rates and the difference between the initial interest rates and fees charged for each type of loan. The relative amount of fixed-rate mortgage loans and ARM loans that can be originated at any time is largely determined by the demand for each in a given interest rate and competitive environment.

The retention of ARM loans, rather than fixed-rate loans, helps to reduce exposure to changes in interest rates. There are, however, unquantifiable credit risks resulting from the potential of increased interest charges to be paid by the borrower as a result of increases in interest rates or the expiration of interest-only periods. It is possible that, during periods of rising interest rates, the risk of default on ARM loans may increase as a result of the increase in the required payment from the borrower. Furthermore, the risk of default may increase because ARM loans originated

by the Bank occasionally provide, as a marketing incentive, for initial rates of interest below those rates that would apply if the adjustment index plus the applicable margin were initially used for pricing. Such loans are subject to increased risks of default or delinquency. Additionally, while ARM loans allow the Bank to decrease the sensitivity of its assets as a result of changes in interest rates, the extent of this interest sensitivity is limited by the periodic and lifetime interest rate adjustment limits. In addition to fully amortizing ARM loans, the Bank has interest-only ARM loans, which typically have a fixed interest rate for the first three to five years, followed by a periodic adjustable interest rate, coupled with an interest only payment of three to ten years, followed by a fully amortizing loan payment for the remaining term. As of June 30, 2007 and 2006, interest-only, first trust deed, ARM loans were $616.5 million and $638.5 million, or 45.2% and 50.1%, respectively, of the loans held for investment. Furthermore, because loan indexes may not respond perfectly to market interest rates, upward adjustments on loans may occur more slowly than increases in the Bank's cost of interest-bearing liabilities, especially during periods of rapidly increasing interest rates. Because of these characteristics, the Bank has no assurance that yields on ARM loans will be sufficient to offset increases in the Bank's cost of funds.

The following table describes certain credit risk characteristics of the Corporation's single-family, first trust deed, mortgage loans held for investment as of June 30, 2007:

(Dollars in Thousands)	Outstanding Balance (1)	Weighted-Average FICO (2)	Weighted-Average LTV (3)	Weighted-Average Seasoning (4)
Interest only	$ 616,486	733	74%	1.78 years
Stated income (5)	$ 444,077	730	73%	1.89 years
FICO less than or equal to 660	$ 26,843	641	72%	2.42 years
Over 30-year amortization	$ 30,289	737	69%	2.16 years

(1) The outstanding balance presented on this table may overlap more than one category.
(2) The FICO score represents the credit worthiness, as reported by an independent third party, of a borrower based on the borrower's credit history. A higher FICO score indicates a greater degree of creditworthiness.
(3) LTV (loan-to-value) is the ratio calculated by dividing the original loan balance by the original appraised value of the real estate collateral.
(4) Seasoning describes the number of years since the funding date of the loan.
(5) Stated income is defined as a borrower provided level of income which is not subject to verification during the loan origination process.

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

Multi-Family and Commercial Real Estate Mortgage Loans. At June 30, 2007, multi-family mortgage loans were $330.2 million and commercial real estate loans were $147.5 million, or 23.9% and 10.7%, respectively, of loans held for investment. Consistent with its strategy to diversify the composition of loans held for investment, the Bank has made the origination and purchase of multi-family and commercial real estate loans a priority. At June 30, 2007, the Bank had 408 multi-family and 181 commercial real estate loans in loans held for investment.

Multi-family mortgage loans originated by the Bank are predominately adjustable rate loans, including 3/1, 5/1 and 10/1 hybrids, with a term to maturity of 10 to 30 years based on a 25- to 30-year amortization schedule. Commercial real estate loans originated by the Bank are also predominately adjustable rate loans, including 3/1 and 5/1 hybrids,

with a term to maturity of 10 years and a 25-year amortization schedule. Rates on multi-family and commercial real estate ARM loans generally adjust monthly, quarterly, semi-annually or annually at a specific margin over the respective interest rate index, subject to annual payment caps and life-of-loan interest rate caps. At June 30, 2007, $208.9 million, or 63.3%, of the Bank’s multi-family loans were secured by five to 36 unit projects and were primarily located in Los Angeles, Orange, Riverside, San Bernardino and San Diego Counties. The Bank’s commercial real estate loan portfolio generally consists of loans secured by small office buildings, light industrial centers, mini warehouses and small retail centers, primarily located in Southern California. The Bank originates multi-family and commercial real estate loans in amounts typically ranging from $350,000 to $4.0 million. At June 30, 2007, the Bank had 69 commercial real estate and multi-family loans with principal balances

greater than $1.5 million totaling $176.4 million, all of which were performing in accordance with their terms as of June 30, 2007. Independent appraisers, engaged by the Bank, perform appraisals on properties that secure multi-family and commercial real estate loans. Underwriting of multi-family and commercial real estate loans includes, among other considerations, a thorough analysis of the cash flows generated by the property to support the debt service and the financial resources, experience and income level of the borrowers.

Multi-family and commercial real estate loans afford the Bank an opportunity to receive higher interest rates than those generally available from single-family mortgage loans. However, loans secured by such properties are generally greater in amount, more difficult to evaluate and monitor and are more susceptible to default as a result of general economic conditions and, therefore, involve a greater degree of risk than single-family residential mortgage loans. Because payments on loans secured by multi-family and commercial properties are often dependent on the successful operation and management of the properties, repayment of such loans may be impacted by adverse conditions in the real estate market or the economy. The multi-family and commercial real estate loans are primarily located in Los Angeles, Orange, Riverside, San Bernardino and San Diego Counties. At June 30, 2007, the Bank did not have any non-accrual multi-family or commercial real estate loans or any multi-family or commercial real estate loans that were 60 days or more past due.

Construction Mortgage Loans. The Bank originates two types of residential construction loans: short-term construction loans and construction/permanent loans. At June 30, 2007, the Bank's construction loans (gross of undisbursed loan funds) were $60.6 million, or 4.4% of loans held for investment, a decrease of $88.9 million, or 59.5%, during fiscal 2007. Undisbursed loan funds at June 30, 2007 and 2006 were $23.1 million and $75.3 million, respectively. The decrease in construction loans was primarily attributable to the management decision to reduce tract construction loan originations (given recent unfavorable real estate market conditions). Also, the decrease was attributable to loan payoff, construction completion and lower demand. Total loan payoff during fiscal 2007 was $76.8 million, gross of undisbursed loan funds and total construction completion (converted to permanent loans) during fiscal 2007 were $24.5 million. Total loan originations declined $105.6 million (gross, including undisbursed loan funds), or 88%, to $14.3 million in fiscal 2007 from $119.9 million in fiscal 2006.

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

	At June 30,			
	2007		2006	
	Amount	Percent	Amount	Percent
(Dollars In Thousands)				
Short-term construction	$ 54,251	89.57%	$ 110,726	74.06%
Construction/permanent	6,320	10.43	38,791	25.94
	$ 60,571	100.00%	$ 149,517	100.00%

Short-term construction loans include three types of loans: custom construction, tract construction, and speculative construction. Additionally, the Bank makes short-term (18 to 36 month) lot loans to facilitate land acquisition prior to the start of construction. The Bank also provides construction financing for multi-family and commercial real estate properties. As of June 30, 2007 total multi-family construction loans were $4.4 million with undisbursed loan funds of $341,000; while total commercial real estate construction loans were $3.8 million with undisbursed loan funds of $2.6 million.

Custom construction loans are made to individuals who, at the time of application, have a contract executed with a builder to construct their residence. Custom construction loans are generally originated for a term of 12 months, with adjustable interest rates at the prime lending rate plus a margin and with loan-to-value ratios of up to 80% of the

appraised value of the completed property. The owner secures long-term permanent financing at the completion of construction. At June 30, 2007, custom construction loans were $18.7 million, with undisbursed loan funds of $6.6 million. The custom construction loans include 23 individual construction loans in a single-family construction project located in Coachella, California. These 23 loans, with a disbursed total of $5.0 million, were placed on non-

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accrual status in December 2006 and have a specific loan loss reserve of $2.6 million. The reserve was established because financial viability of the project is uncertain. The Bank believes that the loans were fraudulently obtained and has filed lawsuits alleging loan fraud by the 23 individual borrowers, misrepresentation fraud by the mortgage loan broker and misuse of funds fraud by the contractor. Given the number of parties involved, the complexity of the transaction and probable fraud, this matter may not be resolved quickly. Additionally, it is far from certain the amount, if any, that the Bank may recover.

The Bank makes tract construction loans to subdivision builders. These subdivisions are usually financed and built in phases. A thorough analysis of market trends and demand within the area are reviewed for feasibility. Generally, significant presales are required prior to commencement of construction. Tract construction may include the building and financing of model homes under a separate loan. The terms for tract construction loans range from 12 to 18 months with interest rates floating from 1.0% to 2.0% above the prime lending rate. At June 30, 2007, tract construction loans were $18.9 million, with undisbursed loan funds of $8.5 million.

Speculative construction loans are made to home builders and are termed “speculative” because the home builder does not have, at the time of loan origination, a signed contract with a home buyer who has a commitment for permanent financing with either the Bank or another lender for the finished home. The home buyer may be identified during or after the construction period. The builder may be required to debt service the speculative construction loan for a significant period of time after the completion of construction until the homebuyer is identified. At June 30, 2007, speculative construction loans were $14.8 million, with undisbursed loan funds of $5.0 million.

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

Construction loans under $1.0 million are approved by Bank personnel specifically designated to approve construction loans. The Bank’s Loan Committee, comprised of the Chief Executive Officer, Chief Lending Officer, Chief Financial Officer, Senior Vice President – PBM, and Vice President – Loan Administration, approves all construction loans over $1.0 million. Prior to approval of any construction loan, an independent fee appraiser inspects the site and the Bank reviews the existing or proposed improvements, identifies the market for the proposed project, and analyzes the pro forma data and assumptions on the project. In the case of a tract or speculative construction loan, the Bank reviews the experience and expertise of the builder. After the Bank expresses an interest in the project, the application is processed, which includes obtaining credit reports, financial statements and tax returns on the borrowers and guarantors, an independent appraisal of the project, and any other expert report necessary to evaluate the proposed project. In the event of cost overruns, the Bank requires the borrower to deposit their own funds into a loan-in-process account, which the Bank disburses consistent with the completion of the subject property pursuant to a revised disbursement schedule.

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

Construction loans afford the Bank the opportunity to achieve higher interest rates and fees with shorter terms to maturity than its single-family mortgage loans. Construction loans, however, are generally considered to involve a

higher degree of risk than single-family mortgage loans because of the inherent difficulty in estimating both a property's value at completion of the project and the cost of the project. The nature of these loans is such that they are generally more difficult to evaluate and monitor. If the estimate of construction costs proves to be inaccurate, the Bank may be required to advance funds beyond the amount originally committed to permit completion of the project. If the estimate of value upon completion proves to be inaccurate, the Bank may be confronted with a

project whose value is insufficient to assure full repayment. Projects may also be jeopardized by disagreements between borrowers and builders and by the failure of builders to pay subcontractors. Loans to builders to construct homes for which no purchaser has been identified carry additional risk because the payoff for the loan depends on the builder's ability to sell the property prior to the time that the construction loan matures. The Bank has sought to address these risks by adhering to strict underwriting policies, disbursement procedures and monitoring practices. In addition, because the Bank's construction lending is in its primary market area, changes in the local or regional economy and real estate market could adversely affect the Bank's construction loans held for investment.

Participation Loan Purchases and Sales. In an effort to expand production and diversify risk, the Bank purchases loan participations, which allows for greater geographic distribution of the Bank's loans and increases loan production volume. The Bank is aggressively networking with other lenders to purchase participating interests in multi-family and commercial real estate loans. The Bank generally purchases between 50% and 100% of the total loan amount. When the Bank purchases a participation loan, the lead lender will usually retain a servicing fee, thereby decreasing the loan yield. This servicing fee is primarily offset by a reduction in operating expenses to the Bank. As of June 30, 2007, total loans serviced by other financial institutions were $159.8 million, of which $111.0 million was serviced by a single financial institution. All properties serving as collateral for loan participations are inspected by a representative of the Bank or a third party inspection service prior to being approved by the Loan Committee and the Bank relies upon the same underwriting criteria required for those loans originated by the Bank.

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

Commercial Business Loans. The Bank has a Business Banking Department that primarily serves businesses located within the Inland Empire. Commercial business loans allow the Bank to diversify its lending and increase the average loan yield. As of June 30, 2007, commercial business loans were $10.1 million, or 0.7% of loans held for investment. These loans represent unsecured lines of credit and term loans secured by business assets.

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

Commercial business loans involve greater risk than residential mortgage loans and involve risks that are different from those associated with residential and commercial real estate loans. Real estate loans are generally considered to be collateral based lending with loan amounts based on predetermined loan to collateral values and liquidation of the underlying real estate collateral is viewed as the primary source of repayment in the event of borrower default. Although commercial business loans are often collateralized by equipment, inventory, accounts receivable or other business assets including real estate, the liquidation of collateral in the event of a borrower default is often an insufficient source of repayment because accounts receivable may not be collectable and inventories and equipment may be obsolete or of limited use, among other things. Accordingly, the repayment of a commercial business loan depends primarily on the creditworthiness of the borrower (and any guarantors), while liquidation of collateral is secondary and oftentimes an insufficient source of repayment. During fiscal 2007, the Bank did not have any charge-offs on commercial business loans.

Consumer and Other Loans. At June 30, 2007, the Bank's consumer loans were $509,000, or less than 0.1%, of the Bank's loans held for investment, a decrease of $225,000, or 30.7%, during fiscal 2007. The Bank offers open-ended lines of credit on either a secured or unsecured basis. The Bank offers secured savings lines of credit which have an interest rate that is four percentage points above the FHLB Eleventh District COFI, which adjusts monthly.

Secured savings lines of credit at June 30, 2007 and 2006 were $302,000 and $523,000, respectively, and are included in consumer loans.

Consumer loans potentially have a greater risk than residential mortgage loans, particularly in the case of loans that are unsecured. Consumer loan collections are dependent on the borrower's ongoing financial stability, and thus are more likely to be adversely affected by job loss, illness or personal bankruptcy. Furthermore, the application of various federal and state laws, including federal and state bankruptcy and insolvency laws, may limit the amount that can be recovered on such loans. At June 30, 2007, the Bank had no consumer loans accounted for on a non-accrual basis.

Other loans, which primarily consist of land loans, were $9.3 million, or 0.7%, of the Bank's loans held for investment, a decrease of $6.9 million, or 42.6%, during fiscal 2007. The Bank makes land loans, primarily lot loans, to accommodate borrowers who intend to build on the land within a specified period of time. The majority of these land loans are for the construction of single-family residences; however, the Bank may make short-term loans on a limited basis for the construction of commercial properties. The terms generally require a fixed rate with maturity between 18 to 36 months.

Mortgage Banking Activities

General. Mortgage banking involves the origination and sale of single-family mortgage and consumer loans (second mortgages and equity lines of credit) by PBM for the purpose of generating gains on sale of loans and fee income on the origination of loans. PBM also originates single-family and consumer loans for investment. Given current pricing in the mortgage markets, the Bank generally sells the majority of its loans on a servicing-released basis. Generally, the level of loan sale activity and, therefore, its contribution to the Bank's profitability depends on maintaining a sufficient volume of loan originations. Changes in the level of interest rates and the local economy affect the number of loans originated by the Bank and, thus, the amount of loan sales, net interest income and loan fees earned. Originations of loans during fiscal 2007, 2006 and 2005 were $1.31 billion, $1.53 billion and $1.77 billion, respectively. PBM originated $205.6 million, $326.9 million and $513.6 million in fiscal 2007, 2006 and 2005, respectively, of loans held for investment.

Loan Solicitation and Processing. The Bank's mortgage banking operations consist of both wholesale and retail loan originations. The Bank's wholesale loan production utilizes a network of approximately 1,465 loan brokers approved by the Bank who originate and submit loans at a markup over the Bank's daily published price. Wholesale loans originated for sale in fiscal 2007, 2006 and 2005 were $816.9 million, $840.5 million and $872.2 million, respectively. The Bank maintains regional wholesale lending offices in Pleasanton, Rancho Cucamonga and San Diego, California.

