


Provident Financial Holdings, Inc.

# 2022 Annual Report

# Message From **the Chairman**

**Dear Shareholders:**

I am pleased to forward our Annual Report for fiscal 2022 highlighting our improved financial results. Last year at this time, I wrote in the Chairman's Message that "I was confident our strong financial foundation positions us well to face future challenges and to capitalize on opportunities as they develop." Now, a year later, I am happy to report that the Company has capitalized on a better lending environment and has improved our interest-earning assets structure with a larger percentage of higher yielding loans held for investment and a smaller percentage of lower yielding investment securities and cash and cash equivalents. Also, while general economic conditions were erratic, our strong financial foundation was never tested by the economic malaise. Today, it seems like we may face a greater risk of recession coupled with higher inflation and other economic dislocations. But, I believe as strongly today as last year at this time, that our robust capital levels and conservative credit culture will continue to support the Company through any future economic disruptions.

## Fiscal 2022

Overall, our fiscal 2022 financial results, described in the following Financial Highlights, are much improved from those realized during the prior fiscal years. Throughout the year the financial markets experienced a gradual return to near normal pre-pandemic economic conditions at least within the context of the banking environment and customer activity. These improved conditions resulted in better fundamental financial performance.

Last year, I described that our fiscal 2022 Business Plan forecast disciplined growth in loans held for investment, growth in retail deposits (primarily core deposits), control of operating expenses, and sound capital management decisions.

We experienced good results regarding these initiatives. Loan originations and purchases for the held for investment portfolio were $306.2 million in fiscal 2022, a 32 percent increase from fiscal 2021 volume. Additionally, loan prepayments declined this fiscal year and when combined with the increased loan origination and purchase volume the activity resulted in a 10 percent increase in loans held for investment. Also, core deposits, one of the most valuable assets of a banking franchise, increased by $36.8 million or five percent at June 30, 2022 from the same date last year; operating expenses for fiscal 2022 decreased by approximately four percent from the prior year (after adjusting for the Employee Retention Tax Credit in fiscal 2022 and 2021); and, we paid a quarterly cash dividend of $0.14 per share in fiscal 2022 while repurchasing approximately 257,000 shares of our common stock under the April 2020 stock repurchase plan. Our capital management activities resulted in a 93 percent distribution of fiscal 2022 net income.

## Fiscal 2023

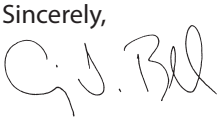
Similar to fiscal 2022, we plan to emphasize disciplined growth in loans held for investment and are encouraged by the origination volume generated in the last six months of fiscal 2022 suggesting we will begin the new fiscal year with good loan demand; the continued growth of core deposits; disciplined control of operating expenses where we continue to improve operating efficiencies; and sound capital management decisions. We currently plan to return capital to shareholders in the form of cash dividends and believe that maintaining our cash dividend is very important to shareholders. We also recognize that prudent capital returns through stock repurchase programs is an essential capital management tool that we will continue to use as a component of our capital management strategy. We remain committed to single-family, multi-family, and commercial real estate mortgage lending as our primary sources of asset growth and we will redeploy cash-flows from investment securities to support the growth of our loan portfolio. Similarly, we intend to increase the balances of lower cost checking and savings accounts and increase our time deposits to support the growth of total assets. This strategy is intended to improve core revenue, over time, through a higher net interest margin, higher net interest income and ultimately, coupled with the growth of the Company, an increase in net income.

## A Final Word

I am pleased with our ability to navigate the uncertain economic landscape over the past few years and am confident that our strong financial foundation positions us well to face future challenges and to capitalize on opportunities as they develop.

In closing, I would like to recognize and thank our staff of banking professionals and Directors for their dedication to Provident. I would also like to express my appreciation for the support we receive from our customers, shareholders and the communities we serve. We recognize that our continued success is conditioned upon your ongoing goodwill. Thank you.

Sincerely,



Craig G. Blunden
Chairman and Chief Executive Officer

# Financial **Highlights**

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.

| (In Thousands, Except Per Share Information) | At or For The Year Ended June 30, 2022 | 2021 | 2020 | 2019 | 2018 |
|---|---|---|---|---|---|
| **FINANCIAL CONDITION DATA:** | | | | | |
| Total assets | $ 1,187,038 | $ 1,183,596 | $ 1,176,837 | $ 1,084,850 | $ 1,175,549 |
| Loans held for investment, net | 939,992 | 850,960 | 902,796 | 879,925 | 902,685 |
| Loans held for sale, at fair value | — | — | — | — | 96,298 |
| Cash and cash equivalents | 23,414 | 70,270 | 116,034 | 70,632 | 43,301 |
| Investment securities | 188,421 | 226,893 | 123,344 | 100,059 | 95,309 |
| Deposits | 955,504 | 937,973 | 892,969 | 841,271 | 907,598 |
| Borrowings | 85,000 | 100,983 | 141,047 | 101,107 | 126,163 |
| Stockholders' equity | 128,650 | 127,280 | 123,976 | 120,641 | 120,457 |
| Book value per share | 17.06 | 16.88 | 16.67 | 16.12 | 16.23 |
| **OPERATING DATA:** | | | | | |
| Interest income | $ 34,730 | $ 35,201 | $ 42,456 | $ 44,378 | $ 42,712 |
| Interest expense | 3,135 | 4,562 | 6,055 | 6,208 | 6,412 |
| Net interest income | 31,595 | 30,639 | 36,401 | 38,170 | 36,300 |
| (Recovery) provision for loan losses | (2,462) | (708) | 1,119 | (475) | (536) |
| Net interest income after (recovery) provision for loan losses | 34,057 | 31,347 | 35,282 | 38,645 | 36,836 |
| Loan servicing and other fees | 1,056 | 1,170 | 819 | 1,051 | 1,575 |
| Gain (loss) on sale of loans, net | 40 | (103) | (132) | 7,135 | 15,802 |
| Deposit account fees | 1,302 | 1,247 | 1,610 | 1,928 | 2,119 |
| Card and processing fees | 1,639 | 1,605 | 1,454 | 1,568 | 1,541 |
| Other non-interest income | 679 | 654 | 769 | 833 | 944 |
| Operating expenses | 25,915 | 25,733 | 28,900 | 45,236 | 53,204 |
| Income before income taxes | 12,858 | 10,187 | 10,902 | 5,920 | 5,527 |
| Provision for income taxes | 3,765 | 2,626 | 3,213 | 1,503 | 3,396 |
| Net income | $ 9,093 | $ 7,561 | $ 7,689 | $ 4,417 | $ 2,131 |
| Basic earnings per share | $ 1.23 | $ 1.01 | $ 1.03 | $ 0.59 | $ 0.28 |
| Diluted earnings per share | $ 1.22 | $ 1.00 | $ 1.01 | $ 0.58 | $ 0.28 |
| Cash dividend per share | $ 0.56 | $ 0.56 | $ 0.56 | $ 0.56 | $ 0.56 |

# Financial **Highlights**

| | At or For The Year Ended June 30, | | | | |
|---|---|---|---|---|---|
| | 2022 | 2021 | 2020 | 2019 | 2018 |
| **KEY OPERATING RATIOS:** | | | | | |
| ***Performance Ratios*** | | | | | |
| Return on average assets | 0.76% | 0.64% | 0.69% | 0.39% | 0.18% |
| Return on average stockholders' equity | 7.14 | 6.05 | 6.26 | 3.63 | 1.73 |
| Interest rate spread | 2.69 | 2.62 | 3.30 | 3.40 | 3.13 |
| Net interest margin | 2.72 | 2.66 | 3.36 | 3.47 | 3.19 |
| Average interest-earning assets to average interest-bearing liabilities | 110.67 | 110.78 | 111.32 | 111.32 | 111.14 |
| Operating and administrative expenses as a percentage of average total assets | 2.17 | 2.18 | 2.59 | 4.00 | 4.54 |
| Efficiency ratio[1] | 71.37 | 73.08 | 70.62 | 89.26 | 91.42 |
| Stockholders' equity to total assets ratio | 10.84 | 10.75 | 10.53 | 11.12 | 10.25 |
| Dividend payout ratio | 45.88 | 55.83 | 55.45 | 96.55 | 200.00 |
| ***The Bank's Regulatory Capital Ratios*** | | | | | |
| Tier 1 leverage capital (to adjusted average assets) | 10.47% | 10.19% | 10.13% | 10.50% | 9.96% |
| CET1 capital (to risk-weighted assets) | 19.58 | 18.58 | 17.51 | 18.00 | 16.81 |
| Tier 1 capital (to risk-weighted assets) | 19.58 | 18.58 | 17.51 | 18.00 | 16.81 |
| Total capital (to risk-weighted assets) | 20.47 | 19.76 | 18.76 | 19.13 | 17.90 |
| ***Asset Quality Ratios*** | | | | | |
| Non-performing loans as a percentage of loans held for investment, net | 0.15% | 1.02% | 0.55% | 0.71% | 0.67% |
| Non-performing assets as a percentage of total assets | 0.12 | 0.73 | 0.42 | 0.57 | 0.59 |
| Allowance for loan losses as a percentage of gross loans held for investment | 0.59 | 0.88 | 0.91 | 0.80 | 0.81 |
| Net (recoveries) charge-offs to average loans receivable, net | (0.05) | (0.00) | (0.01) | (0.02) | 0.01 |

[1] Non-interest expense as a percentage of net interest income and non-interest income.

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

# FORM 10-K

(Mark one)

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

For the fiscal year ended **June 30, 2022** 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:

| Title of each class | Trading Symbol(s) | Name of each exchange on which registered |
|---|---|---|
| Common Stock, par value $.01 per share | PROV | The NASDAQ Stock Market LLC |

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
☐ Yes ☒ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
☐ Yes ☒ No

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 every Interactive Data File required to be submitted 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 such files). ☒ Yes ☐ No

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

| | |
|---|---|
| Large accelerated filer ☐ | Accelerated filer ☐ |
| Non-accelerated filer ☒ | Smaller reporting company ☒ |
| | Emerging growth company ☐ |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☐

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

The aggregate market value of the common stock held by non affiliates of the registrant, based on the closing sales price of the registrant's common stock as quoted on the NASDAQ Global Select Market on December 31, 2021, was $109.7 million. As of August 31, 2022, there were 7,265,518 shares of the registrant's common stock issued and outstanding.

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 2022 Annual Meeting of Shareholders ("Proxy Statement") are incorporated by reference into Part III of this Annual Report on Form 10-K where indicated. The 2022 Proxy Statement will be filed with the U.S. Securities and Exchange Commission within 120 days after the end of the fiscal year to which this report relates.

# PROVIDENT FINANCIAL HOLDINGS, INC.
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As used in this report, the terms "we," "our," "us," and "Provident" refer to Provident Financial Holdings, Inc. and its consolidated subsidiaries, unless the context indicates otherwise. When we refer to the "Bank" or "Provident Savings Bank" in this report, we are referring to Provident Savings Bank, F.S.B., a wholly owned subsidiary of Provident Financial Holdings, Inc.

# 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 of 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. The Corporation is regulated by the Federal Reserve Board ("FRB"). At June 30, 2022, the Corporation had consolidated total assets of $1.19 billion, total deposits of $955.5 million and stockholders' equity of $128.7 million. The Corporation has not engaged in any significant activity other than holding the stock of the Bank. Accordingly, the information set forth in this Annual Report on Form 10-K ("Form 10-K"), including the audited consolidated financial statements and related data, relates primarily to the Bank.

The Bank, founded in 1956, is a federally chartered stock savings bank headquartered in Riverside, California. The Bank is regulated by the Office of the Comptroller of the Currency ("OCC"), its primary federal regulator, and the Federal Deposit Insurance Corporation ("FDIC"), the insurer of its deposits. The Bank's deposits are federally insured up to applicable limits by the FDIC. The Bank has been a member of the Federal Home Loan Bank ("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, and through its subsidiary, Provident Financial Corp. The business activities of the Bank consist of community banking, investment services and trustee services for real estate transactions.

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 mortgage loans. Through its subsidiary, Provident Financial Corp, the Bank conducts trustee services for the Bank's real estate transactions and in the past has held real estate for investment. For additional information, see "Subsidiary Activities" in this Form 10-K. The activities of Provident Financial Corp are included in the Bank's operating segment results. The Bank's revenues are derived principally from interest earned on its loan and investment portfolios, and fees generated through its community 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. The Bank contributed $40,000 to the Foundation in both fiscal 2022 and 2021.

The Corporation is actively monitoring and responding to the effects of the novel coronavirus of 2019 ("COVID-19") pandemic. The Centers of Disease Control and Prevention ("CDC") guidelines, as well as directives from federal, state, county and local officials, are being closely followed to make informed operational decisions.

During the COVID-19 pandemic, the health, safety and well-being of its customers, employees and communities and providing uninterrupted access to services are top priorities for the Corporation. As of June 30, 2022, all banking branches are open with normal hours and substantially all employees have returned to their routine working environments. The Bank will continue to monitor branch access and occupancy levels in relation to cases and close contact scenarios and follow governmental restrictions and public health authority guidelines.

**Subsequent Event**

On July 28, 2022, the Corporation announced that the Corporation's Board of Directors declared a cash dividend of $0.14 per share. Shareholders of the Corporation's common stock at the close of business on August 18, 2022 were entitled to receive the cash dividend, which will be payable on September 8, 2022.

**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. The Bank is the largest independent community bank headquartered in Riverside County and it has the eleventh largest deposit market share of all banks and the third largest of community banks in Riverside County.

The large geographic area encompassing Riverside and San Bernardino counties is referred to as the "Inland Empire." According to the 2020 Census Bureau population statistics, Riverside and San Bernardino Counties have the fourth and fifth largest populations in California, respectively. The Bank's market area consists primarily of suburban and urban communities. Riverside and Western San Bernardino counties are relatively densely populated and are within the greater Los Angeles metropolitan area. According to the United States of America ("U.S.") Department of Labor, Bureau of Labor Statistics, the unemployment rate in June 2022 for the Inland Empire was 4.0% and in the State of California was 4.2%, compared to 3.6% nationwide, reflecting improvement in the economy attributable to the reduced impact of the COVID-19 pandemic. The unemployment data reported in June 2021 was 7.9% in both the Inland Empire and California and 5.9% nationwide.

Business activity in the Inland Empire has continued to grow, and in the context of recent increasingly uncertain economic environment, stands in stark contrast to growth trends in the nation. In the first quarter of calendar 2022, business activity in the Inland Empire expanded by 4.7% compared to 6.4% in the fourth quarter of calendar 2021. Although regional growth has slowed somewhat, it unambiguously outperformed the U.S. Gross Domestic Product, which declined by 1.5% in the first quarter of calendar 2022. Over calendar year 2022, the Inland Empire's business activity is forecast to rise between 2.5% and 3.5%. Employment has continued to expand and the workforce in the region is larger than it was before the pandemic, something that is not true for the state as a whole. (Source: University of California – Riverside School of Business – Inland Empire Business Activity Index – Summer 2022 Edition).

California home sales were 344,970 in June 2022, down 20.9% percent from June 2021, when 436,020 homes were sold on an annualized basis. The June 2022 statewide and Inland Empire median home price was $863,790 and $585,000, up 5.4% and up 11.4% from June 2021, respectively. (Source: California Association of Realtors – July 18, 2022 News Release).

**Competition**

The Bank faces significant competition in its market area in originating real estate loans and attracting deposits. The population growth in the Inland Empire has attracted numerous financial institutions to the Bank's market area. The Bank's primary competitors are large national and 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, as well as unregulated or less regulated non-banking entities, operating locally and elsewhere. Many of these institutions are significantly larger than the Bank and therefore have greater financial and marketing resources than the Bank. This competition may limit the Bank's growth and profitability in the future.

**Reportable Segments**

Management monitors the revenue and expense components of the various products and services the Bank offers, but operations are managed and financial performance is evaluated on a Corporation-wide basis in comparison to a business plan which is developed each year. Accordingly, all operations are considered by management to be one operating segment and one reportable segment as contained in the Consolidated Statements of Operations to the Corporation's audited consolidated financial statements included in Item 8 of this Form 10-K.

**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 Form 10-K. Other than an investor's own internet access charges, the Corporation makes available free of charge through that website the Corporation's annual report, quarterly reports on Form 10-Q 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 ("SEC"). In addition, the SEC maintains a website that contains reports, proxy and information statements, and other information regarding companies that file electronically with the SEC. This information is available at www.sec.gov.

**Lending Activities**

**General.** The lending activity of the Bank is comprised of the origination of single-family, multi-family and commercial real estate loans and, to a lesser extent, construction, commercial business, consumer and other mortgage loans to be held for investment. Additional lending activities have historically included originating saleable single-family loans, primarily fixed-rate first trust deed mortgages. The Bank's net loans held for investment were $940.0 million at June 30, 2022, representing 79.2% of consolidated total assets. This compares to $851.0 million, or 71.9% of consolidated total assets, at June 30, 2021.

At June 30, 2022, the maximum amount that the Bank could have loaned to any one borrower and the borrower's related entities under applicable regulations was $19.6 million, or 15% of the Bank's unimpaired capital and surplus. At June 30, 2022, the Bank had no loans or group of loans to related borrowers with outstanding balances in excess of this amount. The Bank's five largest lending relationships at June 30, 2022 consisted of: four multi-family loans totaling $5.2 million to one group of borrowers; eight single-family loans and one multi-family loan totaling $5.2 million to one group of borrowers; two multi-family loans totaling $4.4 million to one group of borrowers; three multi-family loans totaling $4.3 million to one group of borrowers; and one multi-family loan totaling $4.2 million to one group of borrowers. The real estate collateral for these loans is located in Southern and Northern California. At June 30, 2022, all of these loans were performing in accordance with their repayment terms.

**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, | | | |
|---|---|---|---|---|
| | 2022 | | 2021 | |
| (Dollars In Thousands) | Amount | Percent | Amount | Percent |
| Mortgage loans: | | | | |
| Single-family | $ 378,234 | 40.33 % | $ 268,272 | 31.48 % |
| Multi-family | 464,676 | 49.54 | 484,408 | 56.85 |
| Commercial real estate | 90,429 | 9.64 | 95,279 | 11.18 |
| Construction | 3,216 | 0.34 | 3,040 | 0.36 |
| Other | 123 | 0.01 | 139 | 0.02 |
| Total mortgage loans | 936,678 | 99.86 | 851,138 | 99.89 |
| Commercial business loans | 1,206 | 0.13 | 849 | 0.10 |
| Consumer loans | 86 | 0.01 | 95 | 0.01 |
| Total loans held for investment, gross | 937,970 | 100.00 % | 852,082 | 100.00 % |
| Advance payments of escrows | 47 | | 157 | |
| Deferred loan costs, net | 7,539 | | 6,308 | |
| Allowance for loan losses | (5,564) | | (7,587) | |
| Total loans held for investment, net | $ 939,992 | | $ 850,960 | |

**Maturity of Loans Held for Investment**. The following table sets forth information at June 30, 2022 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 5 Years | After 5 Years Through 15 Years | Beyond 15 Years | Total |
|---|---|---|---|---|---|
| Mortgage loans: | | | | | |
| Single-family | $ 54 | $ 856 | $ 27,809 | $ 349,515 | $ 378,234 |
| Multi-family | — | — | 27,091 | 437,585 | 464,676 |
| Commercial real estate | 2,398 | 21,771 | 57,624 | 8,636 | 90,429 |
| Construction | 59 | 89 | — | 3,068 | 3,216 |
| Other | 123 | — | — | — | 123 |
| Commercial business loans | 915 | 24 | 267 | — | 1,206 |
| Consumer loans | 86 | — | — | — | 86 |
| Total loans held for investment, gross | $ 3,635 | $ 22,740 | $ 112,791 | $ 798,804 | $ 937,970 |

The following table sets forth the dollar amount of all loans held for investment due after one year from June 30, 2022 which have fixed and floating or adjustable interest rates:

| (Dollars In Thousands) | Fixed-Rate | % [1] | Floating or Adjustable Rate | % [1] |
|---|---|---|---|---|
| Mortgage loans: | | | | |
| Single-family | $ 97,358 | 26 % | $ 280,822 | 74 % |
| Multi-family | 173 | — % | 464,503 | 100 % |
| Commercial real estate | 1,335 | 2 % | 86,696 | 98 % |
| Construction | 1,074 | 34 % | 2,083 | 66 % |
| Commercial business loans | 272 | 93 % | 19 | 7 % |
| Total loans held for investment, gross | $ 100,212 | 11 % | $ 834,123 | 89 % |

[1] As a percentage of each category.

