PROVIDENT FINANCIAL HOLDINGS INC
Form 10-Q
February 08, 2013

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended ………………………………………..... December 31, 2012

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

For the transition period from ________________ to _________________

Commission File Number 000-28304

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

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

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

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

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

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

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

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

| | |
|---|---|
| Large accelerated filer [ ] | Accelerated filer [ Ö ] |
| Non-accelerated filer [ ] | Smaller reporting company [ ] |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes . No √ .

APPLICABLE ONLY TO CORPORATE ISSUERS

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

| Title of class: | As of February 1, 2013 |
|---|---|
| Common stock, $ 0.01 par value, per share | 10,605,355 shares |

PROVIDENT FINANCIAL HOLDINGS, INC.

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

| | December 31, 2012 | June 30, 2012 |
|---|---|---|
| Assets | | |
| Cash and cash equivalents | $ 99,634 | $ 145,136 |
| Investment securities – available for sale, at fair value | 21,184 | 22,898 |
| Loans held for investment, net of allowance for loan losses of $18,530 and $21,483, respectively | 772,057 | 796,836 |
| Loans held for sale, at fair value | 294,434 | 231,639 |
| Accrued interest receivable | 3,032 | 3,277 |
| Real estate owned, net | 2,435 | 5,489 |
| Federal Home Loan Bank ("FHLB") – San Francisco stock | 19,149 | 22,255 |
| Premises and equipment, net | 6,528 | 6,600 |
| Prepaid expenses and other assets | 29,877 | 26,787 |
| | | |
| Total assets | $ 1,248,330 | $ 1,260,917 |
| | | |
| Liabilities and Stockholders' Equity | | |
| | | |
| Liabilities: | | |
| Non interest-bearing deposits | $ 51,121 | $ 55,688 |
| Interest-bearing deposits | 884,085 | 905,723 |
| Total deposits | 935,206 | 961,411 |
| | | |
| Borrowings | 126,519 | 126,546 |
| Accounts payable, accrued interest and other liabilities | 30,749 | 28,183 |
| Total liabilities | 1,092,474 | 1,116,140 |
| | | |
| Commitments and Contingencies | | |
| | | |
| Stockholders' equity: | | |
| Preferred stock, $.01 par value (2,000,000 shares authorized; none issued and outstanding) | - | - |
| Common stock, $.01 par value (40,000,000 shares authorized; 17,647,865 and 17,619,865 shares issued; 10,597,005 and 10,856,027 shares outstanding, respectively) | 176 | 176 |
| Additional paid-in capital | 87,278 | 86,758 |
| Retained earnings | 171,155 | 156,560 |
| Treasury stock at cost (7,050,860 and 6,763,838 shares, respectively) | (103,352 ) | (99,343 ) |
| Accumulated other comprehensive income, net of tax | 599 | 626 |

| | | |
|---|---|---|
| Total stockholders' equity | 155,856 | 144,777 |
| | | |
| Total liabilities and stockholders' equity | $ 1,248,330 | $ 1,260,917 |