PBM's retail loan production utilizes loan officers, underwriters and processors. PBM's loan officers generate retail loan originations primarily through referrals from realtors, builders, employees and customers. As of June 30, 2007, PBM operated retail offices within the Bank's facilities in Temecula and stand-alone retail loan production offices in Diamond Bar, Glendora, La Quinta, Riverside, Torrance and Vista, all in Southern California. During fiscal 2007, the Bank closed three stand-alone retail loan production offices in Carlsbad, Corona and Huntington Beach and consolidated other facilities. Generally, the cost of retail operations exceeds the cost of wholesale operations as a result of the additional employees needed for retail operations. However, the revenue per mortgage for retail originations is generally higher since the origination fees are retained by the Bank. Retail loans originated for sale in fiscal 2007, 2006 and 2005 were $290.2 million, $363.6 million and $391.8 million, respectively. The decrease in retail loan originations during fiscal 2007 was primarily attributable to a decline in purchase transactions.

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

Loan Commitments and Rate Locks. The Bank issues commitments for residential mortgage loans conditioned upon the occurrence of certain events. Such commitments are made with specified terms and conditions. Interest

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rate locks are generally offered to prospective borrowers for up to a 60-day period. The borrower may lock in the rate at any time from application until the time they wish to close the loan. Occasionally, borrowers obtaining financing on new home developments are offered rate locks for up to 120 days from application. The Bank's outstanding commitments to originate loans to be held for sale were $35.1 million at June 30, 2007 (see Note 15 of the Notes to Consolidated Financial Statements contained in Item 8 of this Form 10-K/A). When the Bank issues a commitment to a borrower, there is a risk to the Bank that a rise in interest rates will reduce the value of the mortgage before it can be closed and sold. To control the interest rate risk caused by mortgage banking activities, the Bank uses forward loan sale agreements, forward commitments to purchase MBS and over-the-counter put and call option contracts related to mortgage-backed securities (see "Derivative Activities" on page 14 of this Form 10-K/A).

Loan Origination and Other Fees. The Bank may receive origination points and loan fees. Origination points are a percentage of the principal amount of the mortgage loan, which is charged to a borrower for funding a loan. The amount of points charged by the Bank ranges from 0% to 2%. Current accounting standards require points and fees received for originating loans held for investment (net of certain loan origination costs) to be deferred and amortized into interest income over the contractual life of the loan. Origination fees and costs for loans originated for sale are deferred until the related loans are sold. Net deferred fees or costs associated with loans that are prepaid or sold are recognized as income or expense at the time of prepayment or sale. At June 30, 2007, the Bank had $5.2 million of unamortized deferred loan origination costs (net) in loans held for investment.

Loan Originations, Sales and Purchases. The Bank's mortgage originations include conventional loans as well as loans insured by the FHA and VA. Except for loans originated as held for investment, loans originated through mortgage banking activities are intended for eventual sale into the secondary market. As such, these loans must meet the origination and underwriting criteria established by the final investors. The Bank sells a large percentage of the mortgage loans that it originates as whole loans to institutional investors. The Bank also sells conventional whole loans to Fannie Mae and the FHLB – San Francisco through their purchase programs (see "Derivative Activities" on page 14 of this Form 10-K/A).

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

(In Thousands)	Year Ended June 30, 2007	2006	2005
Loans originated for sale:			
Retail originations	$ 296,356	$ 380,409	$ 397,057
Wholesale originations	830,260	857,397	888,780
Total loans originated for sale (1)	1,126,616	1,237,806	1,285,837
Loans sold:			
Servicing released	(1,119,330)	(1,242,093)	(1,232,682)
Servicing retained	(4,108)	(19,348)	(81,711)
Total loans sold (2)	(1,123,438)	(1,261,441)	(1,314,393)
Loans originated for investment:			
Mortgage loans:			
Single-family	204,376	330,092	513,588
Multi-family	23,633	28,868	26,332
Commercial real estate	48,558	32,630	41,605
Construction	14,328	104,923	127,472
Commercial business loans	3,818	1,930	7,370
Consumer loans	7	-	8
Other loans	2,084	14,324	6,750
Total loans originated for investment (3)	296,804	512,767	723,125
Loans purchased for investment:			
Mortgage loans:			
Multi-family	119,625	93,605	34,092
Commercial real estate	-	-	1,768
Construction	-	14,964	24,113
Commercial business loans	-	900	-
Other loans	-	2,250	1,250
Total loans purchased for investment	119,625	111,719	61,223
Mortgage loan principal repayments	(379,420)	(476,228)	(482,869)
Real estate acquired in settlement of loans	(5,902)	(411)	-
Increase (decrease) in other items, net (4)	48,631	5,902	(17,989)
Net increase in loans held for investment and loans held for sale	$ 82,916	$ 130,114	$ 254,934

(1) Primarily comprised of PBM loans originated for sale, totaling $1.11 billion, $1.20 billion and $1.26 billion, respectively.
(2) Primarily comprised of PBM loans sold, totaling $1.10 billion, $1.22 billion and $1.27 billion, respectively.
(3)

Primarily comprised of PBM loans originated for investment, totaling $205.6 million, $326.9 million and $513.6 million, respectively.

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

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

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

Loans sold by the Bank to the FHLB – San Francisco under its Mortgage Partnership Finance ("MPF") program also have a recourse provision. The FHLB – San Francisco absorbs the first four basis points of loss, and a credit scoring process is used to calculate the recourse amount to the Bank. All losses above this calculated recourse amount are the responsibility of the FHLB – San Francisco. In consideration of the obligation of the Bank to accept the recourse liability, the FHLB – San Francisco pays the Bank a credit enhancement fee on a monthly basis. As of June 30, 2007, the Bank serviced $173.2 million of loans under this program and has established a recourse reserve of $191,000. To date, no losses have been experienced.

Occasionally, the Bank is required to repurchase loans sold to Fannie Mae, FHLB – San Francisco or institutional investors if it is determined that such loans do not meet the credit requirements of the investor, or if one of the parties involved in the loan misrepresented pertinent facts, committed fraud, or if such loans were 30 days past due within 120 days of the loan funding date. During the year ended June 30, 2007, the Bank repurchased $14.6 million of single-family mortgage loans as compared to $2.0 million in fiscal 2006 and $962,000 in fiscal 2005.

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

Under forward loan sale agreements, usually with Fannie Mae, FHLB – San Francisco or institutional investors, the Bank is obligated to sell certain dollar amounts of mortgage loans that meet specific underwriting and legal criteria before the expiration of the commitment period. These terms include the maturity of the individual loans, the yield to the purchaser, the servicing spread to the Bank (if servicing is retained) and the maximum principal amount of the individual loans. Forward loan sales protect loan sale prices from interest rate fluctuations that may occur from the time the interest rate of the loan is established to the time of its sale. The amount of and delivery date of the forward loan sale commitments are based upon management's estimates as to the volume of loans that will close and the length of the origination commitment. Forward loan sales do not provide complete interest-rate protection, however, because of the possibility of fallout (i.e., the failure to fund) during the origination process. Differences between the estimated volume and timing of loan originations and the actual volume and timing of loan originations can expose the Bank to significant losses. If the Bank is not able to deliver the mortgage loans during the appropriate delivery period, the Bank may be required to pay a non-delivery fee or repurchase the delivery commitments at current market prices. Similarly, if the Bank has too many loans to deliver, the Bank must execute additional forward loan sale commitments at current market prices, which may be unfavorable to the Bank. Generally, the Bank seeks to maintain forward loan sale agreements equal to the closed loans held for sale plus those applications that the Bank has rate locked and/or committed to close, adjusted by the projected fallout. The ultimate accuracy of such projections will directly bear upon the amount of interest rate risk incurred by the Bank. For the year ended June 30, 2007, the Bank had a net gain of $212,000 attributable to the underlying derivative financial instruments. At June 30, 2007, the Bank had outstanding commitments to sell loans of $27.0 million and commitments to originate loans to be held for sale of $35.1 million (see Note 15 of the Notes to Consolidated Financial Statements contained in Item 8 of this Form 10-K/A).

In order to reduce the interest rate risk associated with commitments to originate loans that are in excess of forward loan sale commitments, the Bank purchases over-the-counter put or call option contracts on government sponsored enterprise mortgage-backed securities. At June 30, 2007, the Bank had $11.5 million in put option contracts outstanding, which provided $8.5 million of coverage, and $1.0 million in call option contracts, which offset $420,000 of coverage. In addition, the Bank entered into commitments to purchase MBS (commonly referred to as

a "synthetic call") to lock in profits (losses) from its put option contracts. As of June 30, 2007, total forward commitments to purchase MBS were $6.5 million.

The activities described above are managed continually as markets change; however, there can be no assurance that the Bank will be successful in its effort to eliminate the risk of interest rate fluctuations between the time origination commitments are issued and the ultimate sale of the loan. The Bank employs a risk management firm to conduct daily analysis, report the Bank's interest rate risk position with respect to its loan origination and sale activities, and to advise the Bank on interest rate movements and interest rate risk management strategies. The Bank's interest rate risk management activities are conducted in accordance with a written policy that has been approved by the Bank's Board of Directors which covers objectives, functions, instruments to be used, monitoring and internal controls. The Bank does not enter into option positions for trading or speculative purposes and does not enter into option contracts that could generate a financial obligation beyond the initial premium paid. The Bank does not apply hedge accounting to its derivative financial instruments; therefore, all changes in fair value are recorded in earnings.

Loan Servicing

The Bank receives fees from a variety of institutional investors in return for performing the traditional services of collecting individual loan payments. At June 30, 2007, the Bank was servicing $205.8 million of loans for others, a decline from $239.7 million at June 30, 2006. The decrease was primarily attributable to loan prepayments, which were larger than new loans sold on a servicing-retained basis. To the extent loans were sold on a servicing-retained basis, the majority were sold to the FHLB – San Francisco under the MPF program. Loan servicing includes processing payments, accounting for loan funds and collecting and paying real estate taxes, hazard insurance and other loan-related items such as private mortgage insurance. When the Bank receives the gross mortgage payment from individual borrowers, it remits to the investor a predetermined net amount based on the loan sale agreement for that mortgage.

Servicing assets are amortized in proportion to and over the period of the estimated net servicing income and are carried at the lower of cost or fair value. The fair value of servicing assets is determined by calculating the present value of the estimated net future cash flows consistent with contractually specified servicing fees. The Corporation periodically evaluates servicing assets for impairment, which is measured as the excess of cost over fair value. This review is performed on a disaggregated basis, based on loan type and interest rate. Generally, loan servicing becomes more valuable when interest rates rise (as prepayments typically decrease) and less valuable when interest rates decline (as prepayments typically increase). In estimating fair values at June 30, 2007 and 2006, the Corporation used a Constant Prepayment Rate ("CPR") of 3.53% and 5.19%, respectively, and a weighted-average discount rate of 9.00% and 9.01%, respectively. At June 30, 2007 and 2006, there were no required valuation reserves against the servicing assets. In aggregate, servicing assets had a carrying value of $991,000 and a fair value of $2.2 million at June 30, 2007, compared to a carrying value of $1.4 million and a fair value of $2.2 million at June 30, 2006.

Rights to future income from serviced loans that exceed contractually specified servicing fees are recorded as interest-only strips. Interest-only strips are carried at fair value, utilizing the same assumptions used to calculate the value of the underlying servicing assets, with any unrealized gain or loss, net of tax, recorded as a component of accumulated other comprehensive income (loss). Interest-only strips had a fair value of $603,000, gross unrealized gains of $378,000 and an amortized cost of $225,000 at June 30, 2007, compared to a fair value of $584,000, gross unrealized gains of $259,000 and an amortized cost of $325,000 at June 30, 2006.

Delinquencies and Classified Assets

Delinquent Loans. When a mortgage loan borrower fails to make a required payment when due, the Bank initiates collection procedures. At management's discretion, a property inspection is performed when foreclosure proceeding are initiated or when there is an indication of a problem with a particular property. In most cases, delinquencies are cured promptly; however, if by the 90th day of delinquency, or sooner if the borrower is chronically delinquent, and all reasonable means of obtaining the payment have been exhausted, foreclosure proceedings, according to the terms of the security instrument and applicable law, are initiated. Interest income is reduced by the full amount of accrued and uncollected interest on such loans.

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

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

	At June 30,											
	2007				2006				2005			
	60 – 89 Days		90 Days or More		60 - 89 Days		90 Days or More		60 - 89 Days		90 Days or More	
(Dollars in Thousands)	Number of Loans	Principal Balance of Loans	Number of Loans	Principal Balance of Loans	Number of Loans	Principal Balance of Loans	Number of Loans	Principal Balance of Loans	Number of Loans	Principal Balance of Loans	Number of Loans	Principal Balance of Loans
Mortgage loans:												
Single-family	5	$ 1,431	47	$ 14,076	-	$ -	5	$ 1,320	-	$ -	5	$ 655
Construction	-	-	23	4,981	-	-	1	1,313	-	-	-	-
Commercial business loans	-	-	3	252	-	-	-	-	-	-	4	41
Other loans	-	-	1	108	-	-	-	-	-	-	-	-
Total	5	$ 1,431	74	$ 19,417	-	$ -	6	$ 2,633	-	$ -	9	$ 696

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

	At June 30,				
	2007	2006	2005	2004	2003
(Dollars In Thousands)					
Loans accounted for on a non-accrual basis:					
Mortgage loans:					
Single-family	$ 13,271	$ 1,215	$ 590	$ 1,044	$ 1,309
Construction	2,357	1,313	-	-	-
Commercial business loans	171	-	-	41	32
Consumer loans	-	-	-	-	161
Other loans	108	-	-	-	-
Total	15,907	2,528	590	1,085	1,502
Accruing loans which are contractually past due 90 days or more	-	-	-	-	-
Total of non-accrual and 90 days past due loans	15,907	2,528	590	1,085	1,502
Real estate owned, net	3,804	-	-	-	523
Total non-performing assets	$ 19,711	$ 2,528	$ 590	$ 1,085	$ 2,025
Restructured loans	$ -	$ -	$ -	$ -	$ -
Non-accrual and 90 days or more past due loans as a percentage of loans held for investment, net	1.18%	0.20%	0.05%	0.13%	0.20%
Non-accrual and 90 days or more past due loans as a percentage of total assets	0.97%	0.16%	0.04%	0.08%	0.12%
Non-performing assets as a percentage of total assets	1.20%	0.16%	0.04%	0.08%	0.16%

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

As of June 30, 2007, total non-performing assets were $19.7 million which was comprised of 47 single-family loans, 23 construction loans, three commercial business loans, one other loan and 10 real estate owned

properties. Compared to June 30, 2006, total non-performing assets increased $17.2 million, or 688%, primarily due to the weakness in the California real estate market and increases in interest rates on mortgages.

Foregone interest income, which would have been recorded for the year ended June 30, 2007 had the impaired loans been current in accordance with their original terms, amounted to $989,000 and was not included in the results of operations for the year ended June 30, 2007.

Foreclosed Real Estate. Real estate acquired by the Bank as a result of foreclosure or by deed-in-lieu of foreclosure is classified as real estate owned until it is sold. When property is acquired, it is recorded at the lower of its cost, which is the unpaid principal balance of the related loan plus foreclosure costs, or market value less the cost of sale. Subsequent declines in value are charged to operations. At June 30, 2007, the Bank had $3.8 million in real estate owned, all of which were single-family residential homes.

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

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

	At June 30,	
	2007	2006
(Dollars In Thousands)		
Special mention assets	$ 13,299	$ 3,663
Substandard assets	18,990	5,661
Total	$ 32,289	$ 9,324
Total classified assets as a percentage of total assets	1.96%	0.57%

The Bank’s classified assets increased $23.0 million, or 247%, to $32.3 million at June 30, 2007 from $9.3 million at June 30, 2006. This increase was primarily attributable to the recent decline in real estate market values and increases in short-term interest rates. As of June 30, 2007, special mention assets were comprised of 12 single-family loans ($5.6 million), three multi-family loans ($3.3 million), five construction loans ($2.6 million), two commercial real estate loans ($1.5 million) and two commercial business loans ($263,000); substandard assets were comprised of 52 single-family loans ($15.0 million), 23 construction loans ($2.4 million), three commercial real estate loans ($745,000), five commercial business loans ($296,000), one multi-family loan ($444,000) and one other loan ($108,000).

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As set forth below, assets classified as special mention and substandard as of June 30, 2007 were comprised of 109 loans totaling approximately $32.3 million.

(Dollars In Thousands)	Number of Loans	Special Mention	Substandard	Total
Mortgage loans:				
Single-family	64	$ 5,594	$ 15,040	$ 20,634
Multi-family	4	3,326	444	3,770
Commercial real estate	5	1,544	745	2,289
Construction	28	2,572	2,357	4,929
Commercial business loans	7	263	296	559
Other loans	1	-	108	108
Total	109	$ 13,299	$ 18,990	$ 32,289

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

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

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

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

Specific valuation allowances are established to absorb losses on loans for which full collectibility may not be reasonably assured as prescribed in SFAS No. 114, “Accounting by Creditors for Impairment of A Loan,” (as amended by SFAS No. 118). The amount of the specific allowance is based on the estimated value of the collateral securing the loan and other analyses pertinent to each situation. Estimates of identifiable losses are reviewed continually and, generally, a provision for losses is charged against operations on a monthly basis as necessary to

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maintain the allowance at an appropriate level. Management presents the minutes of the IAR Committee to the Bank's Board of Directors on a quarterly basis, which summarizes the actions of the Committee.