Scheduled contractual principal payments of loans do not reflect the actual life of such assets. The average life of loans is generally 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 that secures the loan. 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 lower than current market interest rates, as borrowers are generally less inclined to refinance their loans when market rates increase and more inclined to refinance their loans when market rates decrease.

The table below describes the geographic dispersion of real estate secured loans held for investment (gross) at June 30, 2022 and 2021, as a percentage of the total dollar amount outstanding (dollars in thousands):

As of June 30, 2022:

| | Inland Empire | | Southern California[1] | | Other California | | Other States | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| Loan Category | Balance | % | Balance | % | Balance | % | Balance | % | Balance | % |
| Single-family | $ 126,638 | 33 % | $ 112,549 | 30 % | $ 138,767 | 37 % | $ 280 | — % | $ 378,234 | 100 % |
| Multi-family | 63,764 | 14 % | 275,642 | 59 % | 124,993 | 27 % | 277 | — % | 464,676 | 100 % |
| Commercial real estate | 20,450 | 23 % | 41,127 | 45 % | 28,852 | 32 % | — | — % | 90,429 | 100 % |
| Construction | 3,157 | 98 % | 59 | 2 % | — | — % | — | — % | 3,216 | 100 % |
| Other | — | — % | 123 | 100 % | — | — % | — | — % | 123 | 100 % |
| Total | $ 214,009 | 23 % | $ 429,500 | 46 % | $ 292,612 | 31 % | $ 557 | — % | $ 936,678 | 100 % |

[1] Other than the Inland Empire.

As of June 30, 2021:

| | Inland Empire | | Southern California[1] | | Other California | | Other States | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| Loan Category | Balance | % | Balance | % | Balance | % | Balance | % | Balance | % |
| Single-family | $ 78,631 | 29 % | $ 100,560 | 38 % | $ 88,790 | 33 % | $ 291 | — % | $ 268,272 | 100 % |
| Multi-family | 68,350 | 14 % | 304,534 | 63 % | 111,232 | 23 % | 292 | — % | 484,408 | 100 % |
| Commercial real estate | 22,989 | 24 % | 41,940 | 44 % | 30,350 | 32 % | — | — % | 95,279 | 100 % |
| Construction | 279 | 9 % | 2,761 | 91 % | — | — % | — | — % | 3,040 | 100 % |
| Other | — | — % | 139 | 100 % | — | — % | — | — % | 139 | 100 % |
| Total | $ 170,249 | 20 % | $ 449,934 | 53 % | $ 230,372 | 27 % | $ 583 | — % | $ 851,138 | 100 % |

[1] Other than the Inland Empire.

**Single-Family Mortgage Loans**. One of the Bank's primary lending activity is the origination and purchase of adjustable and fixed rate mortgage loans to be held for investment secured by first trust deed mortgages on owner-occupied, single-family (one to four units) residences in the communities where the Bank's branches are located and surrounding areas in Southern and Northern California. During fiscal 2022 the Bank originated $191.7 million and purchased $6.4 million of single-family loans to be held for investment, all of which were underwritten in accordance with the Bank's origination guidelines. This compares to single-family loan originations of $120.7 million and purchases of $5.4 million during fiscal 2021. At June 30, 2022, total single-family loans held for investment increased 41% to $378.2 million, or 40.3% of the total loans held for investment, from $268.3 million, or 31.5% of the total loans held for investment, at June 30, 2021. The increase in the single-family loans in fiscal 2022 was primarily attributable to new loans originated and purchased for investment that exceeded loan principal payments. During fiscal 2022, the Bank had net recoveries of $439,000 in non-performing single-family loans, as compared to net recoveries of $31,000 during fiscal 2021. At June 30, 2022 and 2021, total non-performing single-family loans were $1.4 million and $7.9 million, net of allowances and charge-offs, and there were no loans past due 30 to 89 days at both dates.

The Bank has underwriting standards that generally conform with the standards of the government sponsored entities ("GSE") which include Fannie Mae and Freddie Mac. Mortgage insurance is usually required for all loans exceeding 80% loan-to-value ("LTV") based on the lower of the purchase price or appraised value at the time of loan origination. The Bank is not currently offering loans with LTV ratios greater than 90%. The ratio is derived by dividing the original loan balance by the lower of the original appraised value or purchase price of the real estate collateral. Currently, the maximum LTV ratio is 90% for purchase and rate and term refinances and 75% for cash-out refinances. The maximum loan amount offered is $1.5 million. The lowest FICO score currently offered is 690 for a purchase transaction and 720 for a cash-out transaction. The FICO score represents the creditworthiness of a borrower based on the borrower's credit history, as

reported by an independent third party. A higher FICO score indicates a greater degree of creditworthiness. Bank regulators have issued guidance stating that a FICO score of 660 and below is indicative of a "subprime" borrower. The Bank currently lends on residential properties classified as single-family unit, planned unit developments and condominiums. Underwriting standards and guidelines may change at any time given changes in real estate market conditions or changes to GSE policies and guidelines. For additional protection, the Bank purchases lender-paid mortgage insurance for certain single-family mortgage loans. As of June 30, 2022, a total of $78.6 million of single-family mortgage loans with a 79% weighted average LTV at the time of origination have lender-paid mortgage insurance providing a weighted average coverage ratio of 11% of the original loan amount.

Prior to fiscal 2009, many of the loans we originated for investment consisted of non-traditional single-family residential loans that do not conform to Fannie Mae or Freddie Mac underwriting guidelines as a result of the characteristics of the borrower or property, the loan terms, loan size or exceptions from agency underwriting guidelines. In exchange for the additional risk to us associated with these loans, these borrowers generally are required to pay a higher interest rate, and depending on the credit history, a lower loan-to-value ratio was generally required than for a conforming loan. Our non-traditional single-family residential loans include loans to borrowers who provided limited or no documentation of their income or stated income loans, negative amortization loans (a loan in which accrued interest exceeding the required monthly loan payment is added to loan principal up to 115% of the original loan amount), more than 30-year amortization loans, and loans to borrowers with a FICO score below 660 (these loans are considered subprime by the OCC). Including these low FICO score loans, as of June 30, 2022, our single-family residential borrowers had a weighted average FICO score of 759 at the time of loan origination.

As of June 30, 2022, these non-traditional loans totaled $20.3 million, comprising 5.4% of total single-family residential loans held for investment and 2.2% of total loans held for investment. At that date, stated income loans totaled $17.5 million, more than 30-year amortization loans totaled $4.3 million, low FICO score loans totaled $2.0 million, and negative amortization loans totaled $479,000 (the outstanding balances described may overlap more than one category).

The Bank currently offers fixed rate loan products in Riverside and San Bernardino counties and adjustable rate mortgage ("ARM") loans throughout California. Substantially all of the loans originated by the Bank meet GSE underwriting standards based on credit and collateral. The Bank offers several ARM products which adjust semi-annually after an initial fixed period ranging from five to ten years subject to a limitation on semi-annual and lifetime changes. Currently, the ARM programs have a rate consisting of an Index tied to the Secured Overnight Financing Rate ("SOFR"), plus a margin. The programs are limited to a maximum, semi-annual increase or decrease of one percentage point with a maximum lifetime increase of five percentage points. The rate may not fall below the margin. The portfolio currently consists of the following indices, plus a margin of between 2.00% and 3.25%, which are used to calculate the periodic interest rate changes: the London Interbank Offered Rate ("LIBOR"), SOFR, the 12-month average U.S. Treasury ("12 MAT") or the weekly average yield on one-year U.S. Treasury securities adjusted to a constant maturity of one year ("CMT"). Loans based on the LIBOR and SOFR indices constitute a majority of the Bank's loans held for investment. The majority of the ARM loans held for investment have five, seven, or 10-year fixed periods prior to the first adjustment and provide for fully amortizing loan payments throughout the term of the loan. Loans of this type have embedded interest rate risk if interest rates should rise during the initial fixed rate period.

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 product in a given interest rate and competitive environment. Recently, during the low-interest rate market environment, existing prior to calendar 2022, the production of ARM loans was significantly lower than fixed rate mortgages.

The retention of ARM loans, rather than fixed-rate loans, helps to reduce the Bank's exposure to changes in interest rates. There is, however, unquantifiable credit risk resulting from the potential of increased interest charges to be paid by the borrower as a result of increases in interest rates. 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. Further, 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. Because of these characteristics, ARM loans are subject to increased risks of default or delinquency.

Additionally, while ARM loans allow the Bank to increase the sensitivity of its assets as a result of changes in interest rates, the extent of this interest rate sensitivity is limited by the periodic and lifetime interest rate adjustment limits. Furthermore, because loan indexes may not respond perfectly to changes in 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. Conversely, downward adjustments on the Bank's cost of funds typically lag adjustments on ARM loans which may occur more rapidly during periods of declining interest rates. For additional information concerning the effect of interest rates on our loan portfolio, see Item 7A, "Quantitative and Qualitative Disclosures about Market Risk" of this Form 10-K.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") requires lenders to make a reasonable, good faith determination of a borrower's ability to repay any consumer closed-end credit transaction secured by a dwelling and to limit prepayment penalties. Increased risks of legal challenge, private right of action and regulatory enforcement actions result from these rules. The Bank may originate loans that do not meet the definition of a "qualified mortgage" ("QM"). To mitigate the risks involved with non-QM loans, the Bank has implemented systems, processes, procedural and product changes, and maintains its underwriting standards, to ensure that the "ability-to-repay" requirements are adequately addressed.

A decline in real estate values subsequent to the time of origination of real estate secured loans could result in higher loan delinquency levels, foreclosures, provisions for loan losses and net charge-offs. Real estate values and real estate markets are beyond the Bank's control and are generally affected by changes in national, regional or local economic conditions and other factors. These factors include fluctuations in interest rates and the availability of loans to potential purchasers, housing supply and demand, changes in tax laws and other governmental statutes, regulations and policies and acts of nature, such as earthquakes, fires, droughts and other natural disasters particular to California where substantially all of our real estate collateral is located. If real estate values decline from the levels at the time of loan origination, the value of our real estate collateral securing the loans could be significantly reduced. Our ability to recover on defaulted loans by foreclosing and selling the real estate collateral would then be diminished and it would be more likely to suffer losses on defaulted loans.

**Multi-Family and Commercial Real Estate Mortgage Loans**. At June 30, 2022, multi-family mortgage loans were $464.7 million and commercial real estate loans were $90.4 million, or 49.5% and 9.6%, respectively, of loans held for investment. This compares to multi-family mortgage loans of $484.4 million and commercial real estate loans of $95.3 million, or 56.8% and 11.2%, respectively, of loans held for investment at June 30, 2021. 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. During fiscal 2022 the Bank originated $105.9 million, all of which were underwritten in accordance with the Bank's origination guidelines, and did not purchase any multi-family and commercial real estate loans. This compares to loan originations of $88.8 million and loan purchases of $11.5 million during fiscal 2021. At June 30, 2022, the Bank had 634 multi-family and 121 commercial real estate loans in loans held for investment. This compares to 654 multi-family and 134 commercial real estate loans in loans held for investment at June 30, 2021.

Multi-family mortgage loans originated by the Bank are predominately adjustable rate loans, including hybrid ARM loans, with a term to maturity of 10 to 30 years and a 25 to 30-year amortization schedule. Commercial real estate loans originated by the Bank are also predominately adjustable rate loans, including hybrid ARM loans, with a term to maturity of 10 to 30 years and a 25 to 30-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 period interest rate caps and life-of-loan interest rate caps. At June 30, 2022, $448.3 million, or 96.5%, of the Bank's multi-family loans were secured by five to 36-unit projects. The Bank's commercial real estate loan portfolio generally consists of loans secured by small office buildings, light industrial buildings, warehouses and small retail centers. Properties securing multi-family and commercial real estate loans are primarily located in Alameda, Los Angeles, Orange, Riverside, San Bernardino, San Diego, San Francisco and Santa Clara counties. The Bank originates multi-family and commercial real estate loans in amounts typically ranging from $350,000 to $6.0 million. At June 30, 2022, the Bank had 63 commercial real estate and multi-family loans with principal balances greater than $1.5 million totaling $138.1 million. The Bank obtains appraisals on all 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 the income level of the borrowers and guarantors.

Multi-family and commercial real estate loans afford the Bank an opportunity to price the loans with 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 real estate 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. During both fiscal 2022 and 2021, the Bank had no charge-offs or recoveries on non-performing multi-family and commercial real estate loans. At June 30, 2022 and 2021, there were no non-performing or 30 to 89 days delinquent multi-family and commercial real estate loans at both dates. Non-performing loans and/or delinquent loans may increase if there is a general decline in California real estate markets and in the event poor general economic conditions prevail.

**Construction Loans.** The Bank originates from time to time two types of construction loans: short-term construction loans and construction/permanent loans. During fiscal 2022 and 2021, the Bank originated a total of $2.2 million and $5.4 million of construction loans (including undisbursed loan funds), respectively. As of June 30, 2022 and 2021, the Bank had short-term construction loans totaling $148,000 and $2.8 million, respectively, and construction/permanent loans totaling $3.1 million and $279,000 respectively, net of undisbursed loan funds of $1.3 million and $3.0 million, respectively.

Short-term construction loans include three types of loans: custom construction, tract construction, and speculative construction. The Bank provides construction financing for single-family, multi-family and commercial real estate properties. Custom construction loans are made to individuals who, at the time of application, have a contract executed with a builder to construct their residence. Custom construction loans are generally originated for a term of 12 to 18 months, with adjustable or fixed interest rates at the prime lending rate plus a margin and with loan-to-value ratios of up to 75% of the appraised value of the completed property. The owner secures long-term permanent financing at the completion of construction. At June 30, 2022, there were four custom single-family construction loans totaling $4.3 million with $1.3 million of undisbursed funds. This compares to June 30, 2021 when the Bank had two custom single-family construction loans totaling $1.7 million with $611,000 of undisbursed funds.

From time to time the Bank makes lot loans to individuals to finance land acquisition prior to the start of construction or 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. Tract construction may include the building and financing of model homes under a separate loan. At June 30, 2022, there was one land loan of $123,000 and one tract construction loan of $1.7 million with $1.6 million undisbursed funds, as compared to one land loan of $139,000 at June 30, 2021.

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 sale 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 both June 30, 2022 and 2021, there were no speculative construction loans.

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 fixed at a margin above prime rate and with a loan-to-value ratio of up to 75% of the appraised value of the completed property. At June 30, 2022, there were $3.1 million of construction/permanent loans as compared to $279,000 of construction/permanent loans at June 30, 2021.

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 – Single-Family Division 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. The Bank obtains 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 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 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. During fiscal 2022 and 2021, the Bank had no charge-offs or recoveries and no construction loans were non-performing or 30-89 days delinquent at both June 30, 2022 and June 30, 2021.

**Participation Loan Purchases and Sales.** In an effort to expand production and diversify risk, the Bank purchases loans and loan participations, with collateral primarily in California, which allows for greater geographic distribution outside of the Bank's primary lending areas. 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 approximates the expense the Bank would incur if the Bank were to service the loan. All properties serving as collateral for loan participations are inspected by an employee 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 purchased $6.4 million of loans to be held for investment (solely single-family loans) in fiscal 2022, compared to $16.9 million of purchased loans to be held for investment (primarily single-family and multi-family loans) in fiscal 2021. The decline in loan purchases was due primarily to the uncertainty of the asset quality and fewer loans available for purchase during the COVID-19 pandemic. As of June 30, 2022, total loans serviced by other financial institutions were $11.4 million, as compared to $13.6 million at June 30, 2021. As of June 30, 2022, all loans serviced by others were performing according to their original contractual payment terms. As of June 30, 2021, all loans serviced by others were performing according to their original contractual payment terms, except for one loan of $365,000 that was in the non-performing category.

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. The Bank did not sell any participation loans in fiscal 2022 or fiscal 2021.

**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, 2022, commercial business loans were $1.2 million, or 0.1% of loans held for investment, up 42%

from $849,000, or 0.1% of loans held for investment at June 30, 2021. These loans represent secured and 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 require personal guarantees from financially capable parties associated with the business 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 value 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 collectible and inventories and equipment may be obsolete or of limited use. 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. At June 30, 2022 and 2021, there were no non-performing commercial business loans at both dates. During fiscal 2022 or 2021, the Bank had no charge-offs or recoveries on commercial business loans.

**Consumer Loans.** At June 30, 2022 and 2021, the Bank's consumer loans were $86,000 and $95,000, respectively, or less than 0.1% of the Bank's loans held for investment at these dates. The Bank offers open-ended lines of credit on unsecured basis.

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. The Bank had no non-performing consumer loans at both June 30, 2022 and 2021. During fiscal 2022, the Bank had no net charge-offs on consumer loans, as compared to net charge-offs of $1,000 during fiscal 2021.

**Loans Originations, Purchases, Sales and Repayments**

Mortgage loans are primarily originated for investment. Prior to scaling back originations of saleable single-family fixed-rate mortgage loans during fiscal 2019, a large amount of single-family fixed-rate mortgage loans were originated for sale to institutional investors. Mortgage loans sold to investors generally were sold without recourse other than standard representations and warranties. Generally, mortgage loans sold to Fannie Mae and Freddie Mac were 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 Federal Housing Administration ("FHA") and Veterans' Administration ("VA") loans used to form Government National Mortgage Association pools, which are subject to limitations on the FHA's and VA's loan guarantees.

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

| (In Thousands) | Year Ended June 30, 2022 | 2021 | 2020 |
|---|---|---|---|
| Loans originated for sale: | | | |
| Retail originations | $ — | $ 147 | $ — |
| Total loans originated for sale | — | 147 | — |
| Loans sold: | | | |
| Servicing retained | — | (147) | — |
| Total loans sold | — | (147) | — |
| Loans originated for investment: | | | |
| Mortgage loans: | | | |
| Single-family | 191,672 | 120,699 | 36,427 |
| Multi-family | 87,738 | 85,011 | 51,022 |
| Commercial real estate | 18,187 | 3,818 | 14,468 |
| Construction | 2,228 | 5,426 | 3,983 |
| Other | — | — | 143 |
| Consumer loans | — | — | 1 |
| Total loans originated for investment | 299,825 | 214,954 | 106,044 |
| Loans purchased for investment: | | | |
| Mortgage loans: | | | |
| Single-family | 6,354 | 5,446 | 70,733 |
| Multi-family | — | 11,463 | 71,344 |
| Total loans purchased for investment | 6,354 | 16,909 | 142,077 |
| Loan principal repayments | (221,315) | (281,477) | (228,250) |
| Increase (decrease) in other items, net [(1)] | 4,168 | (2,222) | 3,000 |
| Net increase (decrease) in loans held for investment at fair value | $ 89,032 | $ (51,836) | $ 22,871 |

[(1)] Includes net changes in undisbursed loan funds, deferred loan fees or costs, allowance for loan losses, fair value of loans held for investment, advance payments of escrows and repurchases.