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

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

| | Quarter Ended December 31, | | Six Months Ended December 31, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Interest income: | | | | |
| Loans receivable, net | $ 11,286 | $ 13,261 | $ 22,919 | $ 26,010 |
| Investment securities | 110 | 134 | 224 | 281 |
| FHLB – San Francisco stock | 137 | 20 | 164 | 38 |
| Interest-earning deposits | 84 | 37 | 157 | 134 |
| Total interest income | 11,617 | 13,452 | 23,464 | 26,463 |
| | | | | |
| Interest expense: | | | | |
| Checking and money market deposits | 112 | 176 | 210 | 376 |
| Savings deposits | 144 | 191 | 292 | 416 |
| Time deposits | 1,449 | 1,824 | 2,973 | 3,730 |
| Borrowings | 1,140 | 1,755 | 2,281 | 3,637 |
| Total interest expense | 2,845 | 3,946 | 5,756 | 8,159 |
| | | | | |
| Net interest income, before provision for loan losses | 8,772 | 9,506 | 17,708 | 18,304 |
| Provision for loan losses | 23 | 1,132 | 556 | 2,104 |
| Net interest income, after provision for loan losses | 8,749 | 8,374 | 17,152 | 16,200 |
| | | | | |
| Non-interest income: | | | | |
| Loan servicing and other fees | 382 | 176 | 720 | 308 |
| Gain on sale of loans, net | 17,878 | 5,897 | 38,473 | 13,173 |
| Deposit account fees | 617 | 626 | 1,240 | 1,229 |
| Gain on sale and operations of real estate owned acquired in the settlement of loans, net | 595 | 77 | 668 | 109 |
| Card and processing fees | 315 | 309 | 636 | 640 |
| Other | 248 | 228 | 457 | 402 |
| Total non-interest income | 20,035 | 7,313 | 42,194 | 15,861 |
| | | | | |
| Non-interest expense: | | | | |
| Salaries and employee benefits | 12,671 | 8,380 | 25,856 | 17,234 |
| Premises and occupancy | 1,100 | 956 | 2,250 | 1,828 |
| Equipment | 422 | 410 | 863 | 724 |
| Professional expenses | 453 | 455 | 806 | 888 |
| Sales and marketing expenses | 416 | 178 | 836 | 377 |
| Deposit insurance premiums and regulatory assessments | 303 | 461 | 642 | 632 |
| Other | 1,404 | 1,634 | 2,842 | 3,094 |
| Total non-interest expense | 16,769 | 12,474 | 34,095 | 24,777 |
| | | | | |
| Income before income taxes | 12,015 | 3,213 | 25,251 | 7,284 |
| Provision for income taxes | 5,075 | 1,359 | 9,581 | 3,112 |

| | | | | |
|---|---|---|---|---|
| Net income | $ 6,940 | $ 1,854 | $ 15,670 | $ 4,172 |
| | | | | |
| Basic earnings per share | $ 0.65 | $ 0.16 | $ 1.46 | $ 0.37 |
| Diluted earnings per share | $ 0.64 | $ 0.16 | $ 1.43 | $ 0.36 |
| Cash dividends per share | $ 0.05 | $ 0.03 | $ 0.10 | $ 0.06 |

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

PROVIDENT FINANCIAL HOLDINGS, INC.
Condensed Consolidated Statements of Comprehensive Income (Loss)
(Unaudited)
In Thousands
For the Quarters and Six Months Ended December 31, 2012 and 2011

| | For the Quarters Ended December 31, | | For the Six Months Ended December 31, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Net income | $ 6,940 | $ 1,854 | $ 15,670 | $ 4,172 |
| Change in unrealized holding loss on securities available for sale | (45) | (72) | (47) | (147) |
| Reclassification of (gains) losses to net income | - | - | - | - |
| Other comprehensive loss, before income tax benefit | (45) | (72) | (47) | (147) |
| Income tax benefit | 19 | 30 | 20 | 62 |
| Other comprehensive loss | (26) | (42) | (27) | (85) |
| Total comprehensive income | $ 6,914 | $ 1,812 | $ 15,643 | $ 4,087 |

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

PROVIDENT FINANCIAL HOLDINGS, INC.
Condensed Consolidated Statements of Stockholders' Equity
(Unaudited)
In Thousands, Except Share Information
For the Quarters Ended December 31, 2012 and 2011

| | Common Stock Shares | Amount | Additional Paid-In Capital | Retained Earnings | Treasury Stock | Accumulated Other Comprehensive Income, Net of Tax | Total |
|---|---|---|---|---|---|---|---|
| Balance at October 1, 2012 | 10,690,585 | $ 176 | $ 87,173 | $ 164,748 | $ (101,904) | $ 625 | $ 150,818 |
| | | | | | | | |
| Net income | | | | 6,940 | | | 6,940 |
| Other comprehensive loss | | | | | | (26) | (26) |
| Purchase of treasury stock | (93,580) | | | | (1,448) | | (1,448) |
| Amortization of restricted stock | | | 52 | | | | 52 |
| Stock options expense | | | 53 | | | | 53 |
| Cash dividends | | | | (533) | | | (533) |
| | | | | | | | |
| Balance at December 31, 2012 | 10,597,005 | $ 176 | $ 87,278 | $ 171,155 | $ (103,352) | $ 599 | $ 155,856 |