The IAR Committee meets quarterly to review and monitor conditions in the portfolio and to determine the appropriate allowance for loan losses. To the extent that any of these conditions are apparent by identifiable problem credits or portfolio segments as of the evaluation date, the IAR Committee's estimate of the effect of such conditions may be reflected as a specific allowance applicable to such credits or portfolio segments. Where any of these conditions is not apparent by specifically identifiable problem credits or portfolio segments as of the evaluation date, the IAR Committee's evaluation of the probable loss related to such condition is reflected in the unallocated allowance. The intent of the Committee is to reduce the differences between estimated and actual losses. Pooled loan factors are adjusted to reflect current estimates of charge-offs for the subsequent 12 months. Loss activity is reviewed for non-pooled loans and the loss factors adjusted, if necessary. By assessing the probable estimated losses inherent in the loans held for investment on a quarterly basis, the Bank is able to adjust specific and inherent loss estimates based upon the most recent information that has become available.

At June 30, 2007, the Bank had an allowance for loan losses of $14.8 million, or 1.09% of gross loans held for investment, compared to an allowance for loan losses at June 30, 2006 of $10.3 million, or 0.81% of gross loans held for investment. A $5.1 million provision for loan losses was recorded in fiscal 2007, compared to $1.1 million in fiscal 2006. The Bank's intent to expand its investment in multi-family, commercial real estate, construction and commercial business loans, as well as rising delinquencies and defaults in single-family mortgage loans, may lead to increased levels of charge-offs. Although management believes the best information available is used to make such determinations, future adjustments to the allowance for loan losses may be necessary and results of operations could be significantly and adversely affected if circumstances differ substantially from the assumptions used in making the determinations.

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

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

	Year Ended June 30,				
	2007	2006	2005	2004	2003
(Dollars In Thousands)					
Allowance at beginning of period	$ 10,307	$ 9,215	$ 7,614	$ 7,218	$ 6,579
Provision for loan losses	5,078	1,134	1,641	819	1,055
Recoveries:					
Consumer loans	1	2	2	1	45
Total recoveries	1	2	2	1	45
Charge-offs:					
Mortgage loans:					
Single-family	(535)	-	-	-	(16)
Commercial business loans	-	(41)	(32)	(415)	(436)
Consumer loans	(6)	(3)	(10)	(9)	(9)
Total charge-offs	(541)	(44)	(42)	(424)	(461)
Net charge-offs	(540)	(42)	(40)	(423)	(416)
Allowance at end of period	$ 14,845	$ 10,307	$ 9,215	$ 7,614	$ 7,218
Allowance for loan losses as a percentage of gross loans held for investment	1.09%	0.81%	0.81%	0.88%	0.96%
Net charge-offs as a percentage of average loans receivable, net, during the period	0.04%	-	-	0.05%	0.06%
Allowance for loan losses as a percentage of non-performing loans at the end of the period	93.32%	407.71%	1,561.86%	701.75%	480.56%

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

	At June 30,								
	2007		2006		2005		2004		200
(Dollars In Thousands)	Amount	% of Loans in Each Category to Total Loans	Amount	% of Loans in Each Category to Total Loans	Amount	% of Loans in Each Category to Total Loans	Amount	% of Loans in Each Category to Total Loans	Am
Mortgage loans:									
Single-family	$ 2,893	59.68%	$ 2,382	61.16%	$ 1,924	65.56%	$ 1,561	65.48%	$ 1,
Multi-family	4,255	23.85	2,819	16.18	1,936	9.70	1,177	7.27	
Commercial real estate	4,000	10.66	3,476	9.41	3,663	9.92	3,095	10.55	2,
Construction	2,973	4.37	788	11.05	426	12.65	421	14.39	
Commercial business loans	449	0.73	525	0.95	1,040	1.24	1,197	1.45	1,
Consumer loans	14	0.04	16	0.05	16	0.06	16	0.08	
Other loans	261	0.67	301	1.20	210	0.87	147	0.78	
Unallocated	-	N/A	-	N/A	-	N/A	-	N/A	
Total allowance for loan losses	$ 14,845	100.00%	$ 10,307	100.00%	$ 9,215	100.00%	$ 7,614	100.00%	$ 7,

Investment Real Estate

Investment real estate is carried at the lower of cost or fair market value. All costs associated with disposition are considered in the determination of fair value. In July 2006, the Corporation sold the last property held by a wholly owned subsidiary, approximately six acres of land located in Riverside, California, for a pre-tax gain of $2.3 million (approximately $1.3 million net of taxes).

Investment Securities Activities

Federally chartered savings institutions are permitted under federal and state laws to invest in various types of liquid assets, including U.S. Treasury obligations, securities of various federal agencies and government sponsored enterprises and of state and municipal governments, deposits at the FHLB, certificates of deposit of federally insured institutions, certain bankers' acceptances, mortgage-backed securities and federal funds. Subject to various restrictions, federally chartered savings institutions may also invest a portion of their assets in commercial paper and corporate debt securities. Savings institutions such as the Bank are also required to maintain an investment in FHLB – San Francisco stock.

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

At June 30, 2007, the Corporation's investment securities portfolio was $150.8 million, which primarily consisted of federal agency and government sponsored enterprise obligations. A total of $131.8 million (estimated fair value) of the Corporation's investment securities portfolio was classified as available for sale. All other securities were classified as held to maturity.

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

	At June 30,								
	2007			2006			2005		
(Dollars In Thousands)	Amortized Cost	Estimated Fair Value	Percent	Amortized Cost	Estimated Fair Value	Percent	Amortized Cost	Estimated Fair Value	Percent
Held to maturity securities:									
U.S. government sponsored enterprise debt securities	$ 19,000	$ 18,836	12.50%	$ 51,028	$ 49,911	28.35%	$ 51,028	$ 50,117	21.65%
U.S. government agency MBS (1)	1	1	-	3	3	-	4	4	-
Corporate bonds	-	-	-	-	-	-	996	1,006	0.43
Certificates of deposit	-	-	-	-	-	-	200	200	0.09
Total held to maturity	19,001	18,837	12.50	51,031	49,914	28.35	52,228	51,327	22.17
Available for sale securities:									
U.S. government sponsored enterprise debt securities	9,849	9,683	6.43	21,846	21,264	12.08	24,838	24,399	10.54
U.S. government agency MBS	57,555	57,539	38.18	38,143	37,365	21.22	56,517	56,377	24.35
U.S. government sponsored	58,861	59,066	39.20	61,455	61,249	34.79	91,144	91,748	39.62

enterprise MBS									
Private issue CMO (2)	4,627	4,641	3.08	5,557	5,412	3.07	7,312	7,266	3.14
Freddie Mac common stock	6	364	0.24	6	342	0.19	6	391	0.17
Fannie Mae common stock	1	26	0.02	1	19	0.01	1	23	0.01
Other common stock	118	523	0.35	118	507	0.29	-	-	-
Total available for sale	131,017	131,842	87.50	127,126	126,158	71.65	179,818	180,204	77.83
Total investment securities	$ 150,018	$ 150,679	100.00%	$ 178,157	$ 176,072	100.00%	$ 232,046	$ 231,531	100.00%

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

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As of June 30, 2007, the Corporation held investments in a continuous unrealized loss position totaling $505,000, consisting of the following:

(In Thousands)	Unrealized Holding Losses Less Than 12 Months		Unrealized Holding Losses 12 Months or More		Unrealized Holding Losses Total	
Description of Securities	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
U.S. government sponsored enterprise debt securities:						
Freddie Mac	$ -	$ -	$ 10,869	$ 130	$ 10,869	$ 130
FHLB	-	-	17,650	200	17,650	200
U.S. government agency MBS:						
GNMA	27,769	32	4,762	3	32,531	35
U.S. government sponsored enterprise MBS:						
Fannie Mae	-	-	2,988	54	2,988	54
Freddie Mae	14,821	78	-	-	14,821	78
Private issue CMO:						
Washington Mutual, Inc.	-	-	1,222	8	1,222	8
Total	$ 42,590	$ 110	$ 37,491	$ 395	$ 80,081	$ 505

As of June 30, 2007, the unrealized holding losses relate to a total of 14 investment securities, which consist of two adjustable rate MBS, one adjustable rate CMO and 11 fixed rate government sponsored enterprise debt obligations, which have been in an unrealized loss position (ranging from a de minimus percentage to 2.4% of cost) for more than 12 months. Such unrealized holding losses are the result of an increase in market interest rates during fiscal 2006 and fiscal 2007 and are not the result of credit or principal risk. Based on the nature of the investments and other considerations discussed above, management concluded that such unrealized losses were not other than temporary as of June 30, 2007.

The following table sets forth the outstanding balance, maturity and weighted average yield of the investment securities at June 30, 2007:

	Due in One Year or Less		Due After One to Five Years		Due After Five to Ten Years		Due After Ten Years		No Stated Maturity		Total	
(Dollars in Thousands)	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
Held to maturity securities:												
U.S. government sponsored enterprise debt securities	$ 19,000	3.15%	$ -	-	$ -	-	$ -	-	$ -	-	$ 19,000	3.15%
U.S. government agency MBS	-	-	1	8.81%	-	-	-	-	-	-	1	8.81%
Total held to maturity	19,000	3.15%	1	8.81%	-	-	-	-	-	-	19,001	3.15%
Available for sale securities:												
U.S. government sponsored enterprise debt securities	7,870	3.01%	1,813	4.04%	-	-	-	-	-	-	9,683	3.20%
U.S. government agency MBS	-	-	-	-	-	-	57,539	4.99%	-	-	57,539	4.99%
U.S. government sponsored enterprise MBS	95	5.50%	-	-	-	-	58,971	5.05%	-	-	59,066	5.05%
Private issue CMO	-	-	-	-	-	-	4,641	4.28%	-	-	4,641	4.28%
Freddie Mac common stock	-	-	-	-	-	-	-	-	364	-	364	-
Fannie Mae common stock	-	-	-	-	-	-	-	-	26	-	26	-
Other common stock	-	-	-	-	-	-	-	-	523	-	523	-
	7,965	3.04%	1,813	4.04%	-	-	121,151	4.99%	913	-	131,842	4.83%

Total available for sale												
Total investment securities	$ 26,965	3.12%	$ 1,814	4.04%	$ -	-	$ 121,151	4.99%	$ 913	-	$ 150,843	4.61%

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Deposit Activities and Other Sources of Funds

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

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

The Bank currently offers time deposits for terms not exceeding five years. As illustrated in the following table, time deposits represented 65.0% of the Bank's deposit portfolio at June 30, 2007, compared to 57.4% at June 30, 2006. At June 30, 2007, the Bank has a single depositor with an aggregate balance of $100.0 million in time deposits. The Bank attempts to reduce the overall cost of its deposit portfolio and to increase its franchise value by emphasizing transaction accounts which are subject to a heightened degree of competition (see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" on page 42 of this Form 10-K/A).

The following table sets forth information concerning the Bank's weighted-average interest rate of deposits at June 30, 2007.

Weighted Average Interest Rate	Term	Deposit Account Type	Minimum Amount	Balance (In Thousands)	Percentage of Total Deposits
		Transaction accounts:			
0.00%	N/A	Checking accounts – non interest-bearing	$ -	$ 43,694	4.38%
0.76	N/A	Checking accounts – interest-bearing	-	122,588	12.28
2.04	N/A	Savings accounts	10	153,036	15.32
2.45	N/A	Money market accounts	-	30,647	3.07
		Time deposits:			
4.35	12 to 36 months	Fixed-term, variable rate	1,000	1,367	0.14
0.84	30 days or less	Fixed-term, fixed rate	1,000	25	-
3.58	31 to 90 days	Fixed-term, fixed rate	1,000	7,060	0.71
5.00	91 to 180 days	Fixed-term, fixed rate	1,000	192,008	19.23

4.75	181 to 365 days	Fixed-term, fixed rate	1,000	121,784	12.19
4.99	Over 1 to 2 years	Fixed-term, fixed rate	1,000	176,150	17.64
4.78	Over 2 to 3 years	Fixed-term, fixed rate	1,000	110,146	11.03
4.13	Over 3 to 5 years	Fixed-term, fixed rate	1,000	40,067	4.01
3.63%				$ 998,572	100.00%

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The following table indicates the aggregate dollar amount of the Bank's time deposits with balances of $100,000 or more differentiated by time remaining until maturity as of June 30, 2007.

Maturity Period (In Thousands)	Amount
Three months or less	$ 151,946
Over three to six months	47,446
Over six to twelve months	22,725
Over twelve months	123,752
Total	$ 345,869

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

	At June 30,					
	2007			2006		
(Dollars In Thousands)	Amount	Percent of Total	Increase (Decrease)	Amount	Percent of Total	Increase (Decrease)
Checking accounts – non interest-bearing	$ 43,694	4.37%	$ (5,082)	$ 48,776	5.32%	$ 603
Checking accounts – interest-bearing	122,588	12.28	(8,677)	131,265	14.31	3,382
Savings accounts	153,036	15.32	(28,770)	181,806	19.81	(85,401)
Money market accounts	30,647	3.07	1,373	29,274	3.19	(11,784)
Time deposits:						
Fixed-term, fixed rate which mature:						
Within one year	433,292	43.39	128,533	304,759	33.21	73,195
Over one to two years	162,565	16.28	33,824	128,741	14.03	62,573
Over two to five years	51,383	5.15	(39,826)	91,209	9.94	(43,316)
Fixed-term, variable rate	1,367	0.14	(385)	1,752	0.19	(301)
Total	$ 998,572	100.00%	$ 80,990	$ 917,582	100.00%	$ (1,049)

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

	At June 30,		
(In Thousands)	2007	2006	2005
Below 1.00%	$ 49	$ 151	$ 2,174
1.00 to 1.99%	-	384	31,134

2.00 to 2.99%	8,808	31,707	153,610
3.00 to 3.99%	81,052	175,831	188,421
4.00 to 4.99%	119,862	278,574	47,588
5.00 to 5.99%	438,836	39,814	8,923
6.00 to 6.99%	-	-	2,460
Total	$ 648,607	$ 526,461	$ 434,310

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Time Deposits by Maturities. The following table sets forth the aggregate dollar amount of time deposits at June 30, 2007 differentiated by interest rates and maturity.

(In Thousands)	One Year or Less	Over One to Two Years	Over Two to Three Years	Over Three to Four Years	After Four Years	Total
Below 1.00%	$ 36	$ 3	$ 8	$ -	$ 2	$ 49
1.00 to 1.99%	-	-	-	-	-	-
2.00 to 2.99%	8,735	73	-	-	-	8,808
3.00 to 3.99%	59,711	16,034	3,876	969	462	81,052
4.00 to 4.99%	81,927	30,438	4,603	943	1,951	119,862
5.00 to 5.99%	284,054	116,174	38,498	-	110	438,836
Total	$ 434,463	$ 162,722	$ 46,985	$ 1,912	$ 2,525	$ 648,607

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

	At or For the Year Ended June 30,		
(In Thousands)	2007	2006	2005
Beginning balance	$ 917,582	$ 918,631	$ 851,039
Net deposits (withdrawals) before interest credited	49,816	(23,120)	51,425
Interest credited	31,174	22,071	16,167
Net increase (decrease) in deposits	80,990	(1,049)	67,592
Ending balance	$ 998,572	$ 917,582	$ 918,631

Borrowings. The FHLB – San Francisco functions as a central reserve bank providing credit for member financial institutions. As a member, the Bank is required to own capital stock in the FHLB – San Francisco and is authorized to apply for advances using such stock and certain of its mortgage loans and other assets (principally investment securities) as collateral, provided certain creditworthiness standards have been met. Advances are made pursuant to several different credit programs. Each credit program has its own interest rate, maturity, terms and conditions. Depending on the program, limitations on the amount of advances are based on the financial condition of the member institution and the adequacy of collateral pledged to secure the credit. The Bank utilizes advances from the FHLB – San Francisco as an alternative to deposits to supplement its supply of lendable funds, to meet deposit withdrawal requirements and to help manage interest rate risk. The FHLB – San Francisco has, from time to time, served as the Bank's primary borrowing source. In September 2006, the FHLB – San Francisco borrowing capacity was increased from 40% of total assets to 50% of total assets. Advances from the FHLB – San Francisco are typically secured by the Bank's single-family residential mortgages, multi-family and commercial real estate loans. Total mortgage loans pledged to the FHLB – San Francisco were $875.2 million at June 30, 2007 as compared to $737.3 million at June 30, 2006. In addition, the Bank pledged investment securities totaling $24.9 million at June 30, 2007

as compared to $54.6 million at June 30, 2006 to collateralize its FHLB – San Francisco advances under the Securities-Backed Credit ("SBC") facility. At June 30, 2007, the Bank had $502.8 million of borrowings from the FHLB – San Francisco with a weighted-average rate of 4.55%, with $24.0 million under the SBC facility. Such borrowings mature between 2007 and 2021.