**Loan Servicing**

The Bank receives fees from a variety of investors in return for performing the traditional services of collecting individual loan payments on loans sold by the Bank to such investors. At June 30, 2022, the Bank was servicing $37.7 million of loans for others, a 25% decrease from $50.4 million at June 30, 2021. The decrease was primarily attributable to loan prepayments. 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. After 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 Bank 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, 2022 and 2021, the Bank used a weighted average Constant Prepayment Rate ("CPR") of 10.85% and 21.82%, respectively, and a weighted-average discount rate of 9.05% and 9.10%,

respectively. The required impairment reserve against servicing assets at June 30, 2022 and 2021 was $119,000 and $176,000, respectively. In aggregate, servicing assets had a carrying value of $287,000 and a fair value of $168,000 at June 30, 2022, compared to a carrying value of $384,000 and a fair value of $208,000 at June 30, 2021.

**Asset Quality**

**Delinquent Loans**. When a mortgage loan borrower fails to make a required payment when due, the Bank initiates collection procedures. In most cases, delinquencies are cured promptly; however, if the loan remains delinquent on the 120th day for single-family loans or the 90th day for other loans, or sooner if the borrower is chronically delinquent, and after 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.

As of June 30, 2022, total non-performing assets, net of allowance for loan losses and fair value adjustments, were $1.4 million, or 0.12% of total assets, which was primarily comprised of: seven single-family loans and no real estate owned ("REO"). As of June 30, 2022, all non-performing loans had a current payment status. This compares to total non-performing assets, net of allowance for loan losses and fair value adjustments, of $8.6 million, or 0.73% of total assets, with $7.7 million, or 89%, of non-performing loans with a current payment status at June 30, 2021 and no REO.

The following table sets forth information with respect to the Bank's non-performing assets and troubled debt restructurings ("restructured loans"), net of allowance for loan losses and fair value adjustments, at the dates indicated:

| | At June 30, | |
|---|---|---|
| (Dollars In Thousands) | **2022** | **2021** |
| Loans on non-performing status (excluding restructured loans): | | |
| Mortgage loans: | | |
| Single-family | $ 701 | $ 882 |
| Multi-family | — | 781 |
| Total | 701 | 1,663 |
| Accruing loans past due 90 days or more | — | — |
| Restructured loans on non-performing status: | | |
| Mortgage loans: | | |
| Single-family | 722 | 6,983 |
| Total | 722 | 6,983 |
| Total non-performing loans | 1,423 | 8,646 |
| Real estate owned, net | — | — |
| Total non-performing assets | $ 1,423 | $ 8,646 |
| Non-performing loans as a percentage of loans held for investment, net | 0.15 % | 1.02 % |
| Non-performing loans as a percentage of total assets | 0.12 % | 0.73 % |
| Non-performing assets as a percentage of total assets | 0.12 % | 0.73 % |

The Bank assesses loans individually and classifies the loans as non-performing and substandard in accordance with regulatory requirements when the accrual of interest has been discontinued, loans have been restructured or management has serious doubts about the future collectability of principal and interest, even though the loans are currently performing. Factors considered in determining classification include, but are not limited to, expected future cash flows, collateral value, the financial condition of the borrower and current economic conditions. The Bank measures each non-performing loan

based on ASC 310, “Receivables,” establishes a collectively evaluated or individually evaluated allowance and charges off those loans or portions of loans deemed uncollectible.

**Restructured Loans.** A troubled debt restructuring is a loan which the Bank, for reasons related to a borrower’s financial difficulties, grants a concession to the borrower that the Bank would not otherwise consider.

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

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

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

For the fiscal year ended June 30, 2022, there were no loans that were newly modified from their original terms, re-underwritten or identified as a restructured loan; three loans were upgraded to the pass category; seven loans were paid off; and no loans were converted to REO. For the fiscal year ended June 30, 2021, there were 20 loans (including 19 COVID-19 related forbearance loans downgraded when their monthly payment deferrals were extended beyond six months) that were newly modified from their original terms, re-underwritten or identified as restructured loans; while two loans were upgraded to the pass category; three loans were paid off; and no loans were converted to REO.

During the fiscal years ended June 30, 2022 and 2021, no restructured loans were in default within a 12-month period subsequent to their original restructuring. Additionally, during the fiscal year ended June 30, 2022, there were no loans that were extended beyond their maturity of the modification terms; while in fiscal year ended June 30, 2021, there were 12 restructured loans totaling $4.7 million that were extended beyond their initial modification terms.

As of June 30, 2022, the net outstanding balance of the Corporation’s 13 restructured loans was $4.5 million of which one loan totaling $722,000 was classified as substandard on non-accrual status. As of June 30, 2022, all of the restructured loans were current with respect to their payment status, consistent with their modified terms. As of June 30, 2021, the net outstanding balance of the Corporation’s 23 restructured loans was $7.9 million of which 20 loans totaling $7.0 million were classified as substandard on non-accrual status. As of June 30, 2021, $7.7 million, or 97 percent, of the restructured loans were current with respect to their payment status, consistent with their modified terms.

The Bank upgrades restructured single-family loans to the pass category if the borrower has demonstrated satisfactory contractual payments for at least six consecutive months or 12 months for those loans that were restructured more than once and there is a reasonable assurance that the payments will continue. Once the borrower has demonstrated satisfactory contractual payments beyond 12 consecutive months, the loan is no longer categorized as a restructured loan. From March 2020 to March 2021, the Bank offered short-term loan modifications to assist borrowers during the COVID-19 pandemic. The Coronavirus Aid, Relief, and Economic Security Act for 2020, as amended (“CARES Act”) and the Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus ("Interagency Statement") provided that a short-term modification made in response to COVID-19 and which meets certain criteria does not need to be accounted for as a restructured loan. Accordingly, the Corporation does not account for such loan modifications as restructured loans.

**Foreclosed Real Estate.** Real estate acquired by the Bank as a result of foreclosure or by deed-in-lieu of foreclosure is classified as REO until it is sold. When a property is acquired, it is recorded at its fair market value less the estimated cost of sale. Subsequent declines in value are charged to operations. As of June 30, 2022 and 2021, there was no REO property at both dates. In managing the real estate owned properties for quick disposition, the Bank completes the necessary repairs and maintenance to the individual properties before listing for sale, obtains new appraisals and broker price opinions

("BPO") to determine current market listing prices, and engages local realtors who are most familiar with real estate sub-markets, among other techniques, which generally results in the quick disposition of real estate owned.

**Asset Classification.** The OCC has adopted various regulations regarding the 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, OCC 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 an individually evaluated allowance and may subsequently charge-off the amount of the asset classified as loss. A portion of the allowance 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. 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 closely monitored by the Bank.

Classified assets improved 84% to $1.6 million at June 30, 2022 from $10.4 million at June 30, 2021. The aggregate amounts of the Bank's classified assets are located in California.

The following table summarizes classified assets, which is comprised of classified loans, including loans classified by the Bank as special mention, net of allowance for loan losses, and REO at the dates indicated:

| | At June 30, 2022 | | At June 30, 2021 | |
|---|---|---|---|---|
| (Dollars In Thousands) | **Balance** | **Count** | **Balance** | **Count** |
| Special mention loans: | | | | |
| Mortgage loans: | | | | |
| Single-family | $ 224 | 1 | $ 1,767 | 4 |
| Total special mention loans | 224 | 1 | 1,767 | 4 |
| Substandard loans: | | | | |
| Mortgage loans: | | | | |
| Single-family | 1,423 | 9 | 7,865 | 29 |
| Multi-family | — | — | 781 | 1 |
| Total substandard loans | 1,423 | 9 | 8,646 | 30 |
| Total classified loans | 1,647 | 10 | 10,413 | 34 |
| Real estate owned: | | | | |
| Single-family | — | — | — | — |
| Total real estate owned | — | — | — | — |
| Total classified assets | $ 1,647 | 10 | $ 10,413 | 34 |
| Total classified assets as a percentage of total assets | 0.14 % | | 0.88 % | |

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 and other 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 single-family, 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 factors, 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 (crediting) its provision (recovery) 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 a collectively evaluated allowance for groups of homogeneous loans and an individually evaluated allowance that are tied to individual problem loans. The Bank's methodology for assessing the appropriateness of the allowance consists of several key elements.

The 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 consistent with ASC 450, "Contingency". 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 and commercial real estate loans, are based upon loss experience tracked over business cycles considered appropriate for the loan type.

Collectively evaluated or individually evaluated allowances are established to absorb losses on loans for which full collectability may not be reasonably assured as prescribed in ASC 310. Estimates of identifiable losses are reviewed continually and, generally, a provision (recovery) for losses is charged (credited) against operations on a quarterly basis as necessary to maintain the allowance at an appropriate level. Management presents the minutes summarizing the actions of the IAR Committee to the Bank's Board of Directors on a quarterly basis.

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 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 still in their restructuring period, classified lower than pass, and containing an embedded loss component 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. For non-performing commercial real estate loans, an individually evaluated allowance is calculated based on the loan's fair value and if the fair value is higher than the loan balance, no allowance is required.

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 loans or portfolio segments as of the evaluation date, the IAR Committee's estimate of the effect of such conditions may be reflected as an individually evaluated allowance applicable to such loans or portfolio segments. Where any of these conditions is not apparent by specifically identifiable problem loans 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 general allowance. 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 are 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, 2022, the Bank had an allowance for loan losses of $5.6 million, or 0.59% of gross loans held for investment, compared to an allowance for loan losses at June 30, 2021 of $7.6 million, or 0.88% of gross loans held for investment. A $2.5 million recovery from the allowance for loan losses was recorded in fiscal 2022, compared to a $708,000 recovery from the allowance for loan losses in fiscal 2021. The decrease in the allowance for loan losses was due primarily to improved asset quality at June 30, 2022 and improving general economic conditions as compared to June 30, 2021, partly offset by an increase in loans held for investment in fiscal 2022. Although management believes the best information available is used to make such provision (recovery), 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.

While the Bank believes that it has established its existing allowance for loan losses in accordance with GAAP, 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, including as a result of the COVID-19 pandemic, there can be no assurance that the existing allowance for loan losses is adequate or that substantial increases will not be necessary. Any material increase in the allowance for loan losses may adversely affect the Bank's financial condition and results of operations.

The following table shows certain credit ratios at and for the periods indicated and each component of the ratio's calculations:

| (Dollars In Thousands) | At or For The Year Ended June 30, 2022 | 2021 | 2020 |
|---|---|---|---|
| Allowance for loan losses as a percentage of total gross loans held for investment at period end | 0.59 % | 0.88 % | 0.91 % |
| Allowance for loan losses | $ 5,564 | $ 7,587 | $ 8,265 |
| Total gross loans held for investment | $ 937,970 | $ 852,082 | $ 904,466 |
| Non-performing loans as a percentage of net loans held for investment at period end | 0.15 % | 1.02 % | 0.55 % |
| Total non-performing loans, net | $ 1,423 | $ 8,646 | $ 4,924 |
| Total loans held for investment, net | $ 939,992 | $ 850,960 | $ 902,796 |
| Allowance for loan losses as a percentage of gross non-performing loans at period end | 368.97 % | 80.56 % | 154.40 % |
| Allowance for loan losses | $ 5,564 | $ 7,587 | $ 8,265 |
| Total gross non-performing loans | $ 1,508 | $ 9,418 | $ 5,353 |
| Net recoveries (charge-offs) to average loans receivable during the period: | | | |
| Mortgage loans: | | | |
| Single-family: | 0.15 % | 0.01 % | 0.02 % |
| Net recoveries | $ 439 | $ 31 | $ 69 |
| Average loans receivable | $ 301,698 | $ 270,083 | $ 329,033 |
| Multi-family: | 0.00 % | 0.00 % | 0.00 % |
| Net charge-offs | $ - | $ - | $ - |
| Average loans receivable | $ 473,487 | $ 484,374 | $ 472,010 |
| Commercial real estate: | 0.00 % | 0.00 % | 0.00 % |
| Net charge-offs | $ - | $ - | $ - |
| Average loans receivable | $ 90,896 | $ 101,768 | $ 107,966 |
| Construction: | 0.00 % | 0.00 % | 0.00 % |
| Net charge-offs | $ - | $ - | $ - |
| Average loans receivable | $ 3,417 | $ 6,249 | $ 5,732 |
| Commercial business loans: | 0.00 % | 0.00 % | 0.00 % |
| Net charge-offs | $ - | $ - | $ - |
| Average loans receivable | $ 627 | $ 795 | $ 471 |
| Consumer loans: | 0.00 % | (1.22)% | 0.87 % |
| Net (charge-offs) recoveries | $ - | $ (1) | $ 1 |
| Average loans receivable | $ 73 | $ 82 | $ 115 |
| Total loans: | 0.05 % | 0.00 % | 0.01 % |
| Total net recoveries | $ 439 | $ 30 | $ 70 |
| Total average loans receivable | $ 870,328 | $ 863,507 | $ 915,353 |

**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, seeks to provide and maintain adequate liquidity, complement the Bank's lending activities, and generate a favorable return on investment without incurring undue interest rate risk or credit risk. Investments are made based on certain considerations, such as credit quality, yield, 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, 2022 and 2021, the Bank's investment securities portfolio was $188.4 million and $226.9 million, respectively, which primarily consisted of federal agency and GSE obligations. The Bank's investment securities portfolio was classified as held to maturity and available for sale. The Corporation purchased held to maturity mortgage-backed securities and collateralized mortgage obligations totaling $19.0 million and $158.0 million of mortgage-backed securities during fiscal 2022 and 2021, respectively. At June 30, 2022 and 2021, our securities portfolio did not contain securities of any issuer with an aggregate book value in excess of 10% of our equity capital, excluding those issued by the United States government or its agencies or a GSE.

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

| | At June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2022 | | | 2021 | | |
| (Dollars In Thousands) | Amortized Cost | Estimated Fair Value | Percent | Amortized Cost | Estimated Fair Value | Percent |
| **Held to maturity securities:** | | | | | | |
| U.S. government sponsored enterprise MBS[1] | $ 180,492 | $ 166,610 | 95.53 % | $ 220,448 | $ 221,847 | 97.17 % |
| U.S. government sponsored enterprise CMO[2] | 3,913 | 3,763 | 2.16 | — | — | — |
| U.S. SBA securities[3] | 940 | 951 | 0.55 | 1,858 | 1,874 | 0.82 |
| Certificates of deposits | 400 | 400 | 0.23 | 1,000 | 1,000 | 0.44 |
| Total investment securities - held to maturity | $ 185,745 | $ 171,724 | 98.47 % | $ 223,306 | $ 224,721 | 98.43 % |
| **Available for sale securities:** | | | | | | |
| U.S. government agency MBS[1] | $ 1,698 | $ 1,698 | 0.97 % | $ 2,146 | $ 2,222 | 0.97 % |
| U.S. government sponsored enterprise MBS[1] | 865 | 865 | 0.50 | 1,197 | 1,211 | 0.53 |
| Private issue CMO[2] | 118 | 113 | 0.06 | 151 | 154 | 0.07 |
| Total investment securities - available for sale | $ 2,681 | $ 2,676 | 1.53 % | $ 3,494 | $ 3,587 | 1.57 % |
| Total investment securities | $ 188,426 | $ 174,400 | 100.00 % | $ 226,800 | $ 228,308 | 100.00 % |

(1) Mortgage-backed securities ("MBS")
(2) Collateralized mortgage obligations ("CMO")
(3) Small Business Administration ("SBA")

The following table sets forth the outstanding balance, maturity and weighted average yield of the investment securities at June 30, 2022:

| (Dollars in Thousands) | Due in One Year or Less[1] | | Due After One to Five Years[1] | | Due After Five to Ten Years[1] | | Due After Ten Years[1] | | Total[1] | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Amount | Yield | Amount | Yield | Amount | Yield | Amount | Yield | Amount | Yield |
| **Held to maturity securities:** | | | | | | | | | | |
| U.S. government sponsored enterprise MBS | $ 1,027 | 2.31 % | $ 9,947 | 2.83 % | $ 77,167 | 1.17 % | $ 92,351 | 1.35 % | $ 180,492 | 1.36 % |
| U.S. government sponsored enterprise CMO | — | — | 961 | 2.87 | — | — | 2,952 | 2.02 | 3,913 | 2.23 |
| U.S. SBA securities | — | — | — | — | — | — | 940 | 0.85 | 940 | 0.85 |
| Certificates of deposits | 400 | 0.73 | — | — | — | — | — | — | 400 | 0.73 |
| Total investment securities -held to maturity | $ 1,427 | 1.87 % | $ 10,908 | 2.83 % | $ 77,167 | 1.17 % | $ 96,243 | 1.37 % | $ 185,745 | 1.37 % |
| | | | | | | | | | | |
| **Available for sale securities:** | | | | | | | | | | |
| U.S. government agency MBS | $ — | — % | $ — | — % | $ — | — % | $ 1,698 | 1.90 % | $ 1,698 | 1.90 % |
| U.S. government sponsored enterprise MBS | — | — | — | — | 98 | 3.19 | 767 | 2.61 | 865 | 2.67 |
| Private issue CMO | — | — | — | — | — | — | 113 | 3.02 | 113 | 3.02 |
| Total investment securities - available for sale | $ — | — % | $ — | — % | $ 98 | 3.19 % | $ 2,578 | 2.16 % | $ 2,676 | 2.20 % |
| Total investment securities | $ 1,427 | 1.87 % | $ 10,908 | 2.83 % | $ 77,265 | 1.17 % | $ 98,821 | 1.39 % | $ 188,421 | 1.39 % |

[1] The weighted average yields were calculated by multiplying each carrying value by its yield and dividing the sum of these results by the total carrying values.

The actual maturity and yield for MBS and CMO may differ from the stated maturity and stated yield due to scheduled amortization, prepayments and acceleration of premium amortization or discount accretion.

**Deposit Activities and Other Sources of Funds**

**General.** Deposits 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. 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 deposit accounts. 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 customers' preferences and concerns. Generally, the Bank's deposit rates are commensurate with the median rates of its competitors within a given market. The Bank may occasionally pay above-market interest rates to attract or retain deposits when less expensive sources of funds are not available. The Bank may also pay above-market interest rates in specific markets in order to increase the deposit base of a particular office or group of offices. The Bank reviews its deposit composition and pricing on a weekly basis.

The Bank generally offers time deposits for terms not exceeding seven years. As illustrated in the following table, time deposits represented 13% of the Bank's deposit portfolio at June 30, 2022, compared to 15% at June 30, 2021. As of June 30, 2022 and 2021, there were no brokered 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. For additional information, see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Form 10-K.