| | Common Stock Shares | Amount | Additional Paid-In Capital | Retained Earnings | Treasury Stock | Accumulated Other Comprehensive Income, Net of Tax | Total |
|---|---|---|---|---|---|---|---|
| Balance at October 1, 2011 | 11,439,264 | $ 176 | $ 86,021 | $ 149,295 | $ (93,316) | $ 595 | $ 142,771 |
| | | | | | | | |
| Net income | | | | 1,854 | | | 1,854 |
| Other comprehensive loss | | | | | | (42) | (42) |
| Purchase of treasury stock (1) | (263,503) | | | | (2,441) | | (2,441) |
| Amortization of restricted stock | | | 115 | | | | 115 |
| Stock options expense | | | 129 | | | | 129 |
| Cash dividends | | | | (341) | | | (341) |
| | | | | | | | |
| Balance at December 31, 2011 | 11,175,761 | $ 176 | $ 86,265 | $ 150,808 | $ (95,757) | $ 553 | $ 142,045 |

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

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PROVIDENT FINANCIAL HOLDINGS, INC.
Condensed Consolidated Statements of Stockholders' Equity
(Unaudited)
In Thousands, Except Share Information
For the Six Months Ended December 31, 2012 and 2011

| | Common Stock Shares | Amount | Additional Paid-In Capital | Retained Earnings | Treasury Stock | Accumulated Other Comprehensive Income, Net of Tax | Total |
|---|---|---|---|---|---|---|---|
| Balance at July 1, 2012 | 10,856,027 | $ 176 | $ 86,758 | $ 156,560 | $ (99,343) | $ 626 | $ 144,777 |
| Net income | | | | 15,670 | | | 15,670 |
| Other comprehensive loss | | | | | | (27) | (27) |
| Purchase of treasury stock | (287,822) | | | | (3,996) | | (3,996) |
| Exercise of stock options | 28,000 | | 197 | | | | 197 |
| Distribution of restricted stock | 800 | | | | | | - |
| Amortization of restricted stock | | | 105 | | | | 105 |
| Forfeitures of restricted stock | | | 13 | | (13) | | - |
| Stock options expense | | | 134 | | | | 134 |
| Tax benefit from non-qualified equity compensation | | | 71 | | | | 71 |
| Cash dividends | | | | (1,075) | | | (1,075) |
| Balance at December 31, 2012 | 10,597,005 | $ 176 | $ 87,278 | $ 171,155 | $ (103,352) | $ 599 | $ 155,856 |

| | Common Stock Shares | Amount | Additional Paid-In Capital | Retained Earnings | Treasury Stock | Accumulated Other Comprehensive Income, Net of Tax | Total |
|---|---|---|---|---|---|---|---|
| Balance at July 1, 2011 | 11,418,654 | $ 176 | $ 85,432 | $ 147,322 | $) (92,650 | $ 638 | $ 140,918 |
| Net income | | | | 4,172 | | | 4,172 |
| Other comprehensive loss | | | | | | (85) | (85) |
| Purchase of treasury stock (1) | (343,193) | | | | (3,107) | | (3,107) |
| Distribution of restricted stock | 100,300 | | | | | | - |
| Amortization of restricted stock | | | 417 | | | | 417 |
| Stock options expense | | | 416 | | | | 416 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Cash dividends | | | | (686) | | | (686) |
| Balance at December 31, 2011 | 11,175,761 | $ 176 | $ 86,265 | $ 150,808 | $ (95,757) | $ 553 | $ 142,045 |

(1) Includes the repurchase of 11,523 shares of distributed restricted stock.