In addition, the Bank has a borrowing arrangement in the form of a federal funds facility with its correspondent bank in the amount of $60.0 million. As of June 30, 2007 and 2006, the Bank had no outstanding correspondent bank advances.

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

	At or For the Year Ended June 30,		
(Dollars In Thousands)	2007	2006	2005
Balance outstanding at the end of period:			
FHLB – San Francisco advances	$ 502,774	$ 546,211	$ 550,845
Correspondent bank advances	$ -	$ -	$ 10,000
Weighted average rate at the end of period:			
FHLB – San Francisco advances	4.55%	4.53%	3.95%
Correspondent bank advances	-	-	3.39%
Maximum amount of borrowings outstanding at any month end:			
FHLB – San Francisco advances	$ 689,443	$ 572,342	$ 550,845
Correspondent bank advances	$ 1,000	$ -	$ 10,000
Average short-term borrowings during the period (1) With respect to:			
FHLB – San Francisco advances	$ 281,267	$ 121,950	$ 135,708
Correspondent bank advances	$ 168	$ 205	$ 334
Weighted average short-term borrowing rate during the period (1) With respect to:			
FHLB – San Francisco advances	4.89%	4.11%	2.84%
Correspondent bank advances	5.34%	3.46%	2.05%

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

Subsidiary Activities

Federal savings institutions generally may invest up to 3% of their assets in service corporations, provided that at least one-half of any amount in excess of 1% is used primarily for community, inner-city and community development projects. The Bank's investment in its service corporations did not exceed these limits at June 30, 2007.

The Bank has three wholly owned subsidiaries; Provident Financial Corp ("PFC"), Profed Mortgage, Inc., and First Service Corporation. PFC's current activities include: (i) acting as trustee for the Bank's real estate transactions and (ii) holding real estate for investment. Profed Mortgage, Inc., which formerly conducted the Bank's mortgage banking activities, and First Service Corporation are currently inactive. At June 30, 2007, the Bank's investment in its subsidiaries was $278,000.

REGULATION

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

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

General

The Bank, as a federally chartered savings institution, is subject to extensive regulation, examination and supervision by the OTS, as its primary federal regulator, and the FDIC, as its insurer of deposits. The Bank is a member of the FHLB System and its deposits are insured up to applicable limits by the FDIC. The Bank must file reports with the OTS and the FDIC concerning its activities and financial condition in addition to obtaining regulatory approvals prior to entering into certain transactions such as mergers with, or acquisitions of, other financial institutions. There are periodic examinations by the OTS and, under certain circumstances, the FDIC to evaluate the Bank's safety and soundness and compliance with various regulatory requirements. This regulatory structure is intended primarily for the protection of the insurance fund and depositors. The regulatory structure also gives the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to the classification of assets and the establishment of adequate loan loss reserves for regulatory purposes. Any change in such policies, whether by the OTS, the FDIC or Congress, could have a material adverse impact on the Corporation and the Bank and their operations. The Corporation, as a savings and loan holding company, is required to file certain reports with, is subject to examination by, and otherwise must comply with the rules and regulations of the OTS. The Corporation is also subject to the rules and regulations of the Securities and Exchange Commission ("SEC") under the federal securities laws. See "Savings and Loan Holding Company Regulations" on page 37.

Federal Regulation of Savings Institutions

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

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

All savings institutions are required to pay assessments to the OTS to fund the agency's operations. The general assessments, paid on a semi-annual basis, are determined based on the savings institution's total assets, including consolidated subsidiaries. The Bank's annual OTS assessment for the fiscal year ended June 30, 2007 was $320,000.

Federal law provides that savings institutions are generally subject to the national bank limit on loans to one borrower. A savings institution may not make a loan or extend credit to a single or related group of borrowers in excess of 15% of its unimpaired capital and surplus. An additional amount may be lent, equal to 10% of unimpaired capital and surplus, if secured by specified readily marketable collateral. At June 30, 2007, the Bank's limit on loans to one borrower was $20.4 million. At June 30, 2007, the Bank's largest loan commitment to a single borrower was $8.5 million. Of this commitment, $4.2 million has been disbursed in the form of a condominium construction loan located in Southern California, which as of June 30, 2007 was performing according to its original

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terms. The Bank also monitors multiple loans to a single borrower and/or guarantor. At June 30, 2007, one such borrower had a total of $7.7 million of loans outstanding, primarily commercial real estate loans, all of which are performing according to their original terms.

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

Federal Home Loan Bank System. The Bank is a member of the FHLB – San Francisco, which is one of 12 regional FHLBs that administer the home financing credit function of member financial institutions. Each FHLB serves as a reserve or central bank for its members within its assigned region. It is funded primarily from proceeds derived from the sale of consolidated obligations of the FHLB System. It makes loans or advances to members in accordance with policies and procedures, established by the Board of Directors of the FHLB, which are subject to the oversight of the Federal Housing Finance Board. All advances from the FHLB are required to be fully secured by sufficient collateral as determined by the FHLB. In addition, all long-term advances are required to provide funds for residential home financing. At June 30, 2007, the Bank had $502.8 million of outstanding advances from the FHLB – San Francisco under an available credit facility of $885.2 million, based on 50% of total assets, which is limited to available collateral. See “Business – Deposit Activities and Other Sources of Funds – Borrowings” on page 30.

As a member, the Bank is required to purchase and maintain stock in the FHLB – San Francisco. At June 30, 2007, the Bank had $43.8 million in FHLB – San Francisco stock, which was in compliance with this requirement. In past years, the Bank has received substantial dividends on its FHLB – San Francisco stock. The average dividend yield for fiscal 2007, 2006 and 2005 was 5.35%, 4.78% and 4.41%, respectively. There is no guarantee that the FHLB – San Francisco will maintain its dividend at these levels.

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

Insurance of Accounts and Regulation by the FDIC. The Bank’s deposits are insured up to applicable limits by the DIF of the FDIC. The DIF is the successor to the Bank Insurance Fund and the Savings Association Insurance Fund, which were merged effective March 31, 2006. As insurer, the FDIC imposes deposit insurance premiums and is authorized to conduct examinations of and to require reporting by FDIC-insured institutions. It also may prohibit any FDIC-insured institution from engaging in any activity the FDIC determines by regulation or order to pose a serious risk to the insurance fund. The FDIC also has the authority to initiate enforcement actions against savings institutions, after giving the Office of Thrift Supervision an opportunity to take such action, and may terminate the deposit insurance if it determines that the institution has engaged in unsafe or unsound practices or is in an unsafe or unsound condition.

The FDIC recently amended its risk-based assessment system for 2007 to implement authority granted by the Federal Deposit Insurance Reform Act of 2005, which was enacted in 2006 ("Reform Act"). Under the revised system, insured institutions are assigned to one of four risk categories based on supervisory evaluations, regulatory capital levels and certain other factors. An institution’s assessment rate depends upon the category to which it is assigned. Risk category I, which contains the least risky depository institutions, is expected to include more than 90% of all institutions. Unlike the other categories, Risk Category I contains further risk differentiation based on the

FDIC's analysis of financial ratios, examination component ratings and other information. Assessment rates are determined by the FDIC and currently range from five to seven basis points for the healthiest institutions (Risk Category I) to 43 basis points of assessable deposits for the riskiest (Risk Category IV). The FDIC may adjust rates uniformly from one quarter to the next, except that no single adjustment can exceed three basis points. No institution may pay a dividend if in default of the FDIC assessment.

The Reform Act also provided for a one-time credit for eligible institutions based on their assessment base as of December 31, 1996. Subject to certain limitations with respect to institutions that are exhibiting weaknesses, credits can be used to offset assessments until exhausted. The Bank's one-time credit was $695,000. For the quarter ended March 31, 2007, the deposit assessment was equal to 1.415 basis points for each $100 in domestic deposits, totaling $141,000. With this deposit assessment, the remaining credit balance was $554,000 as of June 30, 2007. The Reform Act also provided for the possibility that the FDIC may pay dividends to insured institutions once the DIF reserve ratio equals or exceeds 1.35% of estimated insured deposits.

In addition to the assessment for deposit insurance, institutions are required to make payments on bonds issued in the late 1980s by the Financing Corporation to recapitalize a predecessor deposit insurance fund. This payment is established quarterly and during the calendar year ended June 30, 2007 averaged 1.22 basis points of assessable deposits.

The Reform Act provided the FDIC with authority to adjust the DIF ratio to insured deposits within a range of 1.15% and 1.50%, in contrast to the prior statutorily fixed ratio of 1.25%. The ratio, which is viewed by the FDIC as the level that the fund should achieve, was established by the agency at 1.25% for 2007.

The FDIC has authority to increase insurance assessments. A significant increase in insurance premiums would likely have an adverse effect on the operating expenses and results of operations of The Bank. There can be no prediction as to what insurance assessment rates will be in the future. Insurance of deposits may be terminated by the FDIC upon a finding that the institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC or the Office of Thrift Supervision. Management of The Bank is not aware of any practice, condition or violation that might lead to termination of The Bank's deposit insurance.

Prompt Corrective Action. The OTS is required to take certain supervisory actions against undercapitalized savings institutions, the severity of which depends upon the institution's degree of undercapitalization. Generally, an institution is considered to be "undercapitalized" if it has a core capital ratio of less than 4.0% (3.0% or less for institutions with the highest examination rating), a ratio of total capital to risk-weighted assets of less than 8.0%, or a ratio of Tier 1 capital to risk-weighted assets of less than 4.0%. An institution that has a core capital ratio that is less than 3.0%, a total risk-based capital ratio less than 6.0%, and a Tier 1 risk-based capital ratio of less than 3.0% or is considered to be "significantly undercapitalized" and an institution that has a tangible capital ratio equal to or less than 2.0% is deemed to be "critically undercapitalized." Subject to a narrow exception, the OTS is required to appoint a receiver or conservator for a savings institution that is "critically undercapitalized." OTS regulations also require that a capital restoration plan be filed with the OTS within 45 days of the date a savings institution receives notice that it is "undercapitalized," "significantly undercapitalized" or "critically undercapitalized." In addition, numerous mandatory supervisory actions become immediately applicable to an undercapitalized institution, including, but not limited to, increased monitoring by regulators and restrictions on growth, capital distributions and expansion. "Significantly undercapitalized" and "critically undercapitalized" institutions are subject to more extensive mandatory regulatory actions. The OTS also could take any one of a number of discretionary supervisory actions, including the issuance of a capital directive and the replacement of senior executive officers and directors.

At June 30, 2007, the Bank was categorized as "well capitalized" under the prompt corrective action regulations of the OTS.

Standards for Safety and Soundness. The federal banking regulatory agencies have prescribed, by regulation, standards for all insured depository institutions relating to: (i) internal controls, information systems and internal audit systems; (ii) loan documentation; (iii) credit underwriting; (iv) interest rate risk exposure; (v) asset growth; (vi) asset

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

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

A savings institution that fails to meet the QTL is subject to certain operating restrictions and may be required to convert to a national bank charter. Recent legislation has expanded the extent to which education loans, credit card loans and small business loans may be considered "qualified thrift investments." As of June 30, 2007, the Bank maintained 91.09% of its portfolio assets in qualified thrift investments and, therefore, met the qualified thrift lender test.

Capital Requirements. The OTS's capital regulations require federal savings institutions to meet three minimum capital standards: a 1.5% tangible capital ratio, a 4% core capital ratio (3% for institutions receiving the highest rating on the CAMELS examination rating system) and an 8% risk-based capital ratio. In addition, the prompt corrective action standards discussed above also establish, in effect, a minimum ratio of 2% tangible capital, 4% core capital (3% for institutions receiving the highest rating on the CAMELS system) and, together with the risk-based capital, and 4% Tier 1 risk-based capital. The OTS regulations also require that, in meeting the tangible, core and risk-based capital ratios, institutions must generally deduct investments in and loans to subsidiaries engaged in activities as principal that are not permissible for a national bank.

The risk-based capital standard requires federal savings institutions to maintain Tier 1 and total capital (which is defined as core capital and supplementary capital) to risk-weighted assets of at least 4% and 8%, respectively. In determining the amount of risk-weighted assets, all assets, including certain off-balance sheet assets, recourse obligations, residual interests and direct credit substitutes, are multiplied by a risk-weight factor of 0% to 100%, assigned by the OTS capital regulation based on the risks believed inherent in the type of asset. Core capital is defined as common stockholders' equity (including retained earnings), certain noncumulative perpetual preferred stock and related surplus and minority interests in equity accounts of consolidated subsidiaries, less intangibles other than certain mortgage servicing rights and credit card relationships. The components of supplementary capital currently include cumulative preferred stock, long-term perpetual preferred stock, mandatory convertible securities, subordinated debt and intermediate preferred stock, the allowance for loan and lease losses limited to a maximum of 1.25% of risk-weighted assets and up to 45% of unrealized gains on available-for-sale equity securities with readily determinable fair market values. Overall, the amount of supplementary capital included as part of total capital cannot exceed 100% of core capital.

The OTS also has authority to establish individual minimum capital requirements in appropriate cases upon a determination that an institution's capital level is or may become inadequate in light of the particular circumstances. At June 30, 2007, the Bank met each of these capital requirements. For additional information, see Note 10 of the Notes to Consolidated Financial Statements included in Item 8 of this Form 10-K/A.

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

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

on safety and soundness concerns.

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

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

Transactions with Affiliates. The Bank’s authority to engage in transactions with “affiliates” is limited by OTS regulations and by Sections 23A and 23B of the Federal Reserve Act as implemented by the Federal Reserve Board’s Regulation W. The term “affiliates” for these purposes generally means any company that controls or is under common control with an institution. The Corporation and its non-savings institution subsidiaries would be affiliates of the Bank. In general, transactions with affiliates must be on terms that are as favorable to the institution as comparable transactions with non-affiliates. In addition, certain types of transactions are restricted to an aggregate percentage of the institution’s capital. Collateral in specified amounts must usually be provided by affiliates in order to receive loans from an institution. In addition, savings institutions are prohibited from lending to any affiliate that is engaged in activities that are not permissible for bank holding companies and no savings institution may purchase the securities of any affiliate other than a subsidiary. Federally insured savings institutions are subject, with certain exceptions, to certain restrictions on extensions of credit to their parent holding companies or other affiliates, on investments in the stock or other securities of affiliates and on the taking of such stock or securities as collateral from any borrower. In addition, these institutions are prohibited from engaging in certain tie-in arrangements in connection with any extension of credit or the providing of any property or service.

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

Community Reinvestment Act. Under the Community Reinvestment Act, every FDIC-insured institution has a continuing and affirmative obligation consistent with safe and sound banking practices to help meet the credit needs of its entire community, including low and moderate income neighborhoods. The Community Reinvestment Act does not establish specific lending requirements or programs for financial institutions nor does it limit an institution's discretion to develop the types of products and services that it believes are best suited to its particular community, consistent with the Community Reinvestment Act. The Community Reinvestment Act requires the OTS, in connection with the examination of the Bank, to assess the institution's record of meeting the credit needs of its community and to take such record into account in its evaluation of certain applications, such as a merger or the

establishment of a branch, by the Bank. The OTS may use an unsatisfactory rating as the basis for the denial of an application. Due to the heightened attention being given to the Community Reinvestment Act in the past few years, the Bank may be required to devote additional funds for investment and lending in its local community. The Bank was examined for Community Reinvestment Act compliance and received a rating of satisfactory in its latest examination.

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

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

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

Privacy Standards. The Gramm-Leach-Bliley Financial Services Modernization Act of 1999 ("GLBA"), which was enacted in 1999, modernized the financial services industry by establishing a comprehensive framework to permit affiliations among commercial banks, insurance companies, securities firms and other financial service providers. The Bank is subject to OTS regulations implementing the privacy protection provisions of the GLBA. These regulations require the Bank to disclose its privacy policy, including identifying with whom it shares "non-public personal information," to customers at the time of establishing the customer relationship and annually thereafter.

Anti-Money Laundering and Customer Identification. Congress enacted the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the "USA Patriot Act") on October 26, 2001 in response to the terrorist events of September 11, 2001. The USA Patriot Act gives the federal government new powers to address terrorist threats through enhanced domestic security measures, expanded surveillance powers, increased information sharing, and broadened anti-money laundering requirements. In March 2006, Congress re-enacted certain expiring provisions of the USA Patriot Act.