The following table sets forth information concerning the Bank's weighted-average interest rate of deposits at June 30, 2022:

| Weighted Average Interest Rate | Original Term | Deposit Account Type | Minimum Amount (In Thousands) | Balance (In Thousands) | Percentage of Total Deposits |
|---|---|---|---|---|---|
| | | Transaction accounts: | | | |
| —% | N/A | Checking accounts – non interest-bearing | $ — | $ 125,089 | 13.09 % |
| 0.04% | N/A | Checking accounts – interest-bearing | $ — | 335,788 | 35.14 |
| 0.05% | N/A | Savings accounts | $ — | 333,581 | 34.91 |
| 0.17% | N/A | Money market accounts | $ — | 39,897 | 4.18 |
| | | Time deposits: | | | |
| 0.05% | 30 days or less | Fixed-term, fixed rate | $ 1 | 20 | — |
| 0.05% | 31 to 90 days | Fixed-term, fixed rate | $ 1 | 6,027 | 0.63 |
| 0.05% | 91 to 180 days | Fixed-term, fixed rate | $ 1 | 5,569 | 0.58 |
| 0.07% | 181 to 365 days | Fixed-term, fixed rate | $ 1 | 31,014 | 3.25 |
| 0.17% | Over 1 to 2 years | Fixed-term, fixed rate | $ 1 | 23,336 | 2.44 |
| 0.34% | Over 2 to 3 years | Fixed-term, fixed rate | $ 1 | 11,470 | 1.20 |
| 1.02% | Over 3 to 5 years | Fixed-term, fixed rate | $ 1 | 32,532 | 3.41 |
| 1.67% | Over 5 to 10 years | Fixed-term, fixed rate | $ 1 | 11,181 | 1.17 |
| 0.11% | | | | $ 955,504 | 100.00 % |

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

| | At June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2022 | | | 2021 | | |
| (Dollars In Thousands) | Amount | Percent of Total | Increase (Decrease) | Amount | Percent of Total | Increase (Decrease) |
| Checking accounts – non interest-bearing | $ 125,089 | 13.09 % | $ 1,910 | $ 123,179 | 13.13 % | $ 4,408 |
| Checking accounts – interest-bearing | 335,788 | 35.14 | 8,400 | 327,388 | 34.90 | 36,925 |
| Savings accounts | 333,581 | 34.91 | 26,282 | 307,299 | 32.76 | 33,530 |
| Money market accounts | 39,897 | 4.18 | 227 | 39,670 | 4.23 | (319) |
| Time deposits: | | | | | | |
| Fixed-term, fixed rate which mature: | | | | | | |
| Within one year | 78,644 | 8.23 | 1,939 | 76,705 | 8.18 | (13,871) |
| Over one to two years | 20,600 | 2.16 | (17,087) | 37,687 | 4.02 | 3,692 |
| Over two to five years | 20,628 | 2.16 | (5,018) | 25,646 | 2.74 | (18,825) |
| Over five years | 1,277 | 0.13 | 878 | 399 | 0.04 | (536) |
| Total | $ 955,504 | 100.00 % | $ 17,531 | $ 937,973 | 100.00 % | $ 45,004 |

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

| (Dollars In Thousands) | At June 30, 2022 | 2021 |
|---|---|---|
| Below 1.00% | $ 89,617 | $ 85,125 |
| 1.00 to 1.99% | 26,537 | 50,238 |
| 2.00 to 2.99% | 4,995 | 5,074 |
| Total | $ 121,149 | $ 140,437 |

**Time Deposits by Remaining Maturity.** The following table sets forth the aggregate dollar amount of time deposits at June 30, 2022 differentiated by interest rates and remaining maturity:

| (Dollars 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 % | $ 59,673 | $ 14,339 | $ 8,478 | $ 2,875 | $ 4,252 | $ 89,617 |
| 1.00 to 1.99 % | 14,057 | 6,261 | 5,412 | 677 | 130 | 26,537 |
| 2.00 to 2.99 % | 4,914 | — | — | — | 81 | 4,995 |
| Total | $ 78,644 | $ 20,600 | $ 13,890 | $ 3,552 | $ 4,463 | $ 121,149 |

**Time Deposits Insurance Coverage by the FDIC.** The following tables set forth the time deposit FDIC insurance coverage by account and remaining maturity at June 30, 2022 and 2021:

| Maturity Period | At June 30, 2022 Insured | Uninsured | Total |
|---|---|---|---|
| (In Thousands) | | | |
| Three months or less | $ 26,101 | $ 2,407 | $ 28,508 |
| Over three to six months | 18,860 | 1,017 | 19,877 |
| Over six to twelve months | 27,483 | 2,776 | 30,259 |
| Over twelve months | 39,526 | 2,979 | 42,505 |
| Total | $ 111,970 | $ 9,179 | $ 121,149 |

| Maturity Period | At June 30, 2021 Insured | Uninsured | Total |
|---|---|---|---|
| (In Thousands) | | | |
| Three months or less | $ 24,482 | $ 1,513 | $ 25,995 |
| Over three to six months | 21,913 | 898 | 22,811 |
| Over six to twelve months | 27,290 | 609 | 27,899 |
| Over twelve months | 58,382 | 5,350 | 63,732 |
| Total | $ 132,067 | $ 8,370 | $ 140,437 |

**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) | 2022 | 2021 | 2020 |
| Beginning balance | $ 937,973 | $ 892,969 | $ 841,271 |
| Net deposits before interest credited | 16,387 | 43,259 | 48,755 |
| Interest credited | 1,144 | 1,745 | 2,943 |
| Net increase in deposits | 17,531 | 45,004 | 51,698 |
| Ending balance | $ 955,504 | $ 937,973 | $ 892,969 |

**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.

As of June 30, 2022 and 2021, the FHLB – San Francisco borrowing capacity was limited to 35% of the Bank's total assets at both dates, amounting to $415.7 million and $416.2 million, respectively. Advances from the FHLB – San Francisco are typically secured by the Bank's single-family residential, multi-family and commercial real estate mortgage loans. Total mortgage loans pledged to the FHLB – San Francisco were $570.4 million at June 30, 2022 as compared to $607.0 million at June 30, 2021. In addition, the Bank pledged investment securities totaling $4.7 million and $1.6 million at June 30, 2022 and 2021, respectively, to collateralize its FHLB – San Francisco advances under the Securities-Backed Credit ("SBC") facility. At June 30, 2022 and 2021, the Bank had $85.0 million and $101.0 million of borrowings from the FHLB – San Francisco with a weighted-average interest rate of 2.20% and 2.19%, respectively. At June 30, 2022, the outstanding borrowings mature between 2022 and 2025 with a weighted average maturity of 16 months.

In addition to the total borrowings mentioned above, the Bank utilized its borrowing facility for letters of credit and credit enhancement for loans previously sold to the FHLB – San Francisco under the Mortgage Partnership Finance ("MPF") program which have a recourse liability. The outstanding letters of credit were $18.0 million and $16.0 million at June 30, 2022 and 2021, respectively; while the outstanding MPF credit enhancement was $2.5 million at both June 30, 2022 and 2021.

As of June 30, 2022 and 2021, the remaining financing availability was $310.3 million and $296.8 million, with remaining available collateral of $310.5 million and $343.1 million, respectively. In addition, as of June 30, 2022 and 2021, the Bank had secured a discount window facility of $153.9 million and $206.1 million at the Federal Reserve Bank of San Francisco, collateralized by investment securities with a fair market value of $163.7 million and $219.2 million, respectively.

At June 30, 2022, the Bank also has a federal funds facility with its correspondent bank for $50.0 million which matures on June 30, 2023. This compares to the federal funds facility with its correspondent bank of $17.0 million with maturity on June 30, 2022. As of June 30, 2022 and 2021, there were no outstanding borrowings under the discount window facility or the federal funds facility with the correspondent bank at both dates.

As a member of the FHLB – San Francisco, the Bank is required to maintain a minimum investment in FHLB – San Francisco stock. The Bank held the required investment at June 30, 2022 and 2021 of $8.2 million with no excess investment at both dates.

During fiscal 2022 and 2021, the Bank purchased FHLB – San Francisco capital stock totaling $84,000 and $185,000, respectively, and did not redeem any of the capital stock during both periods. In fiscal 2022 and 2021, the FHLB – San Francisco distributed cash dividends to the Bank totaling $489,000 and $418,000, respectively.

**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, 2022 and 2021.

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, if any. Profed Mortgage, Inc., which formerly conducted the Bank's mortgage banking activities, and First Service Corporation are currently inactive. At June 30, 2022 and 2021, the Bank's investment in its subsidiaries was $7,000 and $10,000, respectively.

## 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 ("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 OCC, FDIC, FRB and SEC, as appropriate. Any such legislation or regulatory changes in the future could adversely affect the operations and financial condition of the Corporation and the Bank. The Bank cannot predict 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 OCC, as its primary federal regulator, and the FDIC, as its insurer of deposits. The Bank's relationship with its depositors and borrowers is regulated by federal consumer protection laws, which must be complied with by the Bank. 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 OCC 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 OCC to evaluate the Bank's safety and soundness and compliance with various regulatory requirements. This regulatory structure establishes a comprehensive framework of activities in which the Bank may engage and 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 OCC, the FRB, 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 FRB, its primary regulator. The Corporation is also subject to the rules and regulations of the SEC under the federal securities laws. For additional information, see "Savings and Loan Holding Company Regulations" below in this Form 10-K.

Set forth below is a brief description of material regulatory requirements that are applicable to the Bank and the Corporation. The description is limited to certain material aspects of the statutes and regulations addressed, and is not intended to be a complete description of such statutes and regulations and their effects on the Bank and the Corporation.

**Federal Regulation of Savings Institutions**

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

All federal savings institutions must pay assessments to the OCC, 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 OCC annual assessments for the fiscal years ended June 30, 2022 and 2021 were $221,000 and $218,000, respectively.

The Bank's general permissible lending limit for loans to one borrower is equal to the greater of $500,000 or 15% of unimpaired capital and surplus (except for loans fully secured by certain readily marketable collateral, in which case this limit is increased to 25% of unimpaired capital and surplus). The Bank's limits on loans to one borrower or group of related borrowers at June 30, 2022 and 2021 were $19.6 million and $19.4 million, respectively. At June 30, 2022, the Bank's largest lending relationship to a single borrower or group of borrowers consisted of four multi-family loans totaling $5.2 million, which were performing according to their original payment terms.

Effective July 1, 2019, the OCC issued a final rule implementing a section of the Economic Growth, Regulatory Relief and Consumer Protection Act ("EGRRCPA") which permits an eligible federal savings bank with assets of $20.0 billion or less as of December 31, 2017 to elect to operate with the business powers of a national bank, generally subject to the same limitations and restrictions, without converting to a national bank charter. A federal savings bank that makes the so-called "covered savings association" election must divest any activities or investments that are not permitted for a national bank. The Bank had not made such an election as of June 30, 2022.

**Federal Home Loan Bank System.** The Bank is a member of the FHLB – San Francisco, which is one of 11 regional FHLBs, each of which serves as a reserve or central bank for its members within its assigned region. The FHLB - San Francisco 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 Agency. All advances from the FHLB are required to be fully secured by sufficient collateral as determined by the FHLB - San Francisco. In addition, all long-term advances are required to provide funds for residential home financing. At June 30, 2022 and 2021, the Bank had $85.0 million and $101.0 million of outstanding advances, respectively, from the FHLB – San Francisco with a remaining available credit facility of $310.3 million and $296.8 million, respectively, based on 35% of total assets for both dates, which is limited to available collateral. For additional information, see "Business – Deposit Activities and Other Sources of Funds – Borrowings" above in this Form 10-K.

As a member of the FHLB - San Francisco, the Bank is required to purchase and maintain stock in the FHLB – San Francisco. At June 30, 2022 and 2021, the Bank held $8.2 million of FHLB-San Francisco stock at both dates, which were in compliance with this membership requirement. During fiscal 2022 and 2021, the Bank was required to purchase $84,000 and $185,000 of FHLB – San Francisco capital stock, respectively, and the Bank did not redeem any capital stock during both periods. In fiscal 2022 and 2021, the FHLB – San Francisco distributed cash dividends to the Bank totaling $489,000 and $418,000, respectively. There is no guarantee in the future that the FHLB – San Francisco will pay cash dividends or redeem excess capital stock held by its members.

Under federal law, the FHLB - San Francisco is required 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 in the past adversely affected the level of dividends paid by the FHLB - San Francisco and could continue to do so in the future. These contributions also could have an adverse effect on the value of

FHLB - San Francisco stock in the future. A reduction in value of the Bank's FHLB - San Francisco stock may result in a corresponding reduction in the Bank's capital.

**Insurance of Accounts and Regulation by the FDIC.** The Deposit Insurance Fund ("DIF") of the FDIC insures deposits up to $250,000 per account owner as defined by the FDIC, backed by the full faith and credit of the United States. As insurer, the FDIC imposes deposit insurance premiums in the form of assessments to maintain the DIF and is authorized to conduct examinations of and to require reporting by FDIC insured institutions. The Bank's FDIC annual assessments for the fiscal years ended June 30, 2022 and 2021 were $322,000 and $334,000, respectively.

Under the FDIC's risk-based assessment system, institutions deemed less risky of failure pay lower assessments. Assessments for institutions of less than $10 billion of assets are based on financial measures and supervisory ratings derived from statistical modeling estimating the probability of an institution's failure within three years.

The FDIC has authority to increase insurance assessments. Any significant increases would have an adverse effect on the operating expenses and results of operations of the Bank. We cannot predict what assessment rates will be in the future.

Insurance of deposits may be terminated by the FDIC upon a finding that an 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. We do not know of any practice, condition or violation that may lead to termination of the Bank's deposit insurance.

**Qualified Thrift Lender Test.** Like all savings institutions (subject to a narrow exception not applicable to the Bank), the Bank is required to meet a qualified thrift lender ("QTL") test to avoid certain restrictions on its 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, a savings institution may maintain 60% of its assets in those assets specified in Section 7701(a)(19) of the Internal Revenue Code of 1986 ("Code"), as amended. Under either test, such assets primarily consist of residential housing related loans and investments.

Any savings institution that fails to meet the QTL test is subject to certain operating restrictions and may be required to convert to a national bank charter, and a savings and loan holding company of such an institution may become regulated as a bank holding company. As of June 30, 2022 and 2021, the Bank maintained 90.8% and 90.3% of its portfolio assets in qualified thrift investments, respectively, and therefore, met the qualified thrift lender test at both dates. During fiscal 2022 and 2021, the Bank was in compliance with the QTL test as of each month end.

**Capital Requirements.** Federally insured savings institutions, such as the Bank, are required by the OCC to maintain minimum levels of regulatory capital, including a Tier 1 capital to adjusted average assets leverage ratio, a common equity Tier 1 ("CET1") to risk-based assets ratio, a Tier 1 capital to risk-based assets ratio and a total capital to risk-based assets ratio. The capital standards require the maintenance of the following minimum capital ratios: (i) a Tier 1 leverage ratio of 4%, (ii) a CET1 capital ratio of 4.5%; (iii) a Tier 1 capital ratio of 6%; and (iv) a total capital ratio of 8%.

Mortgage servicing rights and deferred tax assets over designated percentages of CET1 are also deducted from capital. In addition, Tier 1 capital includes accumulated other comprehensive income, which includes all unrealized gains and losses on available for sale debt, equity securities and interest-only strips. Because of the Bank's asset size, the Bank was given a one-time option to permanently opt-out of the inclusion of unrealized gains and losses on available for sale debt, equity securities and interest-only strips in its capital calculations. The Bank elected to exercise this option to opt-out in order to reduce the impact of market volatility on its regulatory capital levels.

The Bank also must maintain a capital conservation buffer consisting of additional CET1 capital greater than 2.5% of risk-weighted assets above the required minimum risk-based capital levels in order to avoid limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses. If the Bank does not have the ability to pay dividends to the Corporation, the Corporation may be limited in its ability to pay dividends to its stockholders.

In order to be considered well-capitalized under the prompt corrective action regulations, the Bank must maintain a Tier 1 leverage capital ratio of 5%, a CET1 risk-based capital ratio of 6.5%, a Tier 1 risk-based capital ratio of 8% and a total

risk-based capital ratio of 10% and the Bank must not be subject to any of certain mandates by the OCC requiring it as an individual institution to meet any specified capital level.

EGRRCPA required the federal banking agencies, including the OCC, to establish a “community bank leverage ratio” of between 8% and 10% for institutions with assets of less than $10.0 billion. Institutions with a capital level at or exceeding the ratio and otherwise meeting the specified requirements, and electing the alternative framework, are considered to comply with the applicable regulatory capital requirements, including the risk-based requirements. Final rules issued by the agencies established the community bank leverage ratio at 9% Tier 1 capital to adjusted average assets, effective January 1, 2020. A qualifying institution may opt in and out of the community bank leverage ratio framework on its quarterly Call Report. An institution that temporarily ceases to meet any qualifying criteria is provided with a two quarter grace period to regain compliance. Failure to meet the qualifying criteria within the grace period or maintain a leverage ratio of 8% or greater requires the institution to comply with the generally applicable regulatory capital requirements. The Company did not opt in to the community bank leverage ratio framework for the year ended June 30, 2022.

As of June 30, 2022, the most recent notification from the OCC categorized the Bank as “well capitalized” under the regulatory framework for prompt corrective action. See Note 9 of the Notes to Consolidated Financial Statements included in Item 8 of this Form 10-K.

**Prompt Corrective Action.** An institution is considered adequately capitalized if it meets the minimum capital ratios described above. The OCC is required to take certain supervisory actions against undercapitalized savings institutions, the severity of which depends upon the institution's degree of undercapitalization. Subject to a narrow exception, the OCC is required to appoint a receiver or conservator for a savings institution that is "critically undercapitalized." OCC regulations also require that a capital restoration plan be filed with the OCC 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 OCC also may 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.

**Limitations on Capital Distributions.** OCC regulations impose various restrictions on savings institutions and on 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, without regulatory approval. However, an institution deemed to be in need of more than normal supervision or in troubled condition by the OCC may have its dividend authority restricted by the OCC. If the Bank, however, proposes to make a capital distribution when it does not meet its capital requirements (or will not following the proposed capital distribution) or that will exceed these net income-based limitations, it must obtain the OCC's approval prior to making such distribution. In addition, the Bank must file a prior written notice of a dividend with the FRB. The FRB or the OCC may object to a capital distribution based on safety and soundness concerns. Further restrictions on Bank dividends may apply if the Bank fails the QTL test. In addition, as noted above, if the Bank does not have the required capital conservation buffer, its ability to pay dividends to the Corporation will be limited, which may limit the ability of the Corporation to pay dividends to its stockholders.

**Activities of Savings 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 savings institution controls, the savings institution must file a notice or application with the OCC and in certain circumstances with the FDIC and receive regulatory approval or non-objection. Savings institutions also must conduct the activities of subsidiaries in accordance with existing regulations and orders. With respect to subsidiaries generally, the OCC may determine that investment by a savings institution in, or the activities of, a subsidiary must be restricted or eliminated based on safety and soundness or legal reasons.

**Transactions with Affiliates.** The Bank’s authority to engage in transactions with “affiliates” is limited by Sections 23A and 23B of the Federal Reserve Act as implemented by the FRB’s Regulation W. The term “affiliates” for these purposes generally mean any company that controls or is under common control with an institution except subsidiaries of the

institution. The Corporation and its non-savings institution subsidiaries are 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. 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. FDIC-insured 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. Collateral in specified amounts must be provided by affiliates in order to receive loans from an institution. In addition, these institutions are prohibited from engaging in certain tying arrangements in connection with any extension of credit or the providing of any property or service.