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

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

| | Six Months Ended December 31, 2012 | Six Months Ended December 31, 2011 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net income | $ 15,670 | $ 4,172 |
| Adjustments to reconcile net income to net cash used for operating activities: | | |
| Depreciation and amortization | 848 | 792 |
| Provision for loan losses | 556 | 2,104 |
| Recovery of losses on real estate owned | (118) | (673) |
| Gain on sale of loans, net | (38,473) | (13,173) |
| (Gain) loss on sale of real estate owned, net | (746) | 135 |
| Stock-based compensation | 239 | 833 |
| (Increase) decrease in current and deferred income taxes | (1,835) | 2,193 |
| Tax benefit from non-qualified equity compensation | (71) | - |
| Increase in cash surrender value of the bank owned life insurance | (95) | (95) |
| Increase in accounts payable and other liabilities | 2,684 | 1,680 |
| (Increase) decrease in prepaid expenses and other assets | (1,177) | 524 |
| Loans originated for sale | (1,869,290) | (1,197,004) |
| Proceeds from sale of loans | 1,844,726 | 1,177,706 |
| Net cash used for operating activities | (47,082) | (20,806) |
| | | |
| Cash flows from investing activities: | | |
| Decrease in loans held for investment, net | 18,876 | 25,527 |
| Principal payments from investment securities available for sale | 1,667 | 1,983 |
| Redemption of FHLB – San Francisco stock | 3,106 | 2,391 |
| Proceeds from sale of real estate owned | 9,365 | 9,143 |
| Purchase of premises and equipment | (399) | (1,552) |
| Net cash provided by investing activities | 32,615 | 37,492 |
| | | |
| Cash flows from financing activities: | | |
| (Decrease) increase in deposits, net | (26,205) | 8,089 |
| Repayments of long-term borrowings | (27) | (30,025) |
| Exercise of stock options | 197 | - |
| Tax benefit from non-qualified equity compensation | 71 | - |
| Cash dividends | (1,075) | (686) |
| Treasury stock purchases | (3,996) | (3,107) |
| Net cash used for financing activities | (31,035) | (25,729) |
| | | |
| Net decrease in cash and cash equivalents | (45,502) | (9,043) |
| Cash and cash equivalents at beginning of period | 145,136 | 142,550 |
| Cash and cash equivalents at end of period | $ 99,634 | $ 133,507 |
| Supplemental information: | | |
| Cash paid for interest | $ 5,750 | $ 8,292 |

| | | |
|---|---|---|
| Cash paid for income taxes | $ 11,345 | $ 900 |
| Transfer of loans held for sale to held for investment | $ 1,881 | $ 1,336 |
| Real estate acquired in the settlement of loans | $ 6,776 | $ 12,085 |

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

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

December 31, 2012

Note 1: Basis of Presentation

The unaudited interim condensed consolidated financial statements included herein reflect all adjustments which are, in the opinion of management, necessary to present a fair statement of the results of operations for the interim periods presented. All such adjustments are of a normal, recurring nature. The condensed consolidated statements of financial condition at June 30, 2012 are derived from the audited consolidated financial statements of Provident Financial Holdings, Inc. and its wholly-owned subsidiary, Provident Savings Bank, F.S.B. (the “Bank”) (collectively, the “Corporation”). Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) have been omitted pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”) with respect to interim financial reporting. It is recommended that these unaudited interim condensed consolidated financial statements be read in conjunction with the audited consolidated financial statements and notes thereto included in the Corporation’s Annual Report on Form 10-K for the year ended June 30, 2012. The results of operations for the quarter and six months ended December 31, 2012 are not necessarily indicative of results that may be expected for the entire fiscal year ending June 30, 2013.

Note 2: Accounting Standard Updates (“ASU”)

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

Note 3: Earnings Per Share

Basic earnings per share ("EPS") excludes dilution and is computed by dividing income available to common shareholders by the weighted-average number of shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that would then share in the earnings of the entity.