Savings and Loan Holding Company Regulations

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

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

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

Activities Restrictions. As a unitary savings and loan holding company, the Corporation generally is not subject to activity restrictions. The Corporation and its non-savings institution subsidiaries are subject to statutory and

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regulatory restrictions on their business activities specified by federal regulations, which include performing services and holding properties used by a savings institution subsidiary, activities authorized for savings and loan holding companies as of March 5, 1987, and non-banking activities permissible for bank holding companies pursuant to the Bank Holding Company Act of 1956 or authorized for financial holding companies pursuant to the GLBA.

If the Bank fails the QTL test, the Corporation must, within one year of that failure, register as, and will become subject to, the restrictions applicable to bank holding companies. See "Federal Regulation of Savings Institutions - Qualified Thrift Lender Test" on page 35 of this Form 10-K/A.

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

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

TAXATION

Federal Taxation

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

Tax Bad Debt Reserves. As a result of legislation enacted in 1996, the reserve method of accounting for bad debt reserves was repealed for tax years beginning after December 31, 1995. Due to such repeal, the Bank is no longer able to calculate its deduction for bad debts using the percentage-of-taxable-income or the experience method. Instead, the Bank will be permitted to deduct as bad debt expense its specific charge-offs during the taxable year. In addition, the legislation required savings institutions to recapture into taxable income, over a six-year period, their post-1987 additions to their bad debt tax reserves. As of the effective date of the legislation, the Bank had no post-1987 additions to its bad debt tax reserves. As of June 30, 2007, the Bank's total pre-1988 bad debt reserve for tax purposes was approximately $9.0 million. Under current law, a savings institution will not be required to recapture its pre-1988 bad debt reserve unless the Bank makes a "non-dividend distribution" as defined below.

Distributions. To the extent that the Bank makes "non-dividend distributions" to the Corporation that are considered as made from the reserve for losses on qualifying real property loans, to the extent the reserve for such losses exceeds the amount that would have been allowed under the experience method; or from the supplemental reserve for losses on loans ("Excess Distributions"), then an amount based on the amount distributed will be included in the Bank's taxable

income. Non-dividend distributions include distributions in excess of the Bank's current and accumulated earnings and profits, distributions in redemption of stock, and distributions in partial or complete liquidation. However, dividends paid out of the Bank's current or accumulated earnings and profits, as calculated for federal income tax purposes, will not be considered to result in a distribution from the Bank's bad debt reserve. Thus, any dividends to the Corporation that would reduce amounts appropriated to the Bank's bad debt reserve and deducted for federal income tax purposes would create a tax liability for the Bank. The amount of

additional taxable income attributable to an Excess Distribution is an amount that, when reduced by the tax attributable to the income, is equal to the amount of the distribution. Thus, if the Bank makes a "non-dividend distribution," then approximately one and one-half times the amount distributed will be included in taxable income for federal income tax purposes, assuming a 35% corporate income tax rate (exclusive of state and local taxes). See "Limitation on Capital Distributions" on page 35 of this Form 10-K/A for limits on the payment of dividends by the Bank. The Bank does not intend to pay dividends that would result in a recapture of any portion of its tax bad debt reserve. During fiscal 2007, the Bank declared and paid cash dividends to the Corporation of $20.0 million while the Corporation declared and paid cash dividends to the shareholders of $4.6 million.

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

Non-Qualified Compensation Tax Benefits. During fiscal 2007, 1,452 shares of common stock under the Management Recognition Plan ("MRP") were distributed to non-employee members of the Corporation's Board of Directors in accordance with previous awards and consistent with the vesting schedule. Also, 28,946 options to purchase shares of the Corporation's common stock were exercised as non-qualified stock options during fiscal 2007. The federal tax benefit from the non-qualified compensation in fiscal 2007 was $60,000.

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

State Taxation

California. The California franchise tax rate applicable to the Bank equals the franchise tax rate applicable to corporations generally, plus an "in lieu" rate of 2%, which is approximately equal to personal property taxes and business license taxes paid by such corporations (but not generally paid by banks or financial corporations such as the Bank). At June 30, 2007, the Corporation's net state tax rate was 7.5%. Bad debt deductions are available in computing California franchise taxes using the specific charge-off method. The Bank and its California subsidiaries file California franchise tax returns on a combined basis. The Corporation will be treated as a general corporation subject to the general corporate tax rate. The state tax benefit from the non-qualified compensation in fiscal 2007, as described under the Federal Taxation section, was $21,000.

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

EXECUTIVE OFFICERS

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

		Position	
Name	Age (1)	Corporation	Bank
Craig G. Blunden	59	Chairman, President and Chief Executive Officer	Chairman, President and Chief Executive Officer
Richard L. Gale	56	-	Senior Vice President Provident Bank Mortgage
Kathryn R. Gonzales	49	-	Senior Vice President Retail Banking
Lilian Salter	52	-	Senior Vice President Chief Information Officer
Donavon P. Ternes	47	Chief Financial Officer Corporate Secretary	Executive Vice President Chief Financial Officer
David S. Weiant (2)	48	-	Senior Vice President Chief Lending Officer

(1) As of June 30, 2007.
(2) Joined the Bank on June 29, 2007.

Biographical Information

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

Craig G. Blunden has been associated with the Bank since 1974 and has held his current positions at the Bank since 1991 and as President and Chief Executive Officer of the Corporation since its formation in 1996. Mr. Blunden also serves on the City of Riverside Council of Economic Development Advisors, and is Chairman of the Board of the Greater Riverside Chamber of Commerce.

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

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

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

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

David S. Weiant joined the Bank as Senior Vice President and Chief Lending Officer on June 29, 2007. Prior to joining the Bank, Mr. Weiant was a Senior Vice President of Professional Business Bank where he was responsible for commercial lending in the Los Angeles and Inland Empire regions of Southern California. Mr. Weiant has more than 25 years of experience with financial institutions including the last 10 years in senior management.

Item 6. Selected Financial Data

The selected consolidated financial data set forth in this Item 6 has been restated to reflect adjustments to the Corporation's consolidated financial statements and other financial information contained in the Corporation's Original Form 10-K for the fiscal year ended June 30, 2007, originally filed with the SEC on September 12, 2007. The following selected consolidated financial data should be read in conjunction with the Corporation's consolidated financial statements and other financial information as presented in Item 8 of this amended Annual Report on Form 10-K/A. Please refer to Note 21 of the Notes to the Consolidated Financial Statements included in Part II of Item 8 of this Form 10-K/A.

The following tables set forth information concerning the consolidated financial position and results of operations of the Corporation and its subsidiary at the dates and for the periods indicated.

	At or For The Year Ended June 30,				
	2007	2006	2005	2004	2003
(In Thousands, Except Per Share Information)			(As Restated)		
FINANCIAL CONDITION DATA:					
Total assets	$ 1,647,516	$ 1,622,470	$ 1,632,122	$ 1,319,035	$ 1,261,506
Loans held for investment, net	1,349,289	1,262,997	1,131,905	862,535	744,219
Loans held for sale	1,337	4,713	5,691	20,127	4,247
Receivable from sale of loans	60,513	99,930	167,813	86,480	114,902
Cash and cash equivalents	12,824	16,358	25,902	38,349	48,851
Investment securities	150,843	177,189	232,432	252,580	297,111
Deposits	998,572	917,582	918,631	851,039	754,106
Borrowings	502,774	546,211	560,845	324,877	367,938
Stockholders' equity	128,797	136,148	122,965	109,977	106,878
Book value per share	20.20	19.47	17.68	15.51	14.29
OPERATING DATA:					
Interest income	$ 100,968	$ 86,627	$ 75,495	$ 62,151	$ 59,856
Interest expense	59,192	42,573	32,982	25,919	28,413
Net interest income	41,776	44,054	42,513	36,232	31,443
Provision for loan losses	5,078	1,134	1,641	819	1,055
Net interest income after provision	36,698	42,920	40,872	35,413	30,388
Loan servicing and other fees	2,132	2,572	1,675	2,292	1,845
Gain on sale of loans, net	9,318	13,481	18,706	14,346	19,200
Deposit account fees	2,087	2,093	1,789	1,986	1,734
Net gain on sale of investment securities	-	-	384	-	694
Other non-interest income	1,665	1,708	1,864	1,529	2,298
Net gain on sale of real estate	2,359	6,355	-	-	-

Operating expenses	34,684	33,817	33,407	29,299	28,090
Income before income taxes	19,575	35,312	31,883	26,267	28,069
Provision for income taxes	9,124	15,676	14,077	11,717	11,357
Net income	$ 10,451	$ 19,636	$ 17,806	$ 14,550	$ 16,712
Basic earnings per share	$ 1.59	$ 2.93	$ 2.68	$ 2.16	$ 2.35
Diluted earnings per share	$ 1.57	$ 2.82	$ 2.49	$ 2.01	$ 2.18
Cash dividend per share	$ 0.69	$ 0.58	$ 0.52	$ 0.33	$ 0.13

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	At or For The Year Ended June 30,				
	2007	2006	2005	2004	2003
KEY OPERATING RATIOS:			(As Restated)		
Performance Ratios					
Return on average assets	0.61%	1.24%	1.19 %	1.13%	1.46%
Return on average stockholders' equity	7.77	15.02	15.33	13.64	16.34
Interest rate spread	2.23	2.65	2.80	2.82	2.74
Net interest margin	2.51	2.87	2.96	2.97	2.94
Average interest-earning assets to average interest-bearing liabilities	107.85	108.16	107.01	107.01	107.31
Operating and administrative expenses as a percentage of average total assets	2.04	2.14	2.24	2.28	2.45
Efficiency ratio	58.45	48.13	49.91	51.96	49.10
Stockholders' equity to total assets ratio	7.82	8.39	7.53	8.34	8.47
Dividend payout ratio	44.07	20.56	20.85	16.39	5.97
Regulatory Capital Ratios					
Tangible capital	7.62%	8.08%	6.56%	6.90%	6.50%
Tier 1 leverage capital	7.62	8.08	6.56	6.90	6.50
Total risk-based capital	12.49	13.37	11.21	12.39	13.01
Tier 1 risk-based capital	11.39	12.36	10.29	11.40	11.97
Asset Quality Ratios					
Non-accrual and 90 days or more past due loans as a percentage of loans held for investment, net	1.18%	0.20%	0.05%	0.13%	0.20%
Non-performing assets as a percentage of total assets	1.20	0.16	0.04	0.08	0.16
Allowance for loan losses as a percentage of gross loans held for investment	1.09	0.81	0.81	0.88	0.96
Allowance for loan losses as a					
	93.32	407.71	1,561.86	701.75	480.56

percentage of non-performing loans					
Net charge-offs to average loans receivable, net	0.04	-	-	0.05	0.06

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

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

Restatement of Consolidated Financial Statements:

In February 2008, the Corporation identified an error regarding the failure to release shares of common stock from its ESOP consistent with the repayment of the ESOP loan. The failure occurred as a result of the application of cash dividend payments received on unallocated ESOP shares to reduce the balance of the ESOP loan. Additional shares should have been released in the years ended December 31, 2002 through 2007. Releasing these additional shares results in additional compensation expense to the Corporation for those respective periods. As a result, the Audit Committee concluded, in accordance with SAB No. 108, that the amounts involved required the restatement of the

accompanying consolidated financial statements. The impact of the adjustments to the previously issued Consolidated Financial Statements as of June 30, 2007 and 2006 and for the fiscal years ended June 30, 2007, 2006 and 2005 are summarized in Note 21, “Restatement of Consolidated Financial Statements” in Notes to Consolidated Financial Statements.

General

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

Certain matters in this Form 10-K/A constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements relate to, among others, expectations of the business environment in which the Corporation operates, projections of future performance, perceived opportunities in the market, potential future credit experience, and statements regarding the Corporation’s mission and vision. These forward-looking statements are based upon current management expectations, and may, therefore, involve risks and uncertainties. The Corporation’s actual results, performance, or achievements may differ materially from those suggested, expressed, or implied by forward-looking statements due to a wide range of factors including, but not limited to, the credit risks of lending activities, including changes in the level and direction of loan delinquencies and write-offs and changes in estimates of the adequacy of the allowance for loan losses, the Corporation’s ability to access cost-effective funding, the general business environment, the direction of future interest rates and the Corporation’s ability to successfully manage the risks associated with fluctuations in interest rates, the California real estate market, competitive conditions between banks and non-bank financial services providers, regulatory changes, litigation, labor market competitiveness, fraud, secondary market liquidity for loans originated for sale and other risks detailed in the Corporation’s reports filed with the SEC.

Critical Accounting Policies

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

Accounting for the allowance for loan losses involves significant judgment and assumptions by management, which have a material impact on the carrying value of net loans. Management considers this accounting policy to be a critical accounting policy. The allowance is based on two principles of accounting: (i) SFAS No. 5, “Accounting for Contingencies,” which requires that losses be accrued when they are probable of occurring and can be estimated; and (ii) SFAS No. 114, “Accounting by Creditors for Impairment of a Loan,” and SFAS No. 118, “Accounting by Creditors for Impairment of a Loan-Income Recognition and Disclosures,” which require that losses be accrued based on the differences between the value of collateral, present value of future cash flows or values that are observable in the secondary market and the loan balance. The allowance has two components: a formula allowance for groups of homogeneous loans and a specific valuation allowance for identified problem loans. Each of these components is

based upon estimates that can change over time. The formula allowance is based primarily on historical experience and as a result can differ from actual losses incurred in the future. The history is reviewed at least quarterly and adjustments are made as needed. Various techniques are used to arrive at specific loss estimates, including historical loss information, discounted cash flows and the fair market value of collateral. The use of these techniques is inherently subjective and the actual losses could be greater or less than the estimates. For further details, see "Comparison of Operating Results for the Years Ended June 30, 2007 and 2006 - Provision for Loan Losses" on page 48 and page 50 of this Form 10-K/A.

Interest is generally 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-accrual loan may be restored to accrual status when delinquent principal and interest payments are brought current and future monthly principal and interest payments are expected to be collected.

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

Executive Summary and Operating Strategy

Provident Savings Bank, F.S.B. established in 1956 is a financial services company committed to serving consumers and small to mid-sized businesses in the Inland Empire region of Southern California. The Bank conducts its business operations as Provident Bank, Provident Bank Mortgage, a division of the Bank, and through 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 lessor degree, investment services and real estate operations.

Community banking operations primarily consist of accepting deposits from customers within the communities surrounding the Bank's full service offices and investing those funds in single-family, multi-family, commercial real estate, construction, commercial business, consumer and other loans. Additionally, certain fees are collected from depositors, such as non-sufficient fund fees, deposit account service charges, ATM fees, IRA/KEOGH fees, safe deposit box fees, travelers check fees, and wire transfer fees, among others. The primary source of income in community banking is net interest income, which is the difference between the interest income earned on loans and investment securities, and the interest expense paid on interest-bearing deposits and borrowed funds. During the next three years the Corporation intends to increase the community banking business by growing total assets; restructure the balance sheet by decreasing the percentage of investment securities to total assets and increasing the percentage of loans held for investment to total assets; decrease the concentration of single-family mortgage loans within loans held for investment; and increase the concentration of higher yielding multi-family, commercial real estate, construction and commercial business loans (which are sometimes referred to in this report as "preferred loans"). In addition, over time, the Corporation intends to decrease the percentage of time deposits in its deposit base and to increase the percentage of lower costing checking and savings accounts. This strategy is intended to improve core revenue and lower the Corporation's funding cost base through a higher net interest margin and ultimately, coupled with the growth of the Corporation, an increase in net interest income.

Mortgage banking operations primarily consist of the origination and sale of mortgage loans secured by single-family residences. The primary sources of income in mortgage banking are gain on sale of loans and certain fees collected from borrowers in connection with the loan origination process. During the next three years the Corporation intends to restructure its operations in response to the rapidly changing mortgage banking environment. Changes may include a different product mix, further tightening of underwriting standards, a further reduction in its operating expenses or a combination of these and other changes.