**Community Reinvestment Act.** Under the Community Reinvestment Act of 1977 ("CRA"), 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 CRA requires that the Federal Reserve assess the Bank's record in meeting the credit needs of the communities it serves, especially low and moderate income neighborhoods. Under the CRA, institutions are assigned a rating of "outstanding," "satisfactory," "needs to improve," or "substantial non-compliance." The Bank received a rating of satisfactory when it was last examined for CRA compliance.

**Anti-Money Laundering and Customer Identification.** The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (USA Patriot Act) was signed into law on October 26, 2001. The USA Patriot Act and the Bank Secrecy Act requires financial institutions to develop programs to prevent financial institutions from being used for money laundering and terrorist activities. If such activities are detected, financial institutions are obligated to file suspicious activity reports with the U.S. Treasury's Office of Financial Crimes Enforcement Network. These rules require financial institutions to establish procedures for identifying and verifying the identity of customers seeking to open new financial accounts, and, effective in 2018, the beneficial owners of accounts. Bank regulators are directed to consider a holding company's effectiveness in combating money laundering when reviewing mergers and acquisitions.

**Regulatory and Criminal Enforcement Provisions.** The OCC has primary enforcement responsibility over federally chartered 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 be nearly $2.0 million per day per violation in especially egregious cases. The FDIC has the authority to recommend to the OCC that enforcement action be taken with respect to a particular savings institution. If the OCC does not take action, the FDIC has authority to take such action under certain circumstances. Federal law also establishes criminal penalties for certain violations.

**Standards for Safety and Soundness.** As required by statute, the federal banking agencies have adopted interagency guidelines prescribing standards for safety and soundness. 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 OCC determines that a savings institution fails to meet any standard prescribed by the guidelines, the OCC may require the institution to submit an acceptable plan to achieve compliance with the standard.

**Federal Reserve System.** The FRB requires that all depository institutions maintain reserves on transaction accounts or non-personal time deposits. These reserves may be in the form of cash or non interest-bearing deposits with the regional Federal Reserve Bank. Interest-bearing checking accounts and other types of accounts that permit payments or transfers to third parties fall within the definition of transaction accounts and are subject to Regulation D reserve requirements, as are any non-personal time deposits at a bank. Effective March 26, 2020, due to the COVID-19 pandemic, the FRB reduced reserve requirement ratios to 0%, which eliminated reserve requirements for all depository institutions.

**Environmental Issues Associated with Real Estate Lending.** The Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA"), is a federal statute, generally imposes strict liability on all prior and present "owners and operators" of sites containing hazardous waste. However, Congress acted 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 Regulations.** Federal regulations generally require that the Bank disclose its privacy policy, including identifying with whom it shares a customer’s “non-public personal information,” to customers at the time of establishing the customer relationship and annually thereafter. In addition, the Bank is required to provide its customers with the ability to “opt-out” of having their personal information shared with unaffiliated third parties and not to disclose account numbers or access codes to non-affiliated third parties for marketing purposes. In addition, the California Consumer Privacy Act of 2018 (the "CCPA"), which became effective on January 1, 2020, gives California residents the right to request disclosure of information collected about them, and whether that information has been sold or shared with others, the right to request deletion of personal information (subject to certain exceptions), the right to opt out of the sale of personal information, and the right not to be discriminated against for exercising these rights. The CCPA also created a private right of action with statutory damages for data security breaches, thereby increasing potential liability associated with a data breach, which has triggered a number of class actions against other companies since January 1, 2020. Although the Bank may enjoy several fairly broad exemptions from the CCPA's privacy requirements, those exemptions do not extend to the private right of action for a data security breach. The CCPA, including any amendments thereto or final regulations implemented thereunder, as well as other similar state data privacy laws and regulations, may require the establishment by the Bank of certain regulatory compliance and risk management controls. In addition, on November 18, 2021, the federal banking agencies announced the adoption of a final rule providing for new notification requirements for banking organizations and their service providers for significant cybersecurity incidents. Specifically, the new rule requires a banking organization to notify its primary federal regulator as soon as possible, and no later than 36 hours after, the banking organization determines that a “computer-security incident” rising to the level of a “notification incident” has occurred. Notification is required for incidents that have materially affected or are reasonably likely to materially affect the viability of a banking organization’s operations, its ability to deliver banking products and services, or the stability of the financial sector. Service providers are required under the rule to notify affected banking organization customers as soon as possible when the provider determines that it has experienced a computer-security incident that has materially affected or is reasonably likely to materially affect the banking organization’s customers for four or more hours. Compliance with the new rule is required by May 1, 2022. Non-compliance with federal or similar state privacy and cybersecurity laws and regulations could lead to substantial regulatory imposed fines and penalties, damages from private causes of action and/or reputational harm. The Bank currently has a privacy protection policy in place and believes that such policy is in compliance with the regulations.

**Other Consumer Protection Laws and Regulations.** The Consumer Financial Protection Bureau (“CFPB”) exercises broad regulatory, supervisory and enforcement authority with respect to both new and existing consumer financial protection laws. The Bank is subject to consumer protection regulations issued by the CFPB, but as a financial institution with assets of less than $10.0 billion, the Bank is generally subject to supervision and enforcement by the OCC with respect to compliance with consumer financial protection laws and CFPB regulations.

The Bank is subject to a broad array of federal and state consumer protection laws and regulations that govern almost every aspect of its business relationships with consumers. While not exhaustive, these laws and regulations include the Truth-in-Lending Act, the Truth in Savings Act, the Electronic Fund Transfer Act, the Expedited Funds Availability Act, the Equal Credit Opportunity Act, the Fair Housing Act, the Real Estate Settlement Procedures Act, the Home Mortgage Disclosure Act, the Fair Credit Reporting Act, the Fair Debt Collection Practices Act, the Right to Financial Privacy Act, the Home Ownership and Equity Protection Act, the Consumer Leasing Act, the Fair Credit Billing Act, the Homeowners Protection Act, the Check Clearing for the 21st Century Act, laws governing flood insurance, laws governing consumer protections in connection with the sale of insurance, federal and state laws prohibiting unfair and deceptive business practices and various regulations that implement some or all of the foregoing. These laws and regulations mandate certain disclosure requirements and regulate the manner in which financial institutions must deal with customers when taking deposits, making loans, collecting loans and providing other services. Failure to comply with these laws and regulations

can subject the Bank to various penalties, including but not limited to, enforcement actions, injunctions, fines, civil liability, criminal penalties, punitive damages and the loss of certain contractual rights.

**Savings and Loan Holding Company Regulation**

**General.** The Corporation is a unitary savings and loan holding company, subject to the regulatory oversight of the FRB. Accordingly, the Corporation is required to register and file reports with the FRB and is subject to regulation and examination by the FRB. In addition, the FRB has enforcement authority over the Corporation and its non-savings institution subsidiaries, which also permits the FRB to restrict or prohibit activities that are determined to present a serious risk to the Bank. The FRB has promulgated regulations implementing the "source of strength" doctrine that require holding companies, including savings and loan holding companies, to act as a source of strength to their subsidiary depository institutions by providing capital, liquidity and other support in times of financial stress. These and other FRB policies, as well as the capital conservation buffer may restrict the Corporation's ability to pay dividends.

**Capital Requirements.** For a savings and loan holding company with less than $3.0 billion in consolidated assets that qualifies as a small bank holding company under the FRB's Small Bank Holding Company Policy Statement, such as the Corporation, the capital regulations apply to its savings institution subsidiaries, but not the Corporation, unless the FRB determines otherwise in particular cases. For a description of the capital regulations, see "Federal Regulation of Savings Institutions - Capital Requirements" above.

**Activities Restrictions.** The Gramm-Leach-Bliley Act of 1999 ("GLBA") provides that no company may acquire control of a savings association after May 4, 1999 unless it engages only in the financial activities permitted for financial holding companies under the law or for multiple savings and loan holding companies. The GLBA also specifies, subject to a grandfather provision, that existing savings and loan holding companies may only engage in such activities. The Corporation qualifies for the grandfathering and is therefore not restricted in terms of its activities. Upon any non-supervisory acquisition by the Corporation of another savings association as a separate subsidiary, the Corporation would become a multiple savings and loan holding company and would be limited to those activities permitted by FRB regulation. Multiple savings and loan holding companies may engage in activities permitted for financial holding companies, and certain other activities including acting as a trustee under a deed of trust and real estate investments.

If the Bank fails the QTL test, the Corporation must, within one year of that failure, register as, and become subject to the restrictions applicable to bank holding companies. For additional information, see "Federal Regulation of Savings Institutions – Qualified Thrift Lender Test" in this Form 10-K.

**Mergers and Acquisitions.** The Corporation must obtain approval from the FRB 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 FRB 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 DIF, the convenience and the needs of the community, including performance under the CRA and competitive factors.

The FRB may not approve any acquisition that would result in a multiple savings and loan holding company controlling savings institutions in more than one state, subject to two exceptions; (i) supervisory acquisitions and (ii) the acquisition of a savings institution in another state if the laws of the state of the target savings institution specifically permit such acquisitions. The states vary in the extent to which they permit interstate savings and loan holding company acquisitions.

**Acquisition of the Company.** Any company, except a bank holding company, that acquires control of a savings association or savings and loan holding company becomes a "savings and loan holding company" subject to registration, examination and regulation by the FRB and must obtain the prior approval of the FRB under the Savings and Loan Holding Company Act before obtaining control of a savings association or savings and loan holding company. A bank holding company must obtain the prior approval of the FRB under the Bank Holding Company Act before obtaining control or more than 5% of a class of voting stock of a savings association or savings and loan holding company and remains subject to regulation under the Bank Holding Company Act. The term "company" includes corporations, partnerships, associations, and certain trusts and other entities. "Control" of a savings association or savings and loan holding company is deemed to exist if a company has voting control, directly or indirectly of more than 25% of any class of the savings

association's voting stock or controls in any manner the election of a majority of the directors of the savings association or savings and loan holding company, and may be presumed under other circumstances, including, but not limited to, holding in certain cases 10% or more of a class of voting securities. Control may be direct or indirect and may occur through acting in concert with one or more other persons. In addition, a savings and loan holding company must obtain FRB approval prior to acquiring voting control of more than 5% of any class of voting stock of another savings association or another savings association holding company. A similar provision limiting the acquisition by a bank holding company of 5% or more of a class of voting stock of any company is included in the Bank Holding Company Act.

Accordingly, the prior approval of the FRB would be required:

- before any savings and loan holding company or bank holding company could acquire 5% or more of the common stock of the Corporation; and
- before any other company could acquire 25% or more of the common stock of the Corporation, and may be required for an acquisition of as little as 10% of such stock.

In addition, persons that are not companies are subject to the same or similar definitions of control with respect to savings and loan holding companies and savings associations and requirements for prior regulatory approval by the FRB in the case of control of a savings and loan holding company or by the OCC in the case of control of a savings association not obtained through control of a holding company of such savings association.

**Federal Securities Laws.** Provident Financial Holdings, Inc.'s common stock is registered with the SEC under Section 12(b) of the Securities Exchange Act of 1934, as amended ("Exchange Act"). The Corporation is subject to information, proxy solicitation, insider trading restrictions and other requirements under the Exchange Act.

**Dividends and Stock Repurchases.** The FRB's policy statement on the payment of cash dividends applicable to savings and loan holding companies expresses its view that a savings and loan holding company must maintain an adequate capital position and generally should not pay cash dividends unless the company's net income for the past year is sufficient to fully fund the cash dividends and that the prospective rate of earnings appears consistent with the company's capital needs, asset quality, and overall financial condition. The FRB policy statement also indicates that it would be inappropriate for a company experiencing serious financial problems to borrow funds to pay dividends.

In addition, a savings and loan holding company is required to give the FRB prior written notice of any purchase or redemption of its outstanding equity securities if the gross consideration for the purchase or redemption, when combined with the net consideration paid for all such purchases or redemptions during the preceding twelve months, is equal to 10% or more of its consolidated net worth. The FRB may disapprove such a purchase or redemption if it determines that the proposal would constitute an unsafe or unsound practice or would violate any law, regulation, FRB order or any condition imposed by, or written agreement with, the FRB. As discussed above, the capital conservation buffer requirements may also limit or preclude dividends payable by the Corporation.

**COVID-19 Legislation.** In response to the COVID-19 pandemic, the U.S. Congress and the federal banking agencies, though rulemaking, interpretive guidance and modifications to agency policies and procedures, have taken a series of actions to provide national emergency economic relief measures. As the on-going COVID-19 pandemic evolves, federal and state regulatory authorities continue to issue additional guidance with respect to COVID-19. In addition, it is possible that the U.S. Congress will enact supplementary COVID-19 response legislation. The Corporation continues to assess the impact of the CARES Act and The Consolidated Appropriations Act, 2021 ("CAA 2021"), and other statues, regulations and supervisory guidance related to the COVID-19 pandemic.

## TAXATION

### Federal Taxation

**General.** The Corporation and the Bank report their income on a fiscal year basis using the accrual method of accounting and are 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 is 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, 2022, 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. Currently, the Corporation uses the specific charge-off method to account for bad debt deductions for income tax purposes.

**Distributions**. In the event that the Bank makes "non-dividend distributions" to the Corporation that are considered as made from the reserve for losses on qualifying real estate 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. For additional information, see "Regulation - Federal Regulation of Savings Institutions - Limitations on Capital Distributions" in this Form 10-K for limits on the payment of dividends by the Bank. The Bank does not intend to pay dividends that would result in a recapture of any portion of its tax bad debt reserve. During fiscal 2022, the Bank declared and paid $7.5 million of cash dividends to the Corporation while the Corporation declared and paid $4.1 million of cash dividends to shareholders.

**Tax Effect from Stock-Based Compensation.** During fiscal 2022, there were no restricted common stock distributed to employees but 1,000 shares of restricted stock was distributed to non-employee members of the Corporation's Board of Directors. Also, there were no non-qualified stock options exercised and no incentive stock options were exercised as disqualifying dispositions. As a result, there was no federal tax benefit effect from stock-based compensation in fiscal 2022.

**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. Also, the Internal Revenue Service completed a review of the Corporation's income tax returns for fiscal 2006 and 2007; and the California Franchise Tax Board completed a review of the Corporation's income tax returns for fiscal 2009 and 2010. Fiscal 2017 and fiscal years thereafter remain subject to federal examination, while the California state tax returns for fiscal 2016 and fiscal years thereafter are subject to examination by state taxing authorities.

**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 Corporation). At June 30, 2022, the Corporation's net state tax rate was 7.7%. 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. There was a no state tax benefit effect from stock-based compensation in fiscal 2022, as described above in the section entitled "Federal Taxation."

**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. During fiscal 2022, the Corporation paid franchise taxes of $200,000.

**Employees and Human Capital**

As of June 30, 2022, the Bank had 162 full-time equivalent employees, which consisted of 110 full-time, 69 prime-time and no part-time employees. The employees are not represented by a collective bargaining unit and management believes that its relationship with employees is good.

To facilitate talent attraction and retention, we strive to make the Bank an inclusive, safe and healthy workplace, with opportunities for our employees to grow and develop in their careers, supported by market-based compensation, benefits, health and welfare programs. At June 30, 2022, approximately 73 percent of our workforce was female and 27 percent male, and our average tenure was approximately 8.6 years, a decrease of approximately 15 percent from an average tenure of 10.1 years at June 30, 2021. The ethnicity of our workforce was 40.2% White, 5.2% Asian, 44.2% Hispanic or Latino, 5.2% two or more races, 0.6% American Indian or Alaskan Native, 0% Native Hawaiian or Pacific Islander and 4.6% African American or Black. As part of our compensation philosophy, we offer and maintain market competitive compensation programs for our employees in order to attract and retain superior talent. In addition to strong base wages, additional programs include quarterly or annual bonus opportunities, an Employee Stock Ownership Plan, a Corporation-matched 401(k) Plan, healthcare and insurance benefits, flexible spending accounts, accrued vacation and sick time, family leave, and an employee assistance program.

The success of our business is fundamentally connected to the well-being of our people. Accordingly, we are committed to the health, safety, and wellness of our employees. In support of our commitment, we provide our employees and their families with access to a variety of flexible and convenient health and welfare programs, including benefits that support their physical and mental health by providing tools and resources to help them improve or maintain their health status; and that offer choice where possible so they can customize their benefits to meet their needs and the needs of their families. In response to the COVID-19 pandemic, we implemented significant operating environment changes that we determined were in the best interest of our employees, as well as the communities in which we operate, and which comply with government regulations. This includes implementing additional safety measures for employees completing essential on-site work.

A core value of our talent management approach is to both develop talent from within and supplement with external hires. This approach has yielded loyalty and dedication in our employee base which in turn grows our business, our commitment to our communities, and our customers, while adding new employees and external ideas supports a continuous improvement mindset. We believe that our average tenure of over eight years reflects the engagement of our employees in this talent management philosophy. Turnover for employees as measured by terminated employees to the average total employees was 39.8% in fiscal 2022, up from 34.1% in fiscal 2021.

## EXECUTIVE OFFICERS

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

| Name | Age[1] | Position | |
|---|---|---|---|
| | | Corporation | Bank |
| Craig G. Blunden | 74 | Chairman and Chief Executive Officer | Chairman and Chief Executive Officer |
| Robert "Scott" Ritter | 53 | — | Senior Vice President Single-Family Division |
| Donavon P. Ternes | 62 | President<br>Chief Operating Officer<br>Chief Financial Officer<br>Corporate Secretary | President<br>Chief Operating Officer<br>Chief Financial Officer<br>Corporate Secretary |
| David S. Weiant | 63 | — | Senior Vice President Chief Lending Officer |
| Gwendolyn L. Wertz | 56 | — | Senior Vice President Retail Banking Division |

[1] As of June 30, 2022.

**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 Provident Savings Bank since 1974, currently serving as Chairman and Chief Executive Officer of the Bank and the Corporation, positions he has held since 1991 and 1996, respectively. He served as President of the Bank from 1991 until June 2011 and as President of the Corporation from its formation in 1996 until June 2011. Mr. Blunden also serves on the Board of Directors of the Western Bankers Association.

Robert "Scott" Ritter joined the Bank as Senior Vice President on September 26, 2016 and currently oversees the single-family mortgage operations. Prior to joining the Bank, Mr. Ritter was the Chief Operating Officer at California Mortgage Advisors since November 2011 where he was responsible for overseeing all of California Mortgage Advisors' operations, including product development, underwriting, loan processing and information technology. Prior to that, he held positions with increasing responsibilities at mortgage banking firms such as Green Point Financial and its predecessor Headlands Mortgage Company, among others.

Donavon P. Ternes joined the Bank and the Corporation as Senior Vice President and Chief Financial Officer on November 1, 2000 and was appointed Secretary of the Corporation and the Bank in April 2003. Effective January 1, 2008, Mr. Ternes was appointed Executive Vice President and Chief Operating Officer, while continuing to serve as the Chief Financial Officer and Corporate Secretary of the Bank and the Corporation. Effective June 27, 2011, the Board of Directors of the Bank and the Corporation promoted Mr. Ternes to serve as President of the Bank and the Corporation, while continuing to serve as Chief Operating Officer, Chief Financial Officer and Corporate Secretary. Prior to joining the Bank, Mr. Ternes was the President, Chief Executive Officer, Chief Financial Officer and Director of Mission Savings and Loan Association, located in Riverside, California, holding those positions 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 (June 2006 to June 2007) where he was responsible for commercial lending in the Los Angeles and Inland Empire regions of Southern California.