As of December 31, 2012 and 2011, there were outstanding options to purchase 1,138,500 shares and 1,187,000 shares of the Corporation's common stock, respectively, of which 586,500 shares and 594,000 shares, respectively, were excluded from the diluted EPS computation as their effect was anti-dilutive.

The following table provides the basic and diluted EPS computations for the quarters and six months ended December 31, 2012 and 2011, respectively.

| (In Thousands, Except Earnings Per Share) | For the Quarter Ended December 31, | | For the Six Months Ended December 31, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Numerator: | | | | |
| Net income – numerator for basic earnings per share and diluted earnings per share - available to common stockholders | $ 6,940 | $ 1,854 | $ 15,670 | $ 4,172 |
| Denominator: | | | | |
| Denominator for basic earnings per share: | | | | |
| Weighted-average shares | 10,654 | 11,353 | 10,727 | 11,410 |
| Effect of dilutive securities | 211 | 31 | 191 | 39 |
| Denominator for diluted earnings per share: | | | | |
| Adjusted weighted-average shares and assumed conversions | 10,865 | 11,384 | 10,918 | 11,449 |
| Basic earnings per share | $ 0.65 | $ 0.16 | $ 1.46 | $ 0.37 |
| Diluted earnings per share | $ 0.64 | $ 0.16 | $ 1.43 | $ 0.36 |

Note 4: Operating Segment Reports

The Corporation operates in two business segments: community banking through the Bank and mortgage banking through Provident Bank Mortgage ("PBM"), a division of the Bank.

The following tables set forth condensed consolidated statements of operations and total assets for the Corporation's operating segments for the quarters ended December 31, 2012 and 2011, respectively (in thousands).

| | For the Quarter Ended December 31, 2012 | | |
|---|---|---|---|
| | Provident Bank | Provident Bank Mortgage | Consolidated Totals |
| Net interest income, before provision for loan losses | $ 7,144 | $ 1,628 | $ 8,772 |
| (Recovery) provision for loan losses | (35) | 58 | 23 |
| Net interest income, after (recovery) provision for loan losses | 7,179 | 1,570 | 8,749 |
| | | | |
| Non-interest income: | | | |
| Loan servicing and other fees (1) | 347 | 35 | 382 |
| (Loss) gain on sale of loans, net (2) | (37) | 17,915 | 17,878 |
| Deposit account fees | 617 | - | 617 |
| Gain on sale and operations of real estate owned acquired in the settlement of loans, net | 587 | 8 | 595 |
| Card and processing fees | 315 | - | 315 |
| Other | 248 | - | 248 |
| Total non-interest income | 2,077 | 17,958 | 20,035 |
| | | | |
| Non-interest expense: | | | |
| Salaries and employee benefits | 4,239 | 8,432 | 12,671 |
| Premises and occupancy | 668 | 432 | 1,100 |
| Operating and administrative expenses | 1,109 | 1,889 | 2,998 |
| Total non-interest expense | 6,016 | 10,753 | 16,769 |
| Income before income taxes | 3,240 | 8,775 | 12,015 |
| Provision for income taxes | 1,386 | 3,689 | 5,075 |
| Net income | $ 1,854 | $ 5,086 | $ 6,940 |
| Total assets, end of period | $ 959,612 | $ 288,718 | $ 1,248,330 |

(1) Includes an inter-company charge of $11 credited to PBM by the Bank during the period to compensate PBM for originating loans held for investment.

(2) Includes an inter-company charge of $25 credited to PBM by the Bank during the period to compensate PBM for servicing fees on loans sold on a servicing retained basis.