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

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

Commitments and Derivative Financial Instruments

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

Off-Balance Sheet Financing Arrangements and Contractual Obligations

The following table summarizes the Corporation's contractual obligations at June 30, 2007 and the effect such obligations are expected to have on the Corporation's liquidity and cash flows in future periods:

	Payments Due by Period				
(In Thousands)	1 Year or Less	Over 1 to 3 Years	Over 3 to 5 Years	Over 5 Years	Total
Operating lease obligations	$ 1,067	$ 1,627	$ 573	$ 134	$ 3,401
Time deposits	452,248	216,595	4,638	-	673,481
FHLB – San Francisco advances	260,918	121,858	160,200	2,755	545,731
Total	$ 714,233	$ 340,080	$ 165,411	$ 2,889	$ 1,222,613

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

The Corporation is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, in the form of originating loans or providing funds under existing lines of credit, forward loan sale agreements to third parties and commitments to purchase investment securities. These instruments involve, to varying degrees, elements of credit and interest-rate risk in excess of the amount recognized in the accompanying Consolidated Statements of Financial Condition included in Item 8 of this Form 10-K/A. The Corporation's exposure to credit loss, in the event of non-performance by the other party to these financial instruments, is represented by the contractual amount of these instruments. The Corporation uses the same credit policies in making commitments to extend credit as it does for on-balance sheet instruments. As of June 30, 2007 and 2006, these commitments were $44.5 million and $86.8 million, respectively.

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

Total assets increased $25.0 million, or 2%, to $1.65 billion at June 30, 2007 from $1.62 billion at June 30, 2006 primarily as a result of an increase in loans held for investment, partly offset by decreases in investment securities and receivable from sale of loans.

Cash and cash equivalents decreased $3.6 million, or 22%, to $12.8 million at June 30, 2007 from $16.4 million at June 30, 2006 and was attributable to lower in clearing deposit float at the Federal Reserve Bank and lower federal funds sold. The balance of federal funds sold varies from one day to the next depending on the short-term cash flow requirements of the Bank's operations.

Total investment securities decreased $26.4 million, or 15%, to $150.8 million at June 30, 2007 from $177.2 million at June 30, 2006. During fiscal 2007, a total of $44.5 million of investment securities matured and $40.1 million of the decline was the result of mortgage-backed securities principal payments. The principal reduction of mortgage-backed securities was primarily attributable to mortgage prepayments and the normal principal payments of the underlying mortgage loans. During fiscal 2007, a total of $56.5 million of investment securities were purchased and no investment securities were called by the issuers.

Loans held for investment increased $86.3 million, or 7%, to $1.35 billion at June 30, 2007 from $1.26 billion at June 30, 2006 primarily as a result of originating and purchasing $416.4 million of loans held for investment, which was partly offset by $379.4 million of loan prepayments. These prepayments were attributable to the continued high volume of refinance activity during fiscal 2007 in connection with increasing short-term interest rates and a relatively low fixed-rate mortgage interest rate environment.

During fiscal 2007, the Bank originated approximately $1.42 billion in new loans, primarily through PBM, and purchased $119.6 million in commercial real estate loans from other financial institutions. A total of $1.12 billion of loans were sold during fiscal 2007. PBM loan production is sold primarily servicing released, except those loans sold to Fannie Mae and FHLB – San Francisco under the MPF program. The total loan origination volume was lower as compared to last year, due primarily to higher interest rates, the general decline in real estate values and a more competitive environment. The outstanding balance of loans held for sale decreased to $1.3 million at June 30, 2007 from $4.7 million at June 30, 2006. The outstanding balance of loans held for sale is largely dependent on the timing of loan fundings and loan sales.

The receivable from sale of loans decreased $39.4 million, or 39%, to $60.5 million at June 30, 2007 from $99.9 million at June 30, 2006, resulting from the timing difference between loan sales and loan sale settlements.

The Corporation has no real estate held for investment at June 30, 2007, compared to $653,000 at June 30, 2006. In July 2006, the Bank sold its last real estate investment (approximately six acres of land located in Riverside, California) for a gain of $2.3 million (approximately $1.3 million net of taxes).

Total real estate owned was $3.8 million at June 30, 2007, comprised of 10 properties, primarily single-family residential homes located in Southern California. During fiscal 2007, the Bank sold five properties for a net loss of $32,000, inclusive of expenses for the sold properties. Real estate owned was primarily the result of loan repurchases during fiscal 2007. The Corporation had no real estate owned at June 30, 2006.

Total deposits increased $81.0 million, or 9%, to $998.6 million at June 30, 2007 from $917.6 million at June 30, 2006. Although the Bank continued its emphasis on expanding customer relationships, particularly in transaction accounts, increases in short-term interest rates during fiscal 2007 became a catalyst for depositors to move their funds from savings accounts to time deposits to take advantage of higher yields. Transaction accounts decreased $41.1 million, or 11%, to $350.0 million at June 30, 2007 from $391.1 million at June 30, 2006, primarily comprised of savings and checking accounts. Time deposits increased $122.1 million, or 23%, to $648.6 million at June 30, 2007 from $526.5 million at June 30, 2006.

Borrowings, primarily FHLB – San Francisco advances, decreased $43.4 million, or 8%, to $502.8 million at June 30, 2007 from $546.2 million at June 30, 2006. FHLB – San Francisco advances were primarily used to supplement the funding needs of the Bank, to the extent that the increase in deposits and the decrease in investment securities did not meet loan funding requirements.

Total stockholders' equity decreased $7.3 million, or 5%, to $128.8 million at June 30, 2007 from $136.1 million at June 30, 2006. The decrease in stockholders' equity during fiscal 2007 was primarily attributable to share repurchases and cash dividends to shareholders, partly offset by earnings in fiscal 2007, allocation of contributions

to the ESOP, the exercise of stock options and the related tax benefits. During fiscal 2007, a total of 51,393 shares of stock options were exercised with an average strike price of $19.80 per share and the associated tax benefit from non-qualified equity compensation of $81,000 was recognized. The Corporation repurchased 666,290 shares of common stock, or approximately 10% of its outstanding shares, at an average price of $28.07 per share, totaling $18.7 million during fiscal 2007. During fiscal 2007, the Corporation declared and distributed cash dividends to its shareholders of $4.6 million, or $0.69 per share. The Corporation's book value per share increased to $20.20 at June 30, 2007 from $19.47 at June 30, 2006.

Comparison of Operating Results for the Years Ended June 30, 2007 and 2006

General. The Corporation had net income of $10.5 million, or $1.57 per diluted share, for the year ended June 30, 2007, as compared to $19.6 million, or $2.82 per diluted share, for the year ended June 30, 2006. The $9.1 million decrease in net income in fiscal 2007 was primarily attributable to a decrease in net interest income, an increase in the provision for loan losses, a decrease in non-interest income and an increase in non-interest expense. The Corporation's efficiency ratio increased to 58% in fiscal 2007 from 48% in the same period of fiscal 2006. Return on average assets in fiscal 2007 decreased 63 basis points to 0.61% from 1.24% in fiscal 2006. Return on average equity in fiscal 2007 decreased to 7.77% from 15.02% in fiscal 2006.

Net Interest Income. Net interest income before provision for loan losses decreased $2.3 million, or 5%, to $41.8 million in fiscal 2007 from $44.1 million in fiscal 2006. This decrease resulted principally from a decrease in the net interest margin, partly offset by an increase in average earning assets. The average net interest margin declined 36 basis points to 2.51% in fiscal 2007 from 2.87% in fiscal 2006. The average balance of earning assets increased $129.5 million, or 8%, to $1.66 billion in fiscal 2007 from $1.53 billion in fiscal 2006.

Interest Income. Interest income increased $14.4 million, or 17%, to $101.0 million for fiscal 2007 from $86.6 million for fiscal 2006. The increase in interest income was primarily a result of increases in the average balance and the average yield of earning assets. The increase in average assets was primarily attributable to the increase in loans receivable, which was partly offset by the decrease in investment securities. The average yield on earning assets increased 42 basis points to 6.07% in fiscal 2007 from 5.65% in fiscal 2006. The increase in the average yield on earning assets was the result of increases in the average yield of loans receivable, investment securities, FHLB – San Francisco stock and federal funds investments during fiscal 2007.

Loan interest income increased $13.7 million, or 18%, to $91.5 million in fiscal 2007 from $77.8 million in fiscal 2006. This increase was attributable to a higher average loan balance and a higher average loan yield. The average balance of loans outstanding, including receivable from sale of loans and loans held for sale, increased $156.1 million, or 12%, to $1.44 billion during fiscal 2007 from $1.29 billion during fiscal 2006. The average loan yield during fiscal 2007 increased 29 basis points to 6.33% from 6.04% during fiscal 2006. The increase in the average loan yield was primarily attributable to mortgage loans originated with higher interest rates, the upward repricing of adjustable rate loans during the period and a higher percentage of preferred loans, which generally have a higher yield.

Interest income from investment securities increased $318,000, or 5%, to $7.1 million in fiscal 2007 from $6.8 million in fiscal 2006. This increase was primarily a result of an increase in average yield, partly offset by a decrease in the average balance. The average balance of investment securities decreased $27.7 million, or 14%, to $175.4 million in fiscal 2007 from $203.1 million in fiscal 2006. The average yield on the investment securities increased 71 basis points to 4.07% during fiscal 2007 from 3.36% during fiscal 2006. The increase in the average yield of investment securities was primarily a result of the new purchases with a higher average yield (5.30% versus the average yield of 3.63% at June 30, 2006) and the maturities with an average yield of 2.65%. The premium amortization in fiscal 2007 was $21,000, compared to the premium amortization of $258,000 in fiscal 2006.

FHLB – San Francisco stock dividends increased by $394,000, or 22%, to $2.2 million in fiscal 2007 from $1.8 million in fiscal 2006. This increase was attributable to a higher average yield and a higher average balance. The average yield on FHLB – San Francisco stock increased 57 basis points to 5.35% during fiscal 2007 from 4.78% during fiscal 2006. The average balance of FHLB – San Francisco stock increased $3.3 million to $41.6 million

during fiscal 2007 from $38.3 million during fiscal 2006. The increase in FHLB – San Francisco stock was in accordance with the borrowing requirements of the FHLB – San Francisco.

Interest Expense. Total interest expense for fiscal 2007 was $59.2 million as compared to $42.6 million for fiscal 2006, an increase of $16.6 million, or 39%. This increase was primarily attributable to an increase in the average cost and a higher average balance of interest-bearing liabilities. The average cost of interest-bearing liabilities was 3.84% during fiscal 2007, up 84 basis points from 3.00% during fiscal 2006. The average balance of interest-bearing liabilities, principally deposits and borrowings, increased $124.1 million, or 9%, to $1.54 billion during fiscal 2007 from $1.42 billion during fiscal 2006.

Interest expense on deposits for fiscal 2007 was $31.2 million as compared to $22.1 million for the same period of fiscal 2006, an increase of $9.1 million, or 41%. The increase in interest expense on deposits was primarily attributable to a higher average cost and a higher average balance. The average cost of deposits increased to 3.30% in fiscal 2007 from 2.37% during fiscal 2006, an increase of 93 basis points. The increase in the average cost of deposits, primarily in time deposits, was attributable to the general rise in short-term interest rates. The average balance of deposits increased $10.3 million, or 1%, to $942.9 million during fiscal 2007 from $932.6 million during fiscal 2006. The average balance of transaction accounts decreased by $79.3 million, or 18%, to $365.9 million in fiscal 2007 from $445.2 million in fiscal 2006. The average balance of time deposits increased by $89.6 million, or 18%, to $577.0 million in fiscal 2007 as compared to $487.4 million in fiscal 2006. The increase in time deposits is primarily attributable to the time deposit marketing campaign and depositors switching from transaction accounts to time deposits to take advantage of higher yields. The average balance of transaction account deposits to total deposits in fiscal 2007 was 39%, compared to 48% in fiscal 2006.

Interest expense on borrowings, primarily FHLB – San Francisco advances, for fiscal 2007 increased $7.5 million, or 37%, to $28.0 million from $20.5 million for fiscal 2006. The increase in interest expense on borrowings was primarily a result of a higher average cost and a higher average balance. The average cost of borrowings increased to 4.68% for fiscal 2007 from 4.22% in fiscal 2006, an increase of 46 basis points. The increase in the average cost of borrowings was the result of higher short-term interest rates and maturities of long-term advances at lower interest rates. The average balance of borrowings increased $113.8 million, or 23%, to $599.3 million during fiscal 2007 from $485.5 million during fiscal 2006.

Provision for Loan Losses. During fiscal 2007, the Corporation recorded a provision for loan losses of $5.1 million, an increase of $4.0 million from $1.1 million during fiscal 2006. The provision for loan losses in fiscal 2007 was primarily attributable to a net increase of $3.1 million in specific loan loss reserves, an increase in classified assets and an increase in loans held for investment, primarily in preferred loans. The increase in specific loan loss reserves was primarily attributable to the establishment of a specific loan loss reserve of $2.6 million on 23 individual construction loans, with a disbursed total of $5.0 million, which were classified as non-accrual in November 2006. Classified assets at June 30, 2007 were $32.3 million, comprised of $13.3 million in the special mention category and $19.0 million in the substandard category. Classified assets increased by $23.0 million from June 30, 2006 when classified assets were $9.3 million, comprised of $3.7 million in the special mention category and $5.6 million in the substandard category.

The Corporation's current operating strategy seeks to grow preferred loans at a faster rate than single family mortgage loans. While higher yielding, these loans generally have greater risk than single family mortgage loans. Further growth in these categories of loans may result in additions to the provision for loan losses. In addition, as noted above, the Corporation experienced a significant increase in classified assets during fiscal 2007, a majority of which were single family mortgage loans. Rising delinquencies in single family mortgage loans may also result in additions to the provision for loan losses.

At June 30, 2007, the allowance for loan losses was $14.8 million, comprised of $11.5 million of general loan loss reserves and $3.3 million of specific loan loss reserves. At June 30, 2006, the allowance for loan losses was $10.3 million, comprised of $10.1 million of general loan loss reserves and $238,000 of specific loan loss reserves. The allowance for loan losses as a percentage of gross loans held for investment was 1.09% at June 30, 2007 compared to 0.81% at June 30, 2006. Management considers the allowance for loan losses sufficient to absorb potential losses inherent in loans held for investment.

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

Non-Interest Income. Total non-interest income decreased $8.6 million, or 33%, to $17.6 million in fiscal 2007 from $26.2 million in fiscal 2006. The decrease was primarily attributable to a decrease in the gain on sale of real estate ($2.3 million versus $6.3 million), a decrease in the gain on sale of loans and a decrease in loan servicing and other fees.

The gain on sale of real estate in fiscal 2007 was primarily the result of the sale of approximately six acres of land in Riverside, California; while the gain on sale of real estate in fiscal 2006 was the result of the sale of a commercial office building in Riverside, California. As a result of the property sold in fiscal 2007, the Corporation currently does not have any remaining real estate held for investment.

The gain on sale of loans decreased $4.2 million, or 31%, to $9.3 million for fiscal 2007 from $13.5 million in fiscal 2006. The decrease was a result of a lower average loan sale margin and a lower volume of loans originated for sale in fiscal 2007. The average loan sale margin for PBM during fiscal 2007 was 0.83%, down 25 basis points from 1.08% during fiscal 2006. The gain on sale of loans includes a gain of $212,000 on derivative financial instruments as a result of SFAS No. 133 in fiscal 2007, compared to a gain of $71,000 in fiscal 2006. The gain on sale includes a recourse liability of $194,000 for loans sold to investors as of June 30, 2007. No recourse liability was required for loans sold to investors as of June 30, 2006. The volume of loans originated for sale decreased by $111.2 million, or 9%, to $1.13 billion in fiscal 2007 as compared to $1.24 billion in fiscal 2006. The loan sale margin and loan sale volume decreased because the mortgage banking environment remains highly competitive and volatile as a result of the well-publicized collapse of the sub-prime loan market.

Loan servicing and other fees decreased $440,000, or 17%, to $2.1 million during fiscal 2007 from $2.6 million during fiscal 2006. The decrease was primarily attributable to lower brokered loan fees and lower prepayment fees. Total brokered loans in fiscal 2007 were $41.6 million, down $4.6 million, or 10%, from $46.2 million in the same period of fiscal 2006. Total scheduled principal payments and loan prepayments were $379.4 million in the fiscal 2007, down $96.8 million, or 20%, from $476.2 million in fiscal 2006.

Non-Interest Expense. Total non-interest expense in fiscal 2007 was $34.7 million, an increase of $867,000 or 3%, as compared to $33.8 million in fiscal 2006. The increase in non-interest expense was primarily the result of increases in compensation expense and premises and occupancy expenses, partly offset by decreases in equipment, professional, marketing and other expenses.

The increase in compensation expense was primarily a result of lower deferred compensation attributable to the application of SFAS No. 91, "Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases," partly offset by lower incentive compensation. On July 1, 2006 the Bank lowered the SFAS No. 91 deferred compensation allocated to each loan originated after completing the annual review

and analysis of SFAS No. 91. Additionally, fewer loans were originated during fiscal 2007 in comparison to fiscal 2006, which also reduced deferred compensation attributable to the application of SFAS No. 91.