Gwendolyn L. Wertz joined the Bank as Senior Vice President of Retail Banking on February 3, 2014. Prior to joining the Bank, Ms. Wertz was with CommerceWest Bank where she was responsible for the management of commercial banking activities, treasury management and specialty banking. Prior to that she was with Opportunity Bank, N.A. where she was responsible for the commercial treasury sales and service team. Ms. Wertz has more than 30 years of experience with financial institutions including the last 15 years in senior management roles. Her experience includes depository growth initiatives, operations, compliance and deposit acquisition management.

## Item 1A. Risk Factors

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

### Risks Related to Macroeconomic Conditions

**The COVID-19 pandemic has adversely impacted our ability to conduct business and is expected to adversely impact our financial results and those of our customers. The ultimate impact will depend on future developments, which are highly uncertain and cannot be predicted, including the scope and duration of the pandemic and actions taken by governmental authorities in response to the pandemic.**

The COVID-19 pandemic continues to negatively impact economic and commercial activity and financial markets, both globally and within the United States. In our market areas, stay-at-home orders, travel restrictions and closure of non-essential businesses and similar orders imposed across the United States to restrict the spread of COVID-19 in 2020 resulted in significant business and operational disruptions, including business closures, supply chain disruptions, and significant layoffs and furloughs. Although local jurisdictions have subsequently lifted stay-at-home orders and moved to the opening of businesses, worker shortages, vaccine and testing requirements, new variants of COVID-19 and other health and safety recommendations have impacted the ability of businesses to return to pre-pandemic levels of activity and employment. While the overall economy has improved, disruptions to supply chains continue and significant inflation has been seen in the market. If these effects continue for a prolonged period or result in sustained economic stress or recession, many of the risk factors identified in our Form 10-K could be exacerbated, including the following risks of COVID-19, any of which could have a material, adverse effect on our business, financial condition, liquidity, and results of operations of the Corporation:

- effects on key employees, including operational management personnel and those charged with preparing, monitoring and evaluating our financial reporting and internal controls;
- declines in demand for loans and other banking services and products, as well as a decline in the credit quality of our loan portfolio, owing to the effects of COVID-19 in the markets served by us;
- if the economy is unable to remain open in an efficient manner, loan delinquencies, problem assets, and foreclosures may increase, resulting in increased charges and reduced income;
- collateral for loans, especially real estate, may decline in value, which could cause loan losses to increase;
- our allowance for loan losses may increase if borrowers experience financial difficulties, which will adversely affect net income;
- the net worth and liquidity of loan guarantors may decline, impairing their ability to honor commitments;
- higher operating costs, increased cybersecurity risks and potential loss of productivity as the result of an increase in the number of employees working remotely;
- increasing or protracted volatility in the price of the Company's common stock, which may also impair our goodwill; and
- risks to the capital markets that may impact the performance of our investment securities portfolio, as well as limit our access to capital markets and other funding sources.

Because there have been no comparable recent global pandemics that resulted in similar global impact, we do not yet know the full extent of COVID-19's effects on our business, operations, or the global economy as a whole. Any future development will be highly uncertain and cannot be predicted, including the scope and duration of the pandemic, possible future virus variants, the effectiveness of any work-from-home arrangements, third party providers' ability to support our operations, and any actions taken by governmental authorities and other third parties in response to the pandemic. The uncertain future development of this crisis could materially and adversely affect our business, operations, operating results, financial condition, liquidity or capital levels.

**Our business may be adversely affected by downturns in the national economy and the regional economies on which we depend.**

As of June 30, 2022, approximately 69% of our real estate loans were secured by collateral and made to borrowers located in Southern California with the balance located predominantly throughout the rest of California. A return of recessionary conditions or adverse economic conditions in California may reduce our rate of growth, affect our customers' ability to repay loans and adversely impact our capital, liquidity, financial condition and earnings. General economic conditions, including inflation, unemployment and money supply fluctuations, also may adversely affect our profitability. Weakness in the global economy and global supply chain issues have adversely affected many businesses operating in our markets that are dependent upon international trade and it is not known how changes in tariffs being imposed on international trade may also affect these businesses. Changes in agreements or relationships between the United States and other countries may also affect these businesses.

A deterioration in economic conditions in the market areas we serve as a result of COVID-19 or other factors could result in the following consequences, any of which could have a materially adverse impact on our business, financial condition and results of operations:

- an increase in loan delinquencies, problem assets and foreclosures;
- we may increase our allowance for loan losses;
- the slowing of sales of foreclosed assets;
- a decline in demand for our products and services;
- a decline in the value of collateral for loans may in turn reduce customers' borrowing power, and the value of assets and collateral associated with existing loans;
- the net worth and liquidity of loan guarantors may decline, impairing their ability to honor commitments to us; and
- a decrease in the amount of our low cost or non interest-bearing deposits.

A decline in California economic conditions may have a greater effect on our earnings and capital than on the earnings and capital of larger financial institutions whose real estate loan portfolios are more geographically diverse. Many of the loans in our portfolio are secured by real estate. Deterioration in the real estate markets where collateral for a mortgage loan is located could negatively affect the borrower's ability to repay the loan and the value of the collateral securing the loan. Real estate values are affected by various other factors, including changes in general or regional economic conditions, governmental rules or policies and natural disasters such as fires, droughts and earthquakes. If we are required to liquidate a significant amount of collateral during a period of reduced real estate values, our financial condition and profitability could be adversely affected.

**Risks Related to our Lending Activities**

**Our business may be adversely affected by credit risk associated with residential property.**

At June 30, 2022, $378.2 million, or 40.3% of our loans held for investment, were secured by single-family residential real property. This type of lending is generally sensitive to regional and local economic conditions that may significantly impact the ability of borrowers to meet their loan payment obligations, making loss levels difficult to predict. Jumbo single-family loans which do not conform to secondary market mortgage requirements for our market areas are not immediately saleable in the secondary market and may expose us to increased risk because of their larger balances. Recessionary conditions or declines in the volume of single-family real estate sales and/or the sales prices as well as

elevated unemployment rates may result in higher than expected loan delinquencies or problem assets, and a decline in demand for our products and services. These potential negative events may cause us to incur losses, adversely affect our capital and liquidity and damage our financial condition and business operations.

A few of our residential mortgage loans are secured by liens on mortgage properties in which the borrowers have little or no equity because either we originated a first mortgage with an 80% loan-to-value ratio and a concurrent second mortgage for a combined loan-to-value ratio of up to 100% or because of a decline in home values in our market areas. Residential loans with high loan-to-value ratios will be more sensitive to declining property values than those with lower combined loan-to-value ratios and therefore may experience a higher incidence of default and severity of losses.

**Our multi-family and commercial real estate loans involve higher principal amounts than other loans and repayment of these loans may be dependent on factors outside our control or the control of our borrowers.**

We originate multi-family residential and commercial real estate loans for individuals and businesses for various purposes, which are secured by residential and non-residential properties. At June 30, 2022, we had $555.1 million or 59.2% of total loans held for investment in multi-family and commercial real estate mortgage loans. These loans typically involve higher principal amounts than other types of loans and some of our commercial borrowers have more than one loan outstanding with us. Consequently, an adverse development with respect to one loan or one credit relationship can expose us to a significantly greater risk of loss compared to an adverse development with respect to a single-family residential loan. Repayment on these loans are dependent upon income generated, or expected to be generated, by the property securing the loan in amounts sufficient to cover operating expenses and debt service, which may be adversely affected by changes in the economy or local market conditions. For example, if the cash flow from the borrower's project is reduced as a result of leases not being obtained or renewed, the borrower's ability to repay the loan may be impaired. Multi-family and commercial real estate loans also expose a lender to greater credit risk than loans secured by single-family residential real estate because the collateral securing these loans typically cannot be sold as easily as single-family residential real estate. In addition, many of our multi-family and commercial real estate loans are not fully amortizing and contain large balloon payments upon maturity. Such balloon payments may require the borrower to either sell or refinance the underlying property to make the payment, which may increase the risk of default or non-payment.

A secondary market for many types of multi-family and commercial real estate loans is not readily liquid, so we have less opportunity to mitigate credit risk by selling part or all of our interest in these loans. As a result of these characteristics, if we foreclose on a multi-family or commercial real estate loan, our holding period for the collateral typically is longer than for a single-family residential mortgage loan because there are fewer potential purchasers of the collateral. Accordingly, charge-offs on multi-family and commercial real estate loans may be larger on a per loan basis than those incurred with our single-family residential loan portfolio.

**We occasionally purchase loans in bulk or "pools." We may experience lower yields or losses on loan "pools" because the assumptions we use when purchasing loans in bulk may not prove correct.**

In order to achieve our loan growth objectives and/or improve earnings, we may purchase loans, either individually, through participations, or in bulk. The Corporation purchased $6.4 million of single-family loans and $16.9 million of multi-family and single-family loans to be held for investment in fiscal 2022 and 2021, respectively. When we determine the purchase price we are willing to pay to purchase loans in bulk, management makes certain assumptions about, among other things, how fast borrowers will prepay their loans, the real estate market, our ability to collect loans successfully and, if necessary, our ability to dispose of any real estate that may be acquired through foreclosure. When we purchase loans in bulk, we perform certain due diligence procedures and typically require customary limited indemnities. To the extent that our underlying assumptions prove to be inaccurate or the basis for those assumptions change, the purchase price paid for "pools" of loans may prove to have been excessive, resulting in a lower yield or a loss of some or all of the loan principal. For example, if we purchase pools of loans at a premium and some of the loans are prepaid before we expected we will earn less interest income on the purchase than expected. Our success in growing through purchases of loan "pools" depends on our ability to price loan "pools" properly and on the general economic conditions within the geographic areas where the underlying properties of our loans are located.

Acquiring loans through bulk purchases may involve acquiring loans of a type or in geographic areas where management may not have substantial prior experience. We may be exposed to a greater risk of loss to the extent that bulk purchases contain such loans.

**Our allowance for loan losses may prove to be insufficient to absorb losses in our loan portfolio.**

Lending money is a substantial part of our business and each loan carries a certain risk that it will not be repaid in accordance with its terms or that any underlying collateral will not be sufficient to assure repayment. This risk is affected by, among other things:

- cash flow of the borrower and/or the project being financed;
- the changes and uncertainties as to the future value of the collateral, in the case of a collateralized loan;
- the duration of the loan;
- the character and creditworthiness of a particular borrower; and
- changes in economic and industry conditions.

We maintain an allowance for loan losses, which is a reserve established through a provision (recovery) for loan losses charged (credited) to expense, which we believe is appropriate to provide for probable losses in our loan portfolio. The amount of this allowance is determined by management through periodic reviews and consideration of several factors, including, but not limited to:

- our collectively evaluated allowance, based on our historical default and loss experience and certain macroeconomic factors based on management's expectations of future events;
- our individually evaluated allowance, based on our evaluation of non-performing loans and the underlying fair value of collateral or based on discounted cash flow for restructured loans; and
- an unallocated reserve to provide for other credit losses inherent in our loan portfolio that may not have been contemplated in the other loss factors.

The determination of the appropriate level of the allowance for loan losses inherently involves a high degree of subjectivity and requires us to make various assumptions and judgments about the collectability of our loan portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for the repayment of many of our loans. In determining the amount of the allowance for loan losses, we review our loans, losses, and delinquency experience, and evaluate economic conditions and make significant estimates of current credit risks and future trends, all of which may undergo material changes. If our estimates are incorrect, the allowance for loan losses may not be sufficient to cover losses inherent in our loan portfolio, resulting in the need for additions to our allowance through an increase in the provision for loan losses, which is charged against income. Deterioration in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside of our control, may require an increase in the provision for loan losses and our allowance for loan losses. Further, included in our single-family residential loan portfolio, which comprised 40.3% of our total loan portfolio at June 30, 2022, were $20.3 million or 2.2% of total loans held for investment that were non-traditional single-family loans, which include negative amortization and more than 30-year amortization loans, stated income loans and low FICO score loans, all of which have a higher risk of default and loss than conforming residential mortgage loans. Management also recognizes that significant new growth in loan portfolios, new loan products and the refinancing of existing loans can result in portfolios comprised of unseasoned loans that may not perform in a historical or projected manner and will increase the risk that our allowance may be insufficient to absorb losses without significant additional provisions. Furthermore, the Financial Accounting Standards Board (“FASB”) has adopted a new accounting standard, ASC 326 Current Expected Credit Losses (“CECL”), that will be effective for fiscal years, including interim periods within those fiscal years, beginning after December 15, 2019, however, the FASB board in July 2019 extended the adoption date for certain SEC registrants, including the Corporation, to fiscal years, including interim periods within those fiscal years, beginning after December 15, 2022. This standard will require financial institutions to determine periodic estimates of lifetime expected credit losses on loans, and recognize the expected credit losses as allowances for credit losses at inception of the loan. This will change the current method of calculating allowances for credit losses that are probable, which may require us to increase our allowance for loan losses, and may greatly increase the types of data we would need to collect and review to determine the appropriate level of the allowance for credit losses. The federal banking regulators (the FRB,

the OCC and the FDIC) have adopted regulations that apply to smaller reporting companies, such as the Corporation, beginning in 2023. In addition, a decline in national and local economic conditions, including as a result of the COVID-19 pandemic, and results of the bank regulatory agencies periodic review of our allowance for loan losses or other factors may require an increase in the provision for possible loan losses or the recognition of further loan charge-offs. If charge-offs in future periods exceed the allowance for loan losses, we may need additional provisions to increase the allowance for loan losses to appropriate levels. Any increases in the provision for loan losses will result in a decrease in net income and may have a material adverse effect on our financial condition, results of operations and capital.

**If our non-performing assets increase, our earnings will be adversely affected.**

At June 30, 2022 and 2021, our non-performing assets were $1.4 million and $8.6 million, or 0.12% and 0.73% of total assets, respectively. Our non-performing assets adversely affect our net income in various ways:

- we record interest income only on a cash basis for non-performing loans except for non-performing loans under the cost recovery method where interest is applied to the principal of the loan as a recovery of the charge-offs, if any, and we do not record interest income for REO;
- we must provide for probable loan losses through a current period charge to the provision for loan losses;
- non-interest expense increases when we write down the value of properties in our REO portfolio to reflect changing market values or recognize other-than-temporary impairment ("OTTI") on non-performing investment securities;
- there are legal fees associated with the resolution of problem assets, as well as carrying costs, such as taxes, insurance, and maintenance fees related to our REO; and
- the resolution of non-performing assets requires the active involvement of management, which can divert them from more profitable activity.

If additional borrowers become delinquent and do not pay their loans and we are unable to successfully manage our non-performing assets, our losses and troubled assets could increase significantly, which could have a material adverse effect on our financial condition and results of operations.

**If our investments in real estate are not properly valued or sufficiently reserved to cover actual losses, or if we are required to increase our valuation reserves, our earnings could be reduced.**

We obtain updated valuations in the form of appraisals and broker price opinions when a loan has been foreclosed upon and the property is taken in as REO and at certain other times during the REO holding period. Our net book value ("NBV") in the loan at the time of foreclosure and thereafter is compared to the updated market value of the foreclosed property less estimated selling costs ("fair value"). A charge-off is recorded for any excess in the asset's NBV over its fair value. If our valuation process is incorrect, the fair value of the investments in real estate may not be sufficient to recover our NBV in such assets, resulting in the need for additional charge-offs. Additional material charge-offs to our investments in real estate could have a material adverse effect on our financial condition and results of operations.

In addition, bank regulators periodically review our REO and may require us to recognize further charge-offs. Any increase in our charge-offs, as required by the bank regulators, may have a material adverse effect on our financial condition and results of operations.

**Risks Related to Market and Interest Rate Changes**

**Fluctuating interest rates can adversely affect our profitability.**

Our earnings and cash flows are largely dependent upon our net interest income. Interest rates are highly sensitive to many factors that are beyond our control, including general economic conditions and policies of various governmental and regulatory agencies and, in particular, the FRB. In March 2020, in response to the COVID-19 pandemic, the Federal Open Market Committee ("FOMC") of the FRB reduced the targeted federal funds rate 150 basis points to a range of 0.00% to 0.25%. The reduction in the targeted federal funds rate resulted in a decline in overall interest rates which has negatively impacted our net interest income. However, the FOMC has recently begun to increase rates. In March 2022, in response to inflation, the FOMC commenced increasing the target range for the federal funds rate by implementing a 25 basis point

increase. During the second quarter of 2022, the FOMC increased the target range for the federal funds rate by an additional 125 basis points to a range of 1.50% to 1.75% and in July 2022, the FOMC enacted a second consecutive 75 basis point interest rate increase as it seeks to control inflation without creating a recession.

The FOMC has indicated further increases are to be expected this year. If the FOMC further increases the targeted federal funds rates, overall interest rates will likely rise, which will positively impact our net interest income but may negatively impact both the housing market by reducing refinancing activity and new home purchases and the U.S. economy. In addition, deflationary pressures, while possibly lowering our operational costs, could have a significant negative effect on our borrowers, especially our business borrowers, and the values of collateral securing loans which could negatively affect our financial performance.

We principally manage interest rate risk by managing our volume and mix of our earning assets and funding liabilities. Changes in monetary policy, including changes in interest rates, could influence not only the interest we receive on loans and investments and the amount of interest we pay on deposits and borrowings, but these changes could also affect (i) our ability to originate and purchase loans, (ii) the fair value of our financial assets and liabilities, which could negatively impact shareholders' equity, and our ability to realize gains from the sale of such assets; (iii) our ability to obtain and retain deposits in competition with other available investment alternatives; (iv) the ability of our borrowers to repay adjustable or variable rate loans; and (v) the average duration of our investment securities portfolio and other interest-earning assets. If the interest rates paid on deposits and other borrowings increase at a faster rate than the interest rates received on loans and other investments, our net interest income, and therefore earnings, could be adversely affected. Earnings could also be adversely affected if the interest rates received on loans and other investments decline more rapidly than the interest rates paid on deposits and other borrowings. In a changing interest rate environment, we may not be able to manage this risk effectively. If we are unable to manage interest rate risk effectively, our business, financial condition and results of operations could be materially affected.

A sustained increase in market interest rates could adversely affect our earnings. As is the case with many financial institutions, our emphasis on increasing the development of core deposits, those deposits bearing no or a relatively low rate of interest with no stated maturity date, has resulted in our having a significant amount of these deposits bearing a relatively low rate of interest and having a shorter duration than our assets. At June 30, 2022, we had $78.6 million in time deposits that mature within one year, $125.1 million in non interest-bearing checking accounts and $709.3 million in interest-bearing checking, savings and money market accounts. We would incur a higher cost of funds to retain these deposits in a rising interest rate environment. Earnings could also be adversely affected if the interest rates received on loans and other investments fall more quickly than the interest rates paid on deposits and other borrowings. In addition, most of our mortgage loans have adjustable interest rates. As a result, these loans may experience a higher rate of default in a rising interest rate environment.

Changes in interest rates also affect the value of our interest-earning assets and, in particular, our securities portfolio. Generally, the fair value of fixed-rate securities fluctuates inversely with changes in interest rates. Unrealized gains and losses on securities available for sale are reported as a separate component of stockholders’ equity, net of tax. Decreases in the fair value of securities available for sale resulting from increases in interest rates could have an adverse effect on stockholders’ equity.