| | For the Quarter Ended December 31, 2011 | | |
|---|---|---|---|
| | Provident Bank | Provident Bank Mortgage | Consolidated Totals |
| Net interest income, before provision for loan losses | $ 7,640 | $ 1,866 | $ 9,506 |
| Provision for loan losses | 1,082 | 50 | 1,132 |
| Net interest income after provision for loan losses | 6,558 | 1,816 | 8,374 |
| | | | |
| Non-interest income: | | | |
| Loan servicing and other fees (1) | 160 | 16 | 176 |
| (Loss) gain on sale of loans, net (2) | (626) | 6,523 | 5,897 |
| Deposit account fees | 626 | - | 626 |
| Gain on sale and operations of real estate owned acquired in the settlement of loans, net | 69 | 8 | 77 |
| Card and processing fees | 309 | - | 309 |
| Other | 228 | - | 228 |
| Total non-interest income | 766 | 6,547 | 7,313 |
| | | | |
| Non-interest expense: | | | |
| Salaries and employee benefits | 3,264 | 5,116 | 8,380 |
| Premises and occupancy | 676 | 280 | 956 |
| Operating and administrative expenses | 1,417 | 1,721 | 3,138 |
| Total non-interest expense | 5,357 | 7,117 | 12,474 |
| Income before income taxes | 1,967 | 1,246 | 3,213 |
| Provision for income taxes | 835 | 524 | 1,359 |
| Net income | $ 1,132 | $ 722 | $ 1,854 |
| Total assets, end of period | $ 1,076,170 | $ 221,564 | $ 1,297,734 |

(1) There was no inter-company charge credited to PBM by the Bank during the period to compensate PBM for originating loans held for investment.

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

The following tables set forth condensed consolidated statements of operations and total assets for the Corporation's operating segments for the six months ended December 31, 2012 and 2011, respectively (in thousands).

| | For the Six Months Ended December 31, 2012 | | |
|---|---|---|---|
| | Provident Bank | Provident Bank Mortgage | Consolidated Totals |
| Net interest income, before provision for loan losses | $ 14,477 | $ 3,231 | $ 17,708 |
| Provision (recovery) for loan losses | 820 | (264) | 556 |
| Net interest income, after provision (recovery) for loan losses | 13,657 | 3,495 | 17,152 |
| | | | |
| Non-interest income: | | | |
| Loan servicing and other fees (1) | 650 | 70 | 720 |
| (Loss) gain on sale of loans, net (2) | (8) | 38,481 | 38,473 |
| Deposit account fees | 1,240 | - | 1,240 |
| Gain on sale and operations of real estate owned acquired in the settlement of loans, net | 661 | 7 | 668 |
| Card and processing fees | 636 | - | 636 |
| Other | 457 | - | 457 |
| Total non-interest income | 3,636 | 38,558 | 42,194 |
| | | | |
| Non-interest expense: | | | |
| Salaries and employee benefits | 8,996 | 16,860 | 25,856 |
| Premises and occupancy | 1,408 | 842 | 2,250 |
| Operating and administrative expenses | 2,280 | 3,709 | 5,989 |
| Total non-interest expense | 12,684 | 21,411 | 34,095 |
| Income before taxes | 4,609 | 20,642 | 25,251 |
| Provision for income taxes | 902 | 8,679 | 9,581 |
| Net income | $ 3,707 | $ 11,963 | $ 15,670 |
| Total assets, end of period | $ 959,612 | $ 288,718 | $ 1,248,330 |

(1) Includes an inter-company charge of $27 credited to PBM by the Bank during the period to compensate PBM for originating loans held for investment.

(2) Includes an inter-company charge of $66 credited to PBM by the Bank during the period to compensate PBM for servicing fees on loans sold on a servicing retained basis.