The increase in premises and occupancy expense was due primarily to a $175,000 charge incurred as a result of closing three loan production offices. The decrease in other operating expenses was primarily attributable to a $500,000 charitable contribution to capitalize the newly established Provident Savings Bank Charitable Foundation in the fourth quarter of fiscal 2006 (not replicated in fiscal 2007).

Income Taxes. The provision for income taxes was $9.1 million for fiscal 2007, representing an effective tax rate of 46.6%, as compared to $15.7 million in fiscal 2006, representing an effective tax rate of 44.4%. The increase in the effective tax rate was primarily the result of a higher percentage of permanent tax differences relative to income before taxes. The Corporation determined that the above tax rates meet its income tax obligations.

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

General. The Corporation had net income of $19.6 million, or $2.82 per diluted share, for the year ended June 30, 2006, as compared to $17.8 million, or $2.49 per diluted share, for the year ended June 30, 2005. The $1.8 million increase in net income in fiscal 2006 was primarily attributable to increases in net interest income and non-interest income, partly offset by an increase in non-interest expense.

Net Interest Income. Net interest income before provision for loan losses increased $1.6 million, or 4%, to $44.1 million in fiscal 2006 from $42.5 million in fiscal 2005. This increase resulted principally from an increase in average earning assets, partly offset by a decrease in the net interest margin. The average balance of earning assets increased $96.0 million, or 7%, to $1.53 billion in fiscal 2006 from $1.44 billion in fiscal 2005. The average net interest margin declined nine basis points to 2.87% in fiscal 2006 from 2.96% in fiscal 2005.

Interest Income. Interest income increased $11.1 million, or 15%, to $86.6 million in fiscal 2006 from $75.5 million in fiscal 2005. The increase in interest income was primarily a result of increases in the average balance and the average yield of earning assets. The increase in average earning assets was primarily attributable to the increase in loans receivable, which was partly offset by the decrease in investment securities. Total originations of loans held for investment, including loan purchases, were $624.5 million, while total loan prepayments were $476.2 million in fiscal 2006. The increase in the average yield on earning assets was the result of increases in the average yield of loans receivable, investment securities, FHLB – San Francisco stock and federal funds investments during fiscal 2006. The average yield on loans receivable increased 30 basis points to 6.04% in fiscal 2006 from 5.74% in fiscal 2005. The increase in the average loan yield was primarily the result of higher mortgage interest rates during fiscal 2006 and the composition of loans held for investment. The average yield on investment securities increased 14 basis points to 3.36% in fiscal 2006 from 3.22% in fiscal 2005. The increase in the average yield of investment securities was primarily attributable to lower amortization of premiums resulting from lower MBS principal prepayments. The average yield on FHLB – San Francisco stock increased 37 basis points to 4.78% in fiscal 2006 from 4.41% in fiscal 2005. The increase in the average yield of FHLB – San Francisco stock was the result of the higher dividend received from the FHLB – San Francisco.

Interest Expense. Interest expense increased $9.6 million, or 29%, to $42.6 million in fiscal 2006 from $33.0 million in fiscal 2005. The increase in interest expense was attributable to the increases in the average cost and average balance of interest-bearing liabilities. The average cost of interest-bearing liabilities increased 55 basis points to 3.00% in fiscal 2006 from 2.45% in fiscal 2005. The average cost of deposits increased 60 basis points to 2.37% in fiscal 2006 from 1.77% in fiscal 2005. The increase in the average cost of deposits was the result of the increase in short-term interest rates during fiscal 2006, maturities of lower costing time deposits and the change in the deposit mix toward higher costing time deposits. The average balance of deposits increased $20.5 million, or 2%, to $932.6 million in fiscal 2006 from $912.1 million in fiscal 2005. The average cost of borrowings, primarily FHLB – San Francisco advances, increased 32 basis points to 4.22% in fiscal 2006 from 3.90% in fiscal 2005. The increase in

FHLB – San Francisco advances was primarily attributable to increases in short-term market interest rates during fiscal 2006. The average maturity of FHLB – San Francisco advances decreased to 30 months at June 30, 2006 from 36 months at June 30, 2005. The average balance of FHLB – San Francisco advances increased $54.1 million, or 13%, to $485.5 million in fiscal 2006 from $431.4 million in fiscal 2005.

Provision for Loan Losses. Loan loss provisions in fiscal 2006 were $1.1 million as compared to $1.6 million in fiscal 2005. The decrease in fiscal 2006 was primarily a result of lower growth of loans held for investment and a

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revision in the methodology used to calculate the allowance for loan losses. The decrease was partly offset by a higher composition of preferred loans, which generally have higher loan loss provisions. Loans held for investment increased $131.1 million (from $1.13 billion to $1.26 billion) in fiscal 2006 as compared to $269.4 million (from $862.5 million to $1.13 billion) in fiscal 2005. Preferred loans as a percentage of loans held for investment increased to 34% at June 30, 2006 from 28% at June 30, 2005.

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

Non-Interest Income. Total non-interest income increased $1.8 million, or 7%, to $26.2 million in fiscal 2006 from $24.4 million in fiscal 2005. The increase in non-interest income was primarily attributable to the gain on sale of real estate, an increase in loan servicing and other fees and an increase in deposit account fees, partly offset by decreases in the gain on sale of loans and gain on sale of investment securities.

In November 2005, the Corporation sold its commercial building in downtown Riverside, California for a pre-tax gain of $6.3 million (approximately $3.6 million net of taxes). The Corporation, through the Bank's wholly-owned subsidiary, Provident Financial Corp, had owned and operated the building since 1999 which was purchased for investment purposes.

Loan servicing and other fees increased $897,000, or 54%, to $2.6 million in fiscal 2006 from $1.7 million in fiscal 2005, resulting primarily from an increase in servicing fees and an increase in loan prepayment and other loan fees. In fiscal 2006, the Corporation recovered an impairment reserve on servicing assets of $82,000 which was previously established in fiscal 2005. Total loan prepayments in fiscal 2006 were $476.2 million as compared to $482.9 million in fiscal 2005.

Deposit account fees increased $304,000, or 17%, to $2.1 million in fiscal 2006 from $1.8 million in fiscal 2005. The increase in deposit account fees was primarily attributable to higher non-sufficient fund returned check fees.

Total gain on sale of loans decreased $5.2 million, or 28%, to $13.5 million in fiscal 2006 from $18.7 million in fiscal 2005, and was the result of lower loan sale volume and a lower average loan sale margin at PBM. Total loans originated for sale decreased $48.0 million, or 4%, to $1.24 billion in fiscal 2006 from $1.29 billion in fiscal 2005. The decline in loan sale volume was primarily attributable to lower loan demand caused by an increase in interest rates, declining real estate prices and a more competitive environment. The average loan sale margin for PBM in fiscal 2006 was 1.08%, down 31 basis points from 1.39% in fiscal 2005. The decrease in the loan sale margin was primarily attributable to the more competitive mortgage banking environment. The loan sale margin at PBM is derived from total gain on sale of loans divided by total loan sale volume. The PBM loan sale volume used to calculate the loan sale margin, which is defined as PBM loans originated for sale adjusted for the change in commitments to extend credit on loans to be held for sale, was $1.20 billion in fiscal 2006 as compared to $1.31 billion in fiscal 2005.

The net impact of derivative financial instruments (SFAS No. 133) in fiscal 2006 was a favorable adjustment of $71,000 as compared to an unfavorable adjustment of $264,000 in fiscal 2005. The fair value of the derivative financial instruments outstanding at June 30, 2006 was a net liability of $233,000 in comparison to a net liability of $91,000 at June 30, 2005. The Corporation implemented the SEC guidance described in the SEC Staff Accounting Bulletin No. 105, "Application of Accounting Principles to Loan Commitments," which does not allow for the recognition of servicing released premiums in the valuation of commitments to extend credit on loans to be held for

sale. These premiums will be realized in future periods when the underlying loans are funded and sold. The SFAS No. 133 adjustment is relatively volatile and may have an adverse impact on future earnings.

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

Non-Interest Expense. Total non-interest expense increased $410,000, or 1%, to $33.8 million in fiscal 2006 as compared to $33.4 million in fiscal 2005. This increase was attributable primarily to increases in premises and

occupancy expenses and other operating expenses, partially offset by lower compensation expense. The increase in premises and occupancy expense was primarily the result of opening two PBM loan production offices; and the increase in other operating expenses was primarily attributable to a $500,000 charitable contribution to capitalize the newly established Provident Savings Bank Charitable Foundation. The decrease in compensation costs was primarily attributable to a 10% workforce reduction at PBM completed in January 2006 and a 7% workforce reduction at PBM completed in February 2006.

Income Taxes. The provision for income taxes was $15.7 million for fiscal 2006, representing an effective tax rate of 44.4%, as compared to $14.1 million in fiscal 2005, representing an effective tax rate of 44.2%. The Corporation determined that the above tax rates meet its income tax obligations.

Average Balances, Interest and Average Yields/Costs

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

	Year Ended June 30,								
	2007			2006			2005		
(Dollars In Thousands)	Average Balance	Interest	Average Yield/ Cost	Average Balance	Interest	Average Yield/ Cost	Average Balance	Interest	Average Yield/ Cost
Interest-earning assets:									
Loans receivable, net (1)	$ 1,444,845	$ 91,525	6.33%	$ 1,288,657	$ 77,821	6.04%	$ 1,146,073	$ 65,734	5.74%
Investment securities	175,439	7,149	4.07%	203,096	6,831	3.36%	256,729	8,268	3.22%
FHLB – San Francisco stock	41,588	2,225	5.35%	38,266	1,831	4.78%	32,778	1,445	4.41%
Interest-earning deposits	1,339	69	5.15%	3,722	144	3.87%	2,105	48	2.28%
Total interest-earning assets	1,663,211	100,968	6.07%	1,533,741	86,627	5.65%	1,437,685	75,495	5.25%
Non interest-earning assets	37,959			45,185			53,825		
Total assets	$ 1,701,170			$ 1,578,926			$ 1,491,510		
Interest-bearing liabilities:									
Checking and money market accounts (2)	$ 202,524	1,471	0.73%	$ 222,000	1,224	0.55%	$ 221,880	1,170	0.53%
Savings accounts	163,400	2,823	1.73%	223,162	3,151	1.41%	309,352	4,484	1.45%
Time deposits	576,952	26,867	4.66%	487,391	17,691	3.63%	380,873	10,508	2.76%
Total deposits	942,876	31,161	3.30%	932,553	22,066	2.37%	912,105	16,162	1.77%

Borrowings	599,286	28,031	4.68%	485,523	20,507	4.22%	431,430	16,820	3.90%
Total interest-bearing liabilities	1,542,162	59,192	3.84%	1,418,076	42,573	3.00%	1,343,535	32,982	2.45%
Non interest-bearing liabilities	24,503			30,141			31,814		
Total liabilities	1,566,665			1,448,217			1,375,349		
Stockholders' equity	134,505			130,709			116,161		
Total liabilities and stockholders' equity	$ 1,701,170			$ 1,578,926			$ 1,491,510		
Net interest income		$ 41,776			$ 44,054			$ 42,513	
Interest rate spread (3)			2.23%			2.65%			2.80%
Net interest margin (4)			2.51%			2.87%			2.96%
Ratio of average interest-earning assets to average interest-bearing liabilities	107.85%			108.16%			107.01%		

(1) Includes receivable from sale of loans, loans held for sale and non-accrual loans, as well as net deferred loan (cost) fee amortization of $(589), $(363) and $194 for the years ended June 30, 2007, 2006 and 2005, respectively.
(2) Includes average balance of non interest-bearing checking accounts of $45.9 million, $52.5 million and $46.9 million in fiscal 2007, 2006 and 2005, respectively.
(3) Represents difference between weighted average yield on total interest-earning assets and weighted average rate on total interest-bearing liabilities.
(4) Represents net interest income before provision for loan losses as a percentage of average interest-earning assets.

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Yields Earned and Rates Paid

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

	Quarter Ended June 30,	Year Ended June 30,		
	2007	2007	2006	2005
Weighted average yield on:				
Loans receivable, net (1)	6.28%	6.33%	6.04%	5.74%
Investment securities	4.38%	4.07%	3.36%	3.22%
FHLB – San Francisco stock	4.77%	5.35%	4.78%	4.41%
Interest-earning deposits	5.28%	5.15%	3.87%	2.28%
Total interest-earning assets	6.05%	6.07%	5.65%	5.25%
Weighted average rate paid on:				
Checking and money market accounts (2)	0.81%	0.73%	0.55%	0.53%
Savings accounts	2.04%	1.73%	1.41%	1.45%
Time deposits	4.84%	4.66%	3.63%	2.76%
Borrowings	4.64%	4.68%	4.22%	3.90%
Total interest-bearing liabilities	3.97%	3.84%	3.00%	2.45%
Interest rate spread (3)	2.08%	2.23%	2.65%	2.80%
Net interest margin (4)	2.37%	2.51%	2.87%	2.96%

(1) Includes receivable from sale of loans, loans held for sale and non-accrual loans, as well as net deferred loan (cost) fee amortization of $(589,000), $(363,000) and $194,000 for the years ended June 30, 2007, 2006 and 2005, respectively.
(2) Includes average balance of non interest-bearing checking accounts of $45.9 million, $52.5 million and $46.9 million in fiscal 2007, 2006 and 2005, respectively.
(3) Represents difference between weighted average yield on total interest-earning assets and weighted average rate on total interest-bearing liabilities.
(4) Represents net interest income before provision for loan losses as a percentage of average interest-earning assets.

Rate/Volume Analysis

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

	Year Ended June 30, 2007 Compared to Year Ended June 30, 2006 Increase (Decrease) Due to				Year Ended June 30, 2006 Compared to Year Ended June 30, 2005 Increase (Decrease) Due to			
(In Thousands)	Rate	Volume	Rate/ Volume	Net	Rate	Volume	Rate/ Volume	Net
Interest-earnings assets:								
Loans receivable, net (1)	$ 3,817	$ 9,434	$ 453	$ 13,704	$ 3,475	$ 8,184	$ 428	$ 12,087
Investment securities	1,443	(929)	(196)	318	365	(1,727)	(75)	(1,437)
FHLB – San Francisco stock	216	159	19	394	124	242	20	386
Interest-earning deposits	48	(92)	(31)	(75)	33	37	26	96
Total net change in income on interest-earning assets	5,524	8,572	245	14,341	3,997	6,736	399	11,132
Interest-bearing liabilities:								
Checking and money market accounts	389	(107)	(35)	247	53	1	-	54
Savings accounts	706	(843)	(191)	(328)	(117)	(1,250)	34	(1,333)
Time deposits	5,003	3,251	922	9,176	3,316	2,940	927	7,183
Borrowings	2,200	4,801	523	7,524	1,404	2,110	173	3,687
Total net change in expense on interest-bearing liabilities	8,298	7,102	1,219	16,619	4,656	3,801	1,134	9,591
Net (decrease) increase in net interest income	$ (2,774)	$ 1,470	$ (974)	$ (2,278)	$ (659)	$ 2,935	$ (735)	$ 1,541

(1) Includes receivable from sale of loans, loans held for sale and non-accrual loans.

Liquidity and Capital Resources

The Corporation's primary sources of funds are deposits, proceeds from the sale of loans originated for sale, proceeds from principal and interest payments on loans, proceeds from the maturity of investment securities and FHLB – San Francisco advances. 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 Bank is the origination and purchase of loans held for investment. During the fiscal years ended June 30, 2007, 2006 and 2005, the Bank originated loans in the amounts of $1.42 billion, $1.75 billion and $2.01 billion, respectively. In addition, the Bank purchased loans from other financial institutions in fiscal 2007, 2006 and 2005 in the amounts of $119.6 million, $111.7 million and $61.2 million, respectively. The Bank's mortgage banking activities resulted in total loans sold in fiscal 2007, 2006 and 2005 of $1.12 billion, $1.26 billion and $1.31 billion, respectively. At June 30, 2007, the Bank had loan origination commitments totaling $44.5 million and undisbursed loans in process totaling $25.5 million. The Bank anticipates that it will have sufficient funds available to meet its current loan origination commitments.

The Bank's primary financing activity is gathering deposits. During the fiscal years ended June 30, 2007, 2006 and 2005, the net increase (decrease) in deposits was $81.0 million, ($1.0 million) and $67.6 million, respectively. On June 30, 2007, time deposits that are scheduled to mature in one year or less were $434.5 million. Historically, the Bank has been able to retain a significant amount of its time deposits as they mature by adjusting deposit rates to the current interest rate environment.