Although management believes it has implemented effective asset and liability management strategies to reduce the potential effects of changes in interest rates on our results of operations, any substantial, unexpected or prolonged change in market interest rates could have a material adverse effect on our financial condition and results of operations. Also, our interest rate risk modeling techniques and assumptions likely may not fully predict or capture the impact of actual interest rate changes on our consolidated balance sheet or projected operating results. For additional information concerning the effect of interest rates on our loan portfolio, see Item 7A, “Quantitative and Qualitative Disclosures about Market Risk” of this Form 10-K.

**Certain hedging strategies that we may use to manage investment in mortgage servicing rights, mortgage loans held for sale and interest rate lock commitments may be ineffective to offset any adverse changes in the fair value of these assets due to changes in interest rates and market liquidity.**

We may use derivative instruments to economically hedge mortgage servicing rights, mortgage loans held for sale and interest rate lock commitments to offset changes in fair value resulting from changing interest rate environments. Our hedging strategies are susceptible to prepayment risk, basis risk, market volatility and changes in the shape of the yield curve, among other factors. In addition, hedging strategies rely on assumptions and projections regarding assets and general market factors. If these assumptions and projections prove to be incorrect or our hedging strategies do not adequately mitigate the impact of changes in interest rates, we may incur losses that would adversely impact earnings.

**We may incur losses on our securities portfolio as a result of changes in interest rates.**

Factors beyond our control can significantly influence the fair value of securities in our portfolio and can cause potential adverse changes to the fair value of these securities. These factors include, but are not limited to, rating agency actions in respect of the securities, defaults by, or other adverse events affecting, the issuer or with respect to the underlying securities, and changes in market interest rates and continued instability in the capital markets. Any of these factors, among others, could cause other-than-temporary impairments and realized and/or unrealized losses in future periods and declines in other comprehensive income, which could have a material effect on our business, financial condition and results of operations. The process for determining whether impairment of a security is other-than-temporary usually requires complex, subjective judgments about the future financial performance and liquidity of the issuer and any collateral underlying the security to assess the probability of receiving all contractual principal and interest payments on the security. There can be no assurance that the declines in market value will not result in other-than-temporary impairments of these assets, and would lead to accounting charges that could have a material adverse effect on our net income and capital levels. For the year ended June 30, 2022, we did not incur any other-than-temporary impairments on our securities portfolio.

**Risks Related to Regulatory, Legal and Compliance Matters**

**Non-compliance with the USA Patriot Act, Bank Secrecy Act, or other laws and regulations could result in fines or sanctions and limit our ability to get regulatory approval of acquisitions.**

The USA Patriot and Bank Secrecy Acts require financial institutions to develop programs to prevent financial institutions from being used for money laundering and terrorist activities. If such activities are detected, financial institutions are obligated to file suspicious activity reports with the U.S. Treasury's Office of Financial Crimes Enforcement Network. These rules require financial institutions to establish procedures for identifying and verifying the identity of customers seeking to open new financial accounts. Failure to comply with these regulations could result in fines or sanctions and limit our ability to get regulatory approval of acquisitions. Several banking institutions have received large fines for non-compliance with these laws and regulations. While we have developed policies and procedures designed to assist in compliance with these laws and regulations, no assurance can be given that these policies and procedures will be effective in preventing violations of these laws and regulations.

**If our enterprise risk management framework is not effective at mitigating risk and loss to us, we could suffer unexpected losses and our results of operations could be materially adversely affected.**

Our enterprise risk management framework seeks to achieve an appropriate balance between risk and return, which is critical to optimizing stockholder value. We have established processes and procedures intended to identify, measure, monitor, report, analyze, and control the types of risk to which we are subject to. These risks include, among others, liquidity, credit, market, interest rate, operational, legal and compliance, and reputational risk. Our framework also includes financial or other modeling methodologies that involve management assumptions and judgment. We also maintain a compliance program to identify, measure, assess, and report on our adherence to applicable laws, policies, and procedures. While we assess and improve these programs on an ongoing basis, there can be no assurance that our risk management or compliance programs, along with other related controls, will effectively mitigate risk under all circumstances, or that it will adequately mitigate any risk or loss to us. However, as with any risk management framework, there are inherent limitations to our risk management strategies as they may exist, or develop in the future, including risks that we have not appropriately anticipated or identified. If our risk management framework proves ineffective, we could

suffer unexpected losses and our business, financial condition, results of operations or growth prospects could be materially adversely affected. We may also be subject to potentially adverse regulatory consequences.

**Our litigation related costs may increase.**

The Bank is subject to a variety of legal proceedings that have arisen in the ordinary course of the Bank's business. The Bank's involvement in litigation may increase significantly. The expenses of some legal proceedings will adversely affect the Bank's results of operations until they are resolved. Further, there can be no assurance that the Bank's loan workout and other activities will not expose the Bank to additional legal actions, including lender liability or environmental claims.

**Risks Related to Cybersecurity, Data and Fraud**

**We are subject to certain risks in connection with our use of technology.**

***Our security measures may not be sufficient to mitigate the risk of a cyber attack.*** Communications and information systems are essential to the conduct of our business, as we use such systems to manage our customer relationships, our general ledger and virtually all other aspects of our business. Our operations rely on the secure processing, storage, and transmission of confidential and other information in our computer systems and networks. Although we take protective measures and endeavor to modify them as circumstances warrant, the security of our computer systems, software, and networks may be vulnerable to breaches, fraudulent or unauthorized access, denial or degradation of service attacks, misuse, computer viruses, malware or other malicious code and cyber-attacks that could have a security impact. If one or more of these events occur, this could jeopardize our or our customers' confidential and other information processed and stored in, and transmitted through, our computer systems and networks, or otherwise cause interruptions or malfunctions in our operations or the operations of our customers or counterparties. We may be required to expend significant additional resources to modify our protective measures or to investigate and remediate vulnerabilities or other exposures, and we may be subject to litigation and financial losses that are either not insured against or not fully covered through any insurance maintained by us. We could also suffer significant reputational damage.

Further, our cardholders use their debit and credit cards to make purchases from third parties or through third party processing services. As such, we are subject to risk from data breaches of such third party's information systems or their payment processors. Such a data security breach could compromise our account information. The payment methods that we offer also subject us to potential fraud and theft by criminals, who are becoming increasingly more sophisticated, seeking to obtain unauthorized access to or exploit weaknesses that may exist in the payment systems. If we fail to comply with applicable rules or requirements for the payment methods we accept, or if payment-related data is compromised due to a breach or misuse of data, we may be liable for losses associated with reimbursing our customers for such fraudulent transactions on customers' card accounts, as well as costs incurred by payment card issuing banks and other third parties or may be subject to fines and higher transaction fees, or our ability to accept or facilitate certain types of payments may be impaired. We may also incur other costs related to data security breaches, such as replacing cards associated with compromised card accounts or credit monitoring services. In addition, our customers could lose confidence in certain payment types, which may result in a shift to other payment types or potential changes to our payment systems that may result in higher costs.

Breaches of information security also may occur through intentional or unintentional acts by those having access to our systems or our customers' or counterparties' confidential information, including employees. The Corporation is continuously working to install new and upgrade its existing information technology systems and provide employee awareness training around ransomware, phishing, malware, and other cyber risks to further protect the Corporation against cyber risks and security breaches.

There continues to be a rise in electronic fraudulent activity, security breaches and cyber-attacks within the financial services industry, especially in the commercial banking sector due to cyber criminals targeting commercial bank accounts. We are regularly the target of attempted cyber and other security threats and must continuously monitor and develop our information technology networks and infrastructure to prevent, detect, address and mitigate the risk of unauthorized access, misuse, computer viruses and other events that could have a security impact. Insider or employee cyber and security threats are increasingly a concern for companies, including ours. We are not aware that we have experienced any material misappropriation, loss or other unauthorized disclosure of confidential or personally identifiable information as a result of

a cyber-security breach or other act, however, some of our customers may have been affected by these breaches, which could increase their risks of identity theft, debit and card fraud and other fraudulent activity that could involve their accounts with us.

***Security breaches in our internet banking activities could further expose us to possible liability and damage our reputation.*** Increases in criminal activity levels and sophistication, advances in computer capabilities, new discoveries, vulnerabilities in third party technologies (including browsers and operating systems) or other developments could result in a compromise or breach of the technology, processes and controls that we use to prevent fraudulent transactions and to protect data about us, our customers and underlying transactions. Any compromise of our security could deter customers from using our internet banking services that involve the transmission of confidential information. We rely on standard internet security systems to provide the security and authentication necessary to effect secure transmission of data. Although we have developed and continue to invest in systems and processes that are designed to detect and prevent security breaches and cyber-attacks and periodically test our security, these precautions may not protect our systems from compromises or breaches of our security measures, and could result in losses to us or our customers, our loss of business and/or customers, damage to our reputation, the incurrence of additional expenses, disruption to our business, our inability to grow our online services or other businesses, additional regulatory scrutiny or penalties, or our exposure to civil litigation and possible financial liability, any of which could have a material adverse effect on our business, financial condition and results of operations.

***Our security measures may not protect us from system failures or interruptions***. While we have established policies and procedures to prevent or limit the impact of systems failures and interruptions, there can be no assurance that such events will not occur or that they will be adequately addressed if they do. In addition, we outsource certain aspects of our data processing and other operational functions to certain third-party providers. While the Corporation selects third-party vendors carefully, it does not control their actions. If our third-party providers encounter difficulties including those resulting from breakdowns or other disruptions in communication services provided by a vendor, failure of a vendor to handle current or higher transaction volumes, cyber-attacks and security breaches or if we otherwise have difficulty in communicating with them, our ability to adequately process and account for transactions could be affected, and our ability to deliver products and services to our customers and otherwise conduct business operations could be adversely impacted. Replacing these third-party vendors could also entail significant delay and expense. Threats to information security also exist in the processing of customer information through various other vendors and their personnel. We cannot assure that such breaches, failures or interruptions will not occur or, if they do occur, that they will be adequately addressed by us or the third parties on which we rely. We may not be insured against all types of losses as a result of third party failures and insurance coverage may be inadequate to cover all losses resulting from breaches, system failures or other disruptions. If any of our third-party service providers experience financial, operational or technological difficulties, or if there is any other disruption in our relationships with them, we may be required to identify alternative sources of such services, and we cannot assure that we could negotiate terms that are as favorable to us, or could obtain services with similar functionality as found in our existing systems without the need to expend substantial resources, if at all. Further, the occurrence of any systems failure or interruption could damage our reputation and result in a loss of customers and business, could subject us to additional regulatory scrutiny, or could expose us to legal liability. Any of these occurrences could have a material adverse effect on our financial condition and results of operations.

The board of directors oversees the risk management process, including the risk of cybersecurity, and engages with management on cybersecurity issues.

**Our business may be adversely affected by an increasing prevalence of fraud and other financial crimes.**

As a bank, we are susceptible to fraudulent activity that may be committed against us or our customers, which may result in financial losses or increased costs to us or our customers, disclosure or misuse of our information or our customer's information, misappropriation of assets, privacy breaches against our customers, litigation or damage to our reputation. Such fraudulent activity may take many forms, including check fraud, electronic fraud, wire fraud, phishing, social engineering and other dishonest acts. Nationally, reported incidents of fraud and other financial crimes have increased. We have also experienced losses due to apparent fraud and other financial crimes. While we have policies and procedures designed to prevent such losses, there can be no assurance that such losses will not occur.

## Risks Related to our Business and Industry Generally

**We will be required to transition from the use of the LIBOR interest rate index in the future.**

A majority of our loans are indexed to LIBOR to calculate the loan interest rate. The continued availability of the LIBOR index is not guaranteed after 2022 and by June 2023, LIBOR is scheduled to be eliminated entirely. We cannot predict whether and to what extent banks will continue to provide LIBOR submissions to the administrator of LIBOR or whether any additional reforms to LIBOR may be enacted.

At this time, no consensus exists as to what rate or rates may become acceptable alternatives to LIBOR (with the exception of overnight repurchase agreements, which are expected to be based on SOFR). Uncertainty as to the nature of alternative reference rates and as to potential changes or other reforms to LIBOR may adversely affect LIBOR rates and the value of LIBOR-based loans, and to a lesser extent securities in our portfolio, and may impact the availability and cost of hedging instruments and borrowings. The language in our LIBOR-based contracts and financial instruments has developed over time and may have various events that trigger when a successor rate to the designated rate would be selected. If a trigger is satisfied, contracts and financial instruments may give the calculation agent discretion over the substitute index or indices for the calculation of interest rates to be selected. The implementation of a substitute index or indices for the calculation of interest rates under our loan agreements with our borrowers may result in our incurring significant expenses in effecting the transition, may result in reduced loan balances if borrowers do not accept the substitute index or indices, and may result in disputes or litigation with customers over the appropriateness or comparability to LIBOR of the substitute index or indices, which could have an adverse effect on our results of operations. We began to use SOFR and other indices as a substitute for LIBOR for new originations in fiscal 2022. As of June 30, 2022, there were $547.2 million of loans in our portfolio tied to LIBOR.

**Ineffective liquidity management could adversely affect our financial results and condition.**

Liquidity is essential to our business. We rely on a number of different sources in order to meet our potential liquidity demands. Our primary sources of liquidity are increases in deposit accounts, cash flows from loan payments and our securities portfolio. Borrowings also provide us with a source of funds to meet liquidity demands. An inability to raise funds through deposits, borrowings or other sources could have a substantial negative effect on our liquidity. Our access to funding sources in amounts adequate to finance our activities or on terms which are acceptable to us could be impaired by factors that affect us specifically, or the financial services industry or economy in general. Factors that could detrimentally impact our access to liquidity sources include a decrease in the level of our business activity as a result of a downturn in the California markets in which our loans are concentrated, negative operating results, or adverse regulatory action against us. Our ability to borrow could also be impaired by factors that are not specific to us, such as a disruption in the financial markets or negative views and expectations about the prospects for the financial services industry or deterioration in credit markets. Any decline in available funding in amounts adequate to finance our activities or on terms which are acceptable could adversely impact our ability to originate loans, invest in securities, meet our expenses, or fulfill obligations such as repaying our borrowings or meeting deposit withdrawal demands, any of which could, in turn, have a material adverse effect on our business, financial condition and results of operations. See “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources” of this Form 10-K.

**We rely on other companies to provide key components of our business infrastructure.**

We rely on numerous external vendors to provide us with products and services necessary to maintain our day-to-day operations. Accordingly, our operations are exposed to risk that these vendors will not perform in accordance with the contracted arrangements under service level agreements. The failure of an external vendor to perform in accordance with the contracted arrangements under service level agreements because of changes in the vendor’s organizational structure, financial condition, support for existing products and services, strategic focus or for any other reason, could be disruptive to our operations, which in turn could have a material negative impact on our financial condition and results of operations. We also could be adversely affected to the extent such an agreement is not renewed by a third party vendor or is renewed on terms less favorable to us. Additionally, the bank regulatory agencies expect financial institutions to be responsible for all aspects of our vendors’ performance, including aspects which they delegate to third parties. Disruptions or failures in the physical infrastructure or operating systems that support our business and customers, or cyber-attacks or security breaches of the networks, systems or devices that our customers use to access our products and services could result in

customer attrition, regulatory fines, penalties or intervention, reputational damage, reimbursement or other compensation costs, and/or additional compliance costs, any of which could materially adversely affect our results of operations or financial condition.

**Managing reputational risk is important to attracting and maintaining customers, investors and employees.**

Threats to our reputation can come from many sources, including adverse sentiment about financial institutions generally, unethical practices, employee misconduct, failure to deliver minimum standards of service or quality, compliance deficiencies, and questionable or fraudulent activities of our customers. We have policies and procedures in place to protect our reputation and promote ethical conduct, but these policies and procedures may not be fully effective. Negative publicity regarding our business, employees, or customers, with or without merit, may result in the loss of customers, investors and employees, costly litigation, a decline in revenues and increased governmental regulation.

**Our growth or future losses may require us to raise additional capital in the future, but that capital may not be available when it is needed or the cost of that capital may be very high.**

We are required by federal regulatory authorities to maintain adequate levels of capital to support our operations. Our ability to raise additional capital, if needed, will depend on conditions in the capital markets at that time, which are outside of our control, and on our financial condition and performance. Accordingly, we cannot make assurances that we will be able to raise additional capital if needed on terms that are acceptable to us, or at all. If we cannot raise additional capital when needed, our ability to further expand our operations could be materially impaired and our financial condition and liquidity could be materially and adversely affected. In addition, any additional capital we obtain may result in the dilution of the interests of existing holders of our common stock. Further, if we are unable to raise additional capital when required by our bank regulators, we may be subject to adverse regulatory action.

**The financial services market is undergoing rapid technological changes, and if we are unable to stay current with those changes, we will not be able to effectively compete.**

The financial services market is undergoing rapid changes with frequent introductions of new technology-driven products and services. Our future success will depend, in part, on our ability to keep pace with the technological changes and to use technology to satisfy and grow customer demand for our products and services and to create additional efficiencies in our operations. We expect that we will need to make substantial investments in our technology and information systems to compete effectively and to stay current with technological changes. Some of our competitors have substantially greater resources to invest in technological improvements and will be able to invest more heavily in developing and adopting new technologies, which may put us at a competitive disadvantage. We may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to our customers. As a result, our ability to effectively compete to retain or acquire new business may be impaired, and our business, financial condition or results of operations may be adversely affected.

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

Since our geographic concentration is in California, we are subject to earthquakes, fires, mudslides, droughts and other natural disasters. A major earthquake or other natural disaster may disrupt our business operations for an indefinite period of time and could result in material losses, although we have not experienced any losses in many years as a result of earthquake damage or other natural disaster. Although we are in an earthquake prone area, we and other lenders in the market area may not require earthquake insurance as a condition of making a loan. In addition to possibly sustaining damage to our own properties, if there is a major earthquake, fire, mudslide, or other natural disaster, we face the risk that many of our borrowers may experience uninsured property losses, or sustained job interruption and/or loss which may materially impair their ability to meet the terms of their loan obligations.

**Any breach of representations and warranties made by us to our loan purchasers or credit default on our loan sales may require us to repurchase or substitute such loans we have sold.**

We have previously engaged in bulk loan sales pursuant to agreements that generally require us to repurchase or substitute loans in the event of a breach of a representation or warranty made by us to the loan purchaser. Any misrepresentation during the mortgage loan origination process or, in some cases, upon any fraud or early payment default on such mortgage loans, may require us to repurchase or substitute loans. Any claims asserted against us in the future by one of our loan purchasers may result in liabilities or legal expenses that could have a material adverse effect on our results of operations and financial condition. During fiscal 2022 and 2021, the Bank did not repurchase any loans. Additionally, the Bank did not have any claims or settlements for previously sold loans during fiscal 2022, as compared to fiscal 2021 when the Bank settled a repurchase claim for previously sold loans for $175,000.

**Our assets as of June 30, 2022 include a deferred tax asset, the full value of which we may not be able to realize.**

We recognize deferred tax assets and liabilities based on differences between the financial statement carrying amounts and the tax basis of assets and liabilities. At June 30, 2022, the net deferred tax asset was approximately $1.4 million, a decrease from $2.5 million at the prior fiscal year end. The net deferred tax asset results primarily from (1) deferred loan costs, (2) provisions for loan losses recorded for financial reporting purposes, which were in the past significantly larger than net loan charge-offs deducted for tax reporting proposes and (3) deferred compensation, among others.