| | For the Six Months Ended December 31, 2011 | | |
|---|---|---|---|
| | Provident Bank | Provident Bank Mortgage | Consolidated Totals |
| Net interest income, before provision for loan losses | $ 15,198 | $ 3,106 | $ 18,304 |
| Provision for loan losses | 1,791 | 313 | 2,104 |
| Net interest income, after provision for loan losses | 13,407 | 2,793 | 16,200 |
| | | | |
| Non-interest income: | | | |
| Loan servicing and other fees (1) | 279 | 29 | 308 |
| (Loss) gain on sale of loans, net (2) | (619) | 13,792 | 13,173 |
| Deposit account fees | 1,229 | - | 1,229 |
| Gain on sale and operations of real estate owned acquired in the settlement of loans, net | 37 | 72 | 109 |
| Card and processing fees | 640 | - | 640 |
| Other | 402 | - | 402 |
| Total non-interest income | 1,968 | 13,893 | 15,861 |
| | | | |
| Non-interest expense: | | | |
| Salaries and employee benefits | 7,453 | 9,781 | 17,234 |
| Premises and occupancy | 1,273 | 555 | 1,828 |
| Operating and administrative expenses | 2,357 | 3,358 | 5,715 |
| Total non-interest expense | 11,083 | 13,694 | 24,777 |
| Income before taxes | 4,292 | 2,992 | 7,284 |
| Provision for income taxes | 1,854 | 1,258 | 3,112 |
| Net income | $ 2,438 | $ 1,734 | $ 4,172 |
| Total assets, end of period | $ 1,076,170 | $ 221,564 | $ 1,297,734 |

(1) There was no inter-company charge credited to PBM by the Bank during the period to compensate PBM for originating loans held for investment.
(2) Includes an inter-company charge of $59 credited to PBM by the Bank during the period to compensate PBM for servicing fees on loans sold on a servicing retained basis.

Note 5: Investment Securities

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

| December 31, 2012<br>(In Thousands) | Amortized Cost | Gross Unrealized Gains | Gross Unrealized (Losses) | Estimated Fair Value | Carrying Value |
|---|---|---|---|---|---|

| | | | | | |
|---|---|---|---|---|---|
| Available for sale | | | | | |
| U.S. government agency MBS (1) | $ 11,157 | $ 443 | $ - | $ 11,600 | $ 11,600 |
| U.S. government sponsored enterprise MBS | 7,960 | 468 | - | 8,428 | 8,428 |
| Private issue CMO (2) | 1,162 | - | (6) | 1,156 | 1,156 |
| Total investment securities | $ 20,279 | $ 911 | $ (6) | $ 21,184 | $ 21,184 |

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

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

In the second quarter of fiscal 2013 and 2012, the Corporation received MBS principal payments of $905,000 and $1.1 million, respectively, and did not purchase or sell investment securities. For the first six months of fiscal 2013 and 2012, the Corporation received MBS principal payments of $1.7 million and $2.0 million, respectively, and did not purchase or sell investment securities.

The Corporation evaluates individual investment securities quarterly for other-than-temporary declines in market value. As of December 31, 2012 and June 30, 2012, the gross unrealized holding losses relate to one adjustable rate private issue CMO which has been in an unrealized loss position for more than 12 months. The unrealized holding losses were primarily the result of perceived credit and liquidity concerns of privately issued CMO investment securities. Based on the nature of the investments, management concluded that such unrealized losses were not other than temporary as of December 31, 2012 and June 30, 2012. The Corporation does not believe that there are any other-than-temporary impairments at December 31, 2012 and 2011; therefore, no impairment losses have been recorded for the quarter ended December 31, 2012 and 2011. The Corporation intends and has the ability to hold these CMO investment securities until maturity and will not likely be required to sell the CMO investment securities before realizing a full recovery.

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

| | December 31, 2012 | | June 30, 2012 | |
|---|---|---|---|---|
| | Amortized Cost | Estimated Fair Value | Amortized Cost | Estimated Fair Value |
| Available for sale | | | | |
| Due in one year or less | $ - | $ - | $ - | $ - |
| Due after one through five years | - | - | - | - |
| Due after five through ten years | - | - | - | - |
| Due after ten years | 20,279 | 21,184 | 21,947 | 22,898 |
| Total investment securities | $ 20,279 | $ 21,184 | $ 21,947 | $ 22,898 |