The Bank 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 Bank generally maintains sufficient cash and cash equivalents to meet short-term liquidity needs. At June 30, 2007, total cash and cash equivalents were $12.8 million, or 0.8% of total assets. Depending on market conditions and the pricing of deposit products and FHLB – San Francisco advances, the Bank may continue to rely on FHLB – San Francisco advances for part of its liquidity needs. As of June 30, 2007, the remaining available borrowing capacity at FHLB – San Francisco was $391.5 million, and the remaining available borrowing capacity at the Bank's correspondent bank was $60.0 million.

Although the OTS eliminated the minimum liquidity requirement for savings institutions in April 2002, the regulation still requires 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 June 30, 2007 increased to 7.2% from 5.1% during the same quarter ended June 30, 2006.

The Bank is required to maintain specific amounts of capital pursuant to OTS requirements. Under the OTS prompt corrective action provisions, a minimum ratio of 1.5% for Tangible Capital is required to be deemed other than "critically undercapitalized," while a minimum of 5.0% for Core Capital, 10.0% for Total Risk-Based Capital and 6.0% for Tier 1 Risk-Based Capital is required to be deemed "well capitalized." As of June 30, 2007, the Bank exceeded all regulatory capital requirements with Tangible Capital, Core Capital, Total Risk-Based Capital and Tier 1 Risk-Based Capital ratios of 7.6%, 7.6%, 12.5% and 11.4%, respectively.

Impact of Inflation and Changing Prices

The Corporation's consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America, which require the measurement of financial position and operating results in terms of historical dollars without considering the changes in the relative purchasing power of money over time as a result of inflation. The impact of inflation is reflected in the increasing cost of the Corporation's operations. Unlike most industrial companies, nearly all assets and liabilities of the Corporation are monetary. As a result, interest rates have a greater impact on the Corporation's performance than do the effects of general levels of inflation. In addition, interest rates do not necessarily move in the direction, or to the same extent, as the prices of goods and services.

Impact of New Accounting Pronouncements

Various elements of the Corporation's accounting policies, by their nature, are inherently subject to estimation techniques, valuation assumptions and other subjective assessments. In particular, management has identified several accounting policies that, as a result of the judgments, estimates and assumptions inherent in those policies, are important to an understanding of the financial statements of the Corporation. These policies relate to the methodology for the recognition of interest income, determination of the provision and allowance for loan and lease losses and the valuation of mortgage servicing rights and real estate held for sale. These policies and the judgments, estimates and assumptions are described in greater detail in Management's Discussion and Analysis of Financial Condition and Results of Operations section and in the section entitled "Summary of Significant Accounting Policies" contained in Note 1 of the Notes to the Consolidated Financial Statements. Management believes that the judgments, estimates and assumptions used in the preparation of the financial statements are appropriate based on the factual circumstances at the time. However, because of the sensitivity of the financial statements to these critical accounting policies, the use of other judgments, estimates and assumptions could result in material differences in the results of operations or financial condition.

Item 8. Financial Statements and Supplementary Data

Please refer to the index on page 63 for the Consolidated Financial Statements and Notes to Consolidated Financial Statements.

Item 9A. Controls and Procedures

Background and Financial Statement Restatement:

On April 22, 2008, the Audit Committee of the Corporation identified an error in the accounting for the Corporation sponsored Employee Stock Ownership Plan ("ESOP"). Additional information regarding this matter can be found in Note 21 to the Consolidated Financial Statements included in Item 8.

Disclosure Controls and Procedures:

At the time of the original filing of our Annual Report on Form 10-K for the fiscal year ended June 30, 2007, our management, under the supervision and with the participation of its Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), performed an evaluation of the effectiveness of the Company's disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934 (the "Act"), and had concluded that such disclosure controls and procedures were effective. Subsequent to our original evaluation, as a result of the restatement matters discussed above, the Corporation's Disclosure Committee, under the supervision of the CEO and CFO, and with the participation of the Internal Audit Department, reassessed the effectiveness of the design and operation of the Corporation's disclosure controls and procedures by conducting surveys and interviews with a selected group of management comprised of the critical operational personnel. Based on the results of the surveys and interviews, the Disclosure Committee completed a report to the Audit Committee of the Board of Directors and a recommendation to the Corporation's CEO and CFO. As a result of the reassessment and identification of the material weakness described below, the CEO and CFO concluded that the Corporation's disclosure controls and procedures were not effective as of June 30, 2007.

The Corporation's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. Because of its inherent limitations, including the possibility of human error and the circumvention of overriding controls, a system of internal control over financial reporting can provide only reasonable assurance and may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management Report on Internal Control Over Financial Reporting (As Revised):

The management of Provident Financial Holdings, Inc. and subsidiary (the "Corporation") is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) promulgated under the Act.

The assessment of the effectiveness of the Corporation's internal control over financial reporting was based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations ("COSO") of the Treadway Commission.

Subsequent to Management's Report on Internal Control Over Financial Reporting included in our Original Form 10-K for the fiscal year ended June 30, 2007 management concluded that we had a material weakness in internal control over financial reporting as of June 30, 2007, and as a result management reassessed the effectiveness of our internal control over financial reporting as of June 30, 2007 and revised our report on internal control over financial

reporting. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the corporation's annual or interim financial statements will not be prevented or detected on a timely basis. As a result of the material weakness described below, we have concluded that we did not maintain effective internal control over financial reporting as of June 30, 2007, based on the criteria in Internal Control - Integrated Framework issued by the COSO.

Management identified a material weakness in the operation of the Corporation's sponsored Employee Stock Ownership Plan. Specifically, effective controls, including monitoring, were not maintained to ensure that the release of shares of common stock from the ESOP were consistent with the repayment of the ESOP loan. This control deficiency resulted in the misstatement of compensation expense and in the restatement of our Consolidated Statements of Financial Condition as of June 30, 2007 and 2006, the related Consolidated Statements of Operations, Consolidated Statements of Stockholders' Equity and Consolidated Statements of Cash Flows for the fiscal years ended June 30, 2007, 2006 and 2005, and the notes related thereto. Additionally, this control deficiency could result in future misstatements of compensation expense that would result in a material misstatement of the annual or interim consolidated financial statements that would not be prevented or detected. Accordingly, our management has determined that this control deficiency constitutes a material weakness in our internal control over financial reporting.

The attestation report of Deloitte & Touche LLP, the independent registered public accounting firm who also audited the Corporation's consolidated financial statements, is included below under the caption entitled "Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting."

Date: May 15, 2008

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

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

Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting:

To the Board of Directors and Stockholders of
Provident Financial Holdings, Inc.
Riverside, California

We have audited Provident Financial Holdings, Inc. and subsidiary (the "Corporation's") internal control over financial reporting as of June 30, 2007, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting (As Revised). Our responsibility is to express an opinion on the Corporation's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on that risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A corporation's internal control over financial reporting is a process designed by, or under the supervision of, the corporation's principal executive and principal financial officers, or persons performing similar functions, and effected by the corporation's board of directors, management, and other personnel to provide reasonable assurance regarding

the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A corporation's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the corporation; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance

with generally accepted accounting principles, and that receipts and expenditures of the corporation are being made only in accordance with authorizations of management and directors of the corporation; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the corporation's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our report dated September 11, 2007, we expressed an unqualified opinion on management's assessment that the Corporation maintained effective internal control over financial reporting and an unqualified opinion on the effectiveness of internal control over financial reporting. As described in the following paragraphs, the Corporation subsequently identified a material weakness, which caused the annual consolidated financial statements to be restated, as described in Note 21 of the Corporation’s consolidated financial statements. Accordingly, management subsequently revised its assessment about the effectiveness of the Corporation's internal control over financial reporting and our present opinion on the effectiveness of the Corporation's internal control over financial reporting as of June 30, 2007 expressed herein is different from that expressed in our previous report.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the corporation’s annual or interim financial statements will not be prevented or detected on a timely basis. The following material weakness has been identified and included in management’s revised assessment:

Management identified a material weakness in the operation of the Corporation’s sponsored Employee Stock Ownership Plan. Specifically, effective controls, including monitoring, were not maintained to ensure that the release of shares of common stock from the ESOP were consistent with the repayment of the ESOP loan. This material weakness resulted in the misstatement of compensation expense and in the restatement of our Consolidated Statements of Financial Condition as of June 30, 2007 and 2006, the related Consolidated Statements of Operations, Consolidated Statements of Stockholders’ Equity and Consolidated Statements of Cash Flows for the fiscal years ended June 30, 2007, 2006 and 2005, and the notes related thereto. Additionally, this material weakness could result in future misstatements of compensation expense that would result in a material misstatement of the annual or interim consolidated financial statements that would not be prevented or detected.

This material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the consolidated financial statements as of and for the fiscal year ended June 30, 2007, of the Corporation and this report did not affect our report on such financial statements.

In our opinion, management's revised assessment that the Corporation did not maintain effective internal control over financial reporting as of June 30, 2007, is fairly stated, in all material respects, based on the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, because of the effects of the material weakness discussed above on the achievement of the control objectives of the control criteria, the Corporation has not maintained effective internal control over financial reporting as of June 30, 2007, based on the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended June 30, 2007 of the Corporation and our report dated September 11, 2007 (May 15, 2008 as to the effects of the restatement discussed in Note 21) expressed an

unqualified opinion on those financial statements and included an explanatory paragraph regarding the restatement discussed in Note 21.

/s/ DELOITTE & TOUCHE LLP

Los Angeles, California
September 11, 2007 (May 15, 2008 as to the effects of the material weakness related to the accounting for the Employee Stock Ownership Plan described in Management's Report on Internal Control Over Financial Reporting (As Revised)).

Item 15. Exhibits and Financial Statement Schedules

(a) 1. Financial Statements
See the Index to Consolidated Financial Statements on page 63.

2. Financial Statement Schedules
Schedules to the Consolidated Financial Statements have been omitted as the required information is inapplicable.

(b) Exhibits
Exhibits are available from the Corporation by written request

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

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

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

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

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

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

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

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

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

10.8

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

10.9 2006 Equity Incentive Plan (incorporated by reference to Exhibit A to the Corporation's proxy statement dated October 12, 2006)

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10.10 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)

10.11 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)

10.12 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)

13 2007 Annual Report to Stockholders

14 Code of Ethics for the Corporation's directors, officers and employees

21.1 Subsidiaries of Registrant

23.1 Consent of Independent Registered Public Accounting Firm

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.

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 15, 2008

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

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

Consolidated Financial Statements of
Provident Financial Holdings, Inc.

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of
Provident Financial Holdings, Inc.
Riverside, California

We have audited the accompanying consolidated statements of financial condition of Provident Financial Holdings, Inc. and subsidiary (the "Corporation") as of June 30, 2007 and 2006, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended June 30, 2007. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Provident Financial Holdings, Inc. and subsidiary as of June 30, 2007 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2007, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 21, the accompanying consolidated financial statements have been restated.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Corporation's internal control over financial reporting as of June 30, 2007, based on the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated September 11, 2007 (May 15, 2008 as to the effects of the material weakness related to the accounting for the Employee Stock Ownership Plan described in Management's Report on Internal Control Over Financial Reporting (As Revised)) expressed an unqualified opinion on management's assessment of the effectiveness of the Corporation's internal control over financial reporting and an adverse opinion on the effectiveness of the Corporation's internal control over financial reporting because of a material weakness.

/s/ DELOITTE & TOUCHE LLP

Los Angeles, California
September 11, 2007 (May 15, 2008 as to the effects of the restatement described in Note 21)

Consolidated Statements of Financial Condition

(In Thousands, Except Share Information)

	June 30,	
	2007 (As Restated – See Note 21)	2006 (As Restated – See Note 21)
Assets		
Cash and cash equivalents	$ 12,824	$ 16,358
Investment securities – held to maturity (fair value $18,837 and $49,914, respectively)	19,001	51,031
Investment securities – available for sale, at fair value	131,842	126,158
Loans held for investment, net of allowance for loan losses of $14,845 and $10,307, respectively	1,349,289	1,262,997
Loans held for sale, at lower of cost or market	1,337	4,713
Receivable from sale of loans	60,513	99,930
Accrued interest receivable	7,235	6,774
Real estate held for investment, net	-	653
Real estate owned, net	3,804	-
Federal Home Loan Bank (“FHLB”) – San Francisco stock	43,832	37,585
Premises and equipment, net	7,123	6,860
Prepaid expenses and other assets	10,716	9,411
Total assets	$ 1,647,516	$ 1,622,470
Liabilities and Stockholders’ Equity		
Liabilities:		
Non interest-bearing deposits	$ 43,694	$ 48,776
Interest-bearing deposits	954,878	868,806
Total deposits	998,572	917,582
Borrowings	502,774	546,211
Accounts payable, accrued interest and other liabilities	17,373	22,529
Total liabilities	1,518,719	1,486,322
Commitments and contingencies (Note 14)		
Stockholders’ equity:		
Preferred stock, $0.01 par value (2,000,000 shares authorized; none issued and outstanding)	-	-
Common stock, $0.01 par value (15,000,000 shares authorized; 12,428,365 and 12,376,972 shares issued, respectively; 6,376,945 and 6,991,842 shares outstanding, respectively)	124	124
Additional paid-in capital	72,935	69,440
Retained earnings	146,194	140,373
Treasury stock at cost (6,051,420 and 5,385,130 shares, respectively)	(90,694)	(72,524)

Unearned stock compensation	(455)	(854)
Accumulated other comprehensive income (loss), net of tax	693	(411)
Total stockholders’ equity	128,797	136,148
Total liabilities and stockholders’ equity	$ 1,647,516	$ 1,622,470

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

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Consolidated Statements of Operations

(In Thousands, Except Share Information)

	Year Ended June 30,		
	2007 (As Restated – See Note 21)	2006 (As Restated – See Note 21)	2005 (As Restated – See Note 21)
Interest income:			
Loans receivable, net	$ 91,525	$ 77,821	$ 65,734
Investment securities	7,149	6,831	8,268
FHLB – San Francisco stock	2,225	1,831	1,445
Interest-earning deposits	69	144	48
Total interest income	100,968	86,627	75,495
Interest expense:			
Deposits	31,161	22,066	16,162
Borrowings	28,031	20,507	16,820
Total interest expense	59,192	42,573	32,982
Net interest income, before provision for loan losses	41,776	44,054	42,513
Provision for loan losses	5,078	1,134	1,641
Net interest income, after provision for loan losses	36,698	42,920	40,872
Non-interest income:			
Loan servicing and other fees	2,132	2,572	1,675
Gain on sale of loans, net	9,318	13,481	18,706
Deposit account fees	2,087	2,093	1,789
Net gain on sale of investment securities	-	-	384
Net gain on sale of real estate	2,359	6,355	-
Other	1,665	1,708	1,864
Total non-interest income	17,561	26,209	24,418
Non-interest expense:			
Salaries and employee benefits	22,867	21,384	22,526
Premises and occupancy	3,314	3,036	2,735
Equipment expense	1,570	1,689	1,523
Professional expense	1,193	1,317	1,225
Sales and marketing expense	945	1,125	895
Other	4,795	5,266	4,503
Total non-interest expense	34,684	33,817	33,407
Income before income taxes	19,575	35,312	31,883
Provision for income taxes	9,124	15,676	14,077
Net income	$ 10,451	$ 19,636	$ 17,806
Basic earnings per share	$ 1.59	$ 2.93	$ 2.68
Diluted earnings per share	$ 1.57	$ 2.82	$ 2.49
Cash dividends per share	$ 0.69	$ 0.58	$ 0.52

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

Consolidated Statements of Stockholders' Equity

(In Thousands, Except Share Information) (As Restated – See Note 21)

	Common Stock							
	Shares	Amount	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Unearned Stock Compensation	Accumulat-ed Other Comprehen-sive (Loss) Income, Net of Tax	Total
Balance at July 1, 2004, as previously reported	7,091,719	$ 119	$ 57,186	$ 111,329	$ (56,753)	$ (1,889)	$ (10)	$ 109,982
Adjustments to opening stockholders' equity	-	-	773	(697)	-	(81)	-	(5)
Balance at July 1, 2004, as restated	7,091,719	119	57,959	110,632	(56,753)	(1,970)	(10)	109,977
Comprehensive income:								
Net income				17,806				17,806
Unrealized holding gain on securities available for sale, net of tax							319	319
Total comprehensive income								18,125
Purchase of treasury stock	(209,679)				(5,293)			(5,293)
Exercise of stock options	74,775	1	594					595
Amortization for restricted stock						135		135
Tax benefit from non-qualified equity compensation			322					322
Allocation of contributions to Employee Stock Ownership Plan ("ESOP")			2,337			414		2,751
Cash dividends				(3,647)				(3,647)
Balance at June 30, 2005	6,956,815	120	61,212	124,791	(62,046)	(1,421)	309	122,965
Comprehensive income:								
Net income				19,636				