Note 6: Loans Held for Investment

Loans held for investment consisted of the following:

| | | December 31, 2012 | June 30, 2012 |
|---|---|---|---|
| Mortgage loans: | | | |
| | Single-family | $ 422,457 | $ 439,024 |
| | Multi-family | 261,580 | 278,057 |
| | Commercial real estate | 101,621 | 95,302 |
| | Other | 390 | 755 |
| Commercial business loans | | 2,199 | 2,580 |
| Consumer loans | | 383 | 506 |
| | Total loans held for investment, gross | 788,630 | 816,224 |
| | | | |
| Deferred loan costs, net | | 1,957 | 2,095 |
| Allowance for loan losses | | (18,530) | (21,483) |
| | Total loans held for investment, net | $ 772,057 | $ 796,836 |

As of December 31, 2012, the Corporation had $36.4 million in mortgage loans that are subject to negative amortization, consisting of $25.6 million in multi-family loans, $5.8 million in single-family loans and $5.0 million in commercial real estate loans. This compares to $40.2 million of negative amortization mortgage loans at June 30, 2012, consisting of $26.7 million in multi-family loans, $6.5 million in single-family loans and $7.0 million in commercial real estate loans. During the second quarter of fiscal 2013 and 2012, no loan interest income was added to the negative amortization loan balance. For the first six months of fiscal 2013, no loan interest income was added to the negative amortization loan balance, as compared to $13,000 of loan interest income in the comparable period of fiscal 2012. Negative amortization involves a greater risk to the Corporation because the loan principal balance may increase by a range of 110% to 115% of the original loan amount during the period of negative amortization and because the loan payment may increase beyond the means of the borrower when loan principal amortization is required. Also, the Corporation has originated interest-only ARM loans, which typically have a fixed interest rate for the first two to five years coupled with an interest only payment, followed by a periodic adjustable rate and a fully amortizing loan payment. As of December 31, 2012 and June 30, 2012, the interest-only ARM loans were $201.9 million and $214.2 million, or 25.6% and 26.2% of loans held for investment, respectively.

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

| | Adjustable Rate | | | | | |
|---|---|---|---|---|---|---|
| (In Thousands) | Within One Year | After One Year Through 3 Years | After 3 Years Through 5 Years | After 5 Years Through 10 Years | Fixed Rate | Total |

| | | | | | | |
|---|---|---|---|---|---|---|
| Mortgage loans: | | | | | | |
| Single-family | $ 382,617 | $ 17,907 | $ 8,605 | $ 1,834 | $ 11,494 | $ 422,457 |
| Multi-family | 162,736 | 14,039 | 67,035 | 6,118 | 11,652 | 261,580 |
| Commercial real estate | 57,821 | 2,461 | 17,991 | 8,311 | 15,037 | 101,621 |
| Other | 159 | - | - | - | 231 | 390 |
| Commercial business loans | 988 | - | - | - | 1,211 | 2,199 |
| Consumer loans | 363 | - | - | - | 20 | 383 |
| Total loans held for investment, gross | $ 604,684 | $ 34,407 | $ 93,631 | $ 16,263 | $ 39,645 | $ 788,630 |

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

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

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

| (In Thousands) | December 31, 2012 | June 30, 2012 |
|---|---|---|
| Collectively evaluated for impairment: | | |
| Mortgage loans: | | |
| Single-family | $ 12,201 | $ 15,189 |
| Multi-family | 3,660 | 3,524 |
| Commercial real estate | 1,852 | 1,810 |
| Other | 7 | 7 |
| Commercial business loans | 101 | 169 |
| Consumer loans | 13 | 13 |
| Total collectively evaluated allowance | 17,834 | 20,712 |
| | | |
| Individually evaluated for impairment: | | |
| Mortgage loans: | | |
| Single-family | 503 | 744 |
| Multi-family | 27 | 27 |

| | | |
|---|---|---|
| Other | 159 | - |
| Commercial business loans | 7 | - |
| Total individually evaluated allowance | 696 | 771 |
| Total loan loss allowance | $ 18,530 | $ 21,483 |

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

| | For the Quarter Ended December 31, | | For the Six Months Ended December 31, | |
|---|---|---|---|---|
| (Dollars in Thousands) | 2012 | 2011 | 2012 | 2011 |
| Allowance at beginning of period | $ 20,118 | $ 28,704 | $ 21,483 | $ 30,482 |