We regularly review our deferred tax assets for recoverability based on our history of earnings, expectations for future earnings and expected timing of reversals of temporary differences. Realization of deferred tax assets ultimately depends on the existence of sufficient taxable income, including taxable income in prior carryback years, as well as future taxable income. We believe the recorded net deferred tax asset at June 30, 2022 is fully realizable based on our expected future earnings; however, expected future earnings may not be realized, which could impact our deferred tax assets.

**Climate change may materially adversely affect our business and results of operations.**

Concerns over the long-term impacts of climate change have led and will continue to lead to governmental efforts around the world to mitigate those impacts. Consumers and businesses also may change their behavior on their own as a result of these concerns. We and our customers will need to respond to new laws and regulations as well as consumer and business preferences resulting from climate change concerns. We and our customers may face cost increases, asset value reductions and operating process changes. The impact on our customers will likely vary depending on their specific attributes, including reliance on or role in carbon intensive activities. For example, residential or commercial construction projects may be impacted as builders may incur additional expenses to comply with possible standards of increasing green space or reducing emissions. Possible requirements may lengthen the required time to complete construction projects. If requirements are not satisfied, conversion of the loan from the construction phase to the permanent phase may be significantly delayed. Among the impacts to us could be a drop in demand for our products and services, particularly in certain industry sectors as well as possibly having a negative impact on our cash flow. In addition, we could face reductions in creditworthiness on the part of some customers or in the value of assets securing loans. Our efforts to take these risks into account in making lending and other decisions, including by increasing our business with climate-friendly companies, may not be effective in protecting us from the negative impact of new laws and regulations or changes in consumer or business behavior.

**We rely on dividends from the Bank for substantially all of our revenue at the holding company level.**

We are an entity separate and distinct from our principal subsidiary, the Bank, and derive substantially all of our revenue at the holding company level in the form of dividends from that subsidiary. Accordingly, we are, and will continue to be, dependent upon dividends from the Bank to pay the principal of and interest on our indebtedness, to satisfy our other cash needs and to pay dividends on our common stock. The Bank's ability to pay dividends is subject to its ability to earn net income and to meet certain regulatory requirements. In the event the Bank is unable to pay dividends to us, we may not be able to pay dividends on our common stock. Also, our right to participate in a distribution of assets upon a subsidiary's liquidation or reorganization is subject to the prior claims of the subsidiary's creditors.

**Item 1B. Unresolved Staff Comments**

None.

**Item 2. Properties**

At June 30, 2022, the net book value of the Bank's property (including land and buildings) and its furniture, fixtures and equipment was $6.9 million. The Bank's home office is located in Riverside, California. Including the home office, the Bank has 13 retail banking offices, 12 of which are located in Riverside County in the cities of Riverside (5), Moreno Valley, Hemet, Sun City, Rancho Mirage, Corona, Temecula and Blythe. One office is located in Redlands, San Bernardino County, California. The Bank owns six of the retail banking offices and has seven leased retail banking offices. The leases expire from 2023 to 2026. In the opinion of management, all properties are adequately covered by insurance, are in a good state of repair and are appropriately designed for their present and future use.

**Item 3. Legal Proceedings**

Periodically, there have been various claims and lawsuits involving the Corporation, such as claims to enforce liens, condemnation proceedings on properties in which the Corporation holds security interests, claims involving the making and servicing of real property loans, employment matters and other issues in the ordinary course of and incidental to the Corporation's business. These proceedings and the associated legal claims are often contested and the outcome of individual matters is not always predictable. Additionally, in some actions, it is difficult to assess potential exposure because the Corporation is still in the early stages of the litigation. The Corporation is not a party to any pending legal proceedings that it believes would have a material adverse effect on its financial condition, operations or cash flows.

**Item 4. Mine Safety Disclosures**

Not applicable.

# PART II

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

The common stock of Provident Financial Holdings, Inc. is listed on the NASDAQ Global Select Market under the symbol PROV. At June 30, 2022, there were 7,285,184 shares of common stock issued and outstanding held by 429 shareholders of record, and there were approximately 1,813 persons or entities that hold stock in nominee or "street name" accounts with brokers.

The Corporation's cash dividend payout policy is reviewed regularly by management and the Board of Directors. The Board of Directors has declared quarterly cash dividends on the Corporation's common stock for consecutive quarters since September 30, 2002. On July 28, 2022, the Corporation declared a quarterly cash dividend of $0.14 per share with a record date August 18, 2022 and the dividend is payable on September 8, 2022. Future declarations or payments of dividends will be subject to the consideration of the Corporation's Board of Directors, which will take into account the Corporation's financial condition, results of operations, tax considerations, capital requirements, industry standards, legal restrictions, economic conditions and other factors, including the regulatory restrictions which affect the payment of dividends by the Bank to the Corporation. Under Delaware law, dividends may be paid either out of surplus or, if there is no surplus, out of net profits for the current fiscal year and/or the preceding fiscal year in which the dividend is declared.

The Corporation repurchases its common stock consistent with Board-approved stock repurchase plans. During the quarter ended June 30, 2022, the Corporation purchased 35,488 shares of the Corporation's common stock with an average cost

of $15.90 per share pursuant to its April 2020 stock repurchase that expired on April 27, 2022. For the fiscal year ended June 30, 2022, the Corporation purchased 257,285 shares of the Corporation's common stock at an average cost of $16.73 per share pursuant to its April 2020 stock repurchase plan. The Board of Directors approved a new stock repurchase plan on April 28, 2022 which authorized 364,259 shares for repurchase, all of which remain available for purchase at June 30, 2022. The repurchase plan terminates on April 28, 2023, unless completed sooner. The timing, volume and price of purchases are made at our discretion, and are contingent upon our overall financial condition, as well as general market and other conditions. The stock repurchase program does not obligate the Corporation to acquire any specific number of shares in any period, and may be expanded, extended, modified or discontinued at any time.

During the quarter ended June 30, 2022, there were no stock options exercised and no restricted common stock vested, while 2,000 shares of restricted stock were forfeited. For the fiscal year ended June 30, 2022, there were no stock options exercised, while 1,000 shares of restricted common stock were awarded and vested and 6,500 shares of restricted stock were forfeited. During the quarter and fiscal year ended June 30, 2022, the Corporation did not sell any securities that were not registered under the Securities Act of 1933.

The table below sets forth information regarding the Corporation's purchases of its common stock during the fourth quarter of fiscal 2022.

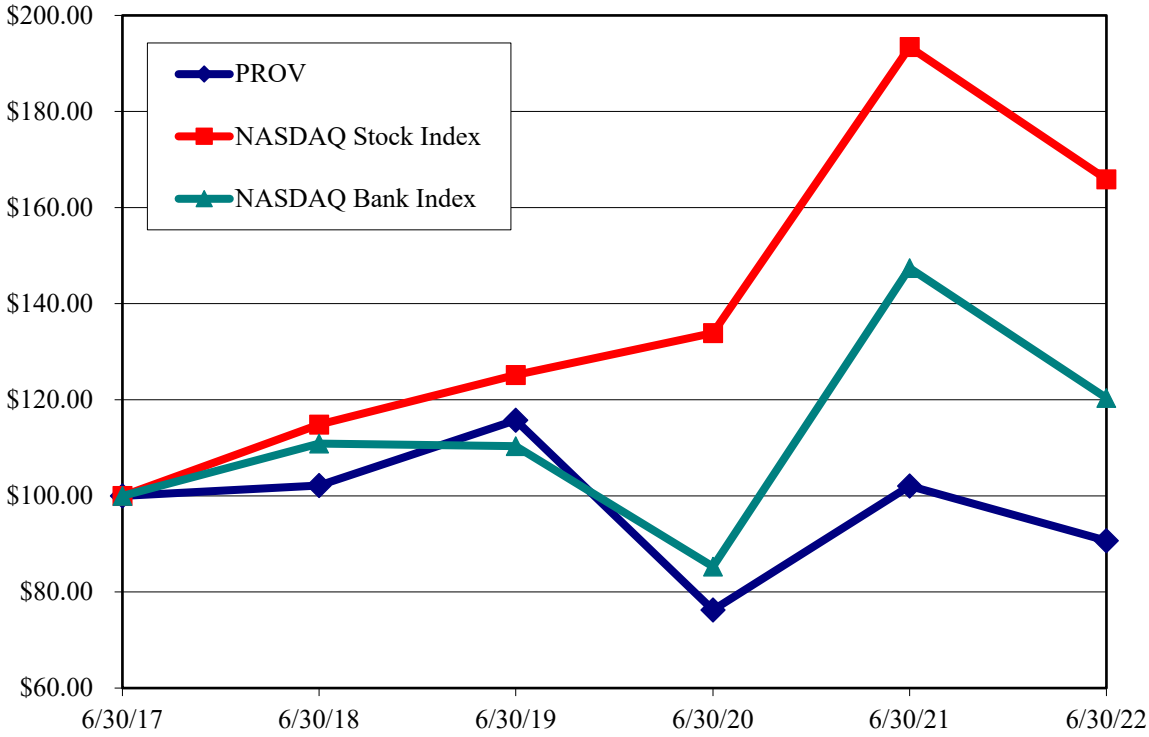
| Period | (a) Total Number of Shares Purchased | (b) Average Price Paid per Share | (c) Total Number of Shares Purchased as Part of Publicly Announced Plan | (d) Maximum Number of Shares that May Yet Be Purchased Under the Plan[(1)] |
|---|---|---|---|---|
| April 1, 2022 – April 30, 2022 | 35,488 | $ 15.90 | 35,488 | 364,259 |
| May 1, 2022 – May 31, 2022 | — | $ — | — | 364,259 |
| June 1, 2022 – June 30, 2022 | — | $ — | — | 364,259 |
| Total | 35,488 | $ 15.90 | 35,488 | 364,259 |

(1) Represents the remaining shares available for future purchases under the April 2022 stock repurchase plan.

**Performance Graph**

The following graph compares the cumulative total shareholder return on the Corporation's common stock with the cumulative total return of the Nasdaq Stock Index (U.S. Stock) and Nasdaq Bank Index. Total return assumes the reinvestment of all dividends.

**COMPARISON OF CUMULATIVE TOTAL RETURNS[1]**




| | 6/30/2017 | 6/30/2018 | 6/30/2019 | 6/30/2020 | 6/30/2021 | 6/30/2022 |
|---|---|---|---|---|---|---|
| PROV | $ 100.00 | $ 102.15 | $ 115.75 | $ 76.25 | $ 102.04 | $ 90.67 |
| NASDAQ Stock Index | $ 100.00 | $ 114.84 | $ 125.17 | $ 133.88 | $ 193.41 | $ 165.89 |
| NASDAQ Bank Index | $ 100.00 | $ 110.88 | $ 110.35 | $ 85.27 | $ 147.41 | $ 120.38 |

[1] Assumes that the value of the investment in the Corporation's common stock and each index was $100 on June 30, 2017 and that all dividends were reinvested.

For additional information, see Part III, Item 12 of this Form 10-K for information regarding the Corporation's Equity Compensation Plans, which is incorporated into this Item 5 by reference.

**Item 6. Reserved**

None.

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

### Safe-Harbor Statement

Certain matters in this Form 10-K constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. This Form 10-K contains statements that the Corporation believes are "forward-looking statements." These statements relate to the Corporation's financial condition, liquidity, results of operations, plans, objectives, future performance or business. When considering these forward-looking statements, you should keep in mind these risks and uncertainties, as well as any cautionary statements the Corporation may make. Moreover, you should treat these statements as speaking only as of the date they are made and based only on information then actually known to the Corporation. There are a number of important factors that could cause future results to differ materially from historical performance and these forward-looking statements. Factors which could cause actual results to differ materially include, but are not limited to the following: potential adverse impacts to economic conditions in our local market areas, other markets where the Company has lending relationships, or other aspects of the Company's business operations or financial markets, generally, resulting from the ongoing novel coronavirus of 2019 ("COVID-19") and any governmental or societal responses thereto; the credit risks of lending activities, including changes in the level and trend of loan delinquencies and charge-offs and changes in our allowance for loan losses and provision for loan losses that may be impacted by deterioration in the residential and commercial real estate markets and may lead to increased losses and non-performing assets and may result in our allowance for loan losses not being adequate to cover actual losses and require us to materially increase our reserve; changes in general economic conditions, including the effects of inflation, either nationally or in our market areas; changes in the levels of general interest rates, and the relative differences between short and long term interest rates, deposit interest rates, our net interest margin and funding sources; the future of LIBOR, and the transition away from LIBOR toward new interest rate benchmarks; fluctuations in the demand for loans, the number of unsold homes, land and other properties and fluctuations in real estate values in our market areas; results of examinations of the Corporation by the FRB or of the Bank by the OCC or other regulatory authorities, including the possibility that any such regulatory authority may, among other things, require us to enter into a formal enforcement action or to increase our allowance for loan losses, write-down assets, change our regulatory capital position or affect our ability to borrow funds or maintain or increase deposits, or impose additional requirements and restrictions on us, any of which could adversely affect our liquidity and earnings; legislative or regulatory changes that adversely affect our business including changes in banking, securities and tax law, and in regulatory policies and principles, or the interpretation of regulatory capital or other rules, and including changes as a result of COVID-19; the availability of resources to address changes in laws, rules, or regulations or to respond to regulatory actions; adverse changes in the securities markets; our ability to attract and retain deposits; our ability to control operating costs and expenses; the use of estimates in determining fair value of certain of our assets, which estimates may prove to be incorrect and result in significant declines in valuation; difficulties in reducing risk associated with the loans on our balance sheet; staffing fluctuations in response to product demand or the implementation of corporate strategies that affect our workforce and potential associated charges; disruptions, security breaches, or other adverse events, failures or interruptions in, or attacks on, our information technology systems or on the third-party vendors who perform several of our critical processing functions; our ability to successfully integrate any assets, liabilities, customers, systems, and management personnel we have acquired or may in the future acquire into our operations and our ability to realize related revenue synergies and cost savings within expected time frames and any goodwill charges related thereto; our ability to manage loan delinquency rates; our ability to retain key members of our senior management team; costs and effects of litigation, including settlements and judgments; increased competitive pressures among financial services companies; changes in consumer spending, borrowing and savings habits; the availability of resources to address changes in laws, rules, or regulations or to respond to regulatory actions; our ability to pay dividends on our common stock; adverse changes in the securities markets; the inability of key third-party providers to perform their obligations to us; changes in accounting policies and practices, as may be adopted by the financial institution regulatory agencies or the Financial Accounting Standards Board, including additional guidance and interpretation on accounting issues and details of the implementation of new accounting methods; war or terrorist activities; and other economic, competitive, governmental, regulatory, and technological factors affecting our operations, pricing, products and services and other risks detailed in this report and in the Corporation's other reports filed with or furnished to the U.S. Securities and Exchange Commission ("SEC"). These developments could have an adverse impact on our financial position and our results of operations. Forward-looking statements are based upon management's beliefs and assumptions at the time they are made. We undertake no obligation to publicly update or revise any forward-looking statements included in this document or to update the reasons why actual results could differ from those contained in such statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and

assumptions, the forward-looking statements discussed in this document might not occur, and you should not put undue reliance on any forward-looking statements. These risks could cause our actual results for fiscal 2023 and beyond to differ materially from those expressed in any forward-looking statements by, or on behalf of, us and could negatively affect the Corporation's consolidated financial condition and consolidated results of operations as well as its stock price performance.

**General**

Provident Financial Holdings, Inc., a Delaware corporation, was organized in January 1996 for the purpose of becoming the holding company of Provident Savings Bank, F.S.B. upon the Bank's conversion completed on June 27, 1996. The Corporation is regulated by the FRB. At June 30, 2022, the Corporation had total assets of $1.19 billion, total deposits of $955.5 million and total stockholders' equity of $128.7 million. The Corporation has not engaged in any significant activity other than holding the stock of the Bank. Accordingly, the information set forth in this report, including financial statements and related data, relates primarily to the Bank and its subsidiaries.

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

The Corporation operates in a single business segment through the Bank. The Bank's activities include attracting deposits, offering banking services and originating and purchasing single-family, multi-family, commercial real estate, construction and, to a lesser extent, other mortgage, commercial business and consumer loans. Deposits are collected primarily from 13 banking locations located in Riverside and San Bernardino counties in California. Loans are primarily originated and purchased in Southern and Northern California to be held for investment. There are various risks inherent in the Corporation's business including, among others, the general business environment, interest rates, the California real estate market, the demand for loans, the prepayment of loans, the repurchase of loans previously sold to investors, the secondary market conditions to sell loans, competitive conditions, legislative and regulatory changes, fraud and other risks.

Management's Discussion and Analysis of Financial Condition and Results of Operations is intended to assist in understanding the financial condition and results of operations of the Corporation. The information contained in this section should be read in conjunction with the audited Consolidated Financial Statements and accompanying selected Notes to Consolidated Financial Statements included in Item 8 of this Form 10-K.

**Critical Accounting Policies**

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

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

The allowance is based on two principles of accounting: (i) ASC 450, "Contingencies," which requires that losses be accrued when they are probable of occurring and can be estimated; and (ii) ASC 310, "Receivables." The allowance has two components: collectively evaluated allowances and individually evaluated allowances on loans held for investment. Each of these components is based upon estimates that can change over time. The allowance is based on historical experience and as a result can differ from actual losses incurred in the future. The Corporation also applies qualitative loss

factors by assessing general economic indicators such as gross domestic product, retail sales, unemployment rates, employment growth, California home sales and median California home prices, as well as peer group data, reflecting the effect of events that have occurred but are not yet evidenced in the historical data. The historical data is reviewed at least quarterly and adjustments are made as needed. Various techniques are used to arrive at an individually evaluated allowance, including discounted cash flows and the fair market value of collateral. Management considers, based on currently available information, the allowance for loan losses sufficient to absorb probable losses inherent in loans held for investment. The use of these techniques is inherently subjective and the actual losses could be greater or less than the estimates, which, can materially affect amounts recognized in the Consolidated Statements of Financial Condition and Consolidated Statements of Operations.

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

Non-performing loans are charged-off to their fair values in the period the loans, or portion thereof, are deemed uncollectible, generally after the loan becomes 150 days delinquent for real estate secured first trust deed loans and 120 days delinquent for commercial business or real estate secured second trust deed loans. For restructured loans, the charge-off occurs when the 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 ASC 310. For restructured loans that are less than 90 days delinquent, the allowance for loan losses are segregated into (a) individually evaluated allowances for those loans with applicable discounted cash flow calculations still in their restructuring period, classified lower than pass and, containing an embedded loss component 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. For non-performing commercial real estate loans, an individually evaluated allowance is calculated based on the loan's fair value and if the fair value is higher than the individual loan balance, no allowance is required.

A restructured loan is a loan which the Corporation, for reasons related to a borrower’s financial difficulties, grants a concession to the borrower that the Corporation would not otherwise consider.

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

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

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

Other restructured loans are classified as “Substandard” and placed on non-performing status. The loans may be upgraded and placed on accrual status once there is a sustained period of payment performance (usually six months or, for loans that have been restructured more than once, 12 months) and there is a reasonable assurance that the payments will continue; and if the borrower has demonstrated satisfactory contractual payments beyond 12 consecutive months, the loan is no

longer categorized as a restructured loan. In addition to the payment history described above, multi-family, commercial real estate, construction and commercial business loans must also demonstrate a combination of corroborating characteristics to be upgraded, such as: satisfactory cash flow, satisfactory guarantor support, and additional collateral support, among others.

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

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

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

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

**Executive Summary and Operating Strategy**

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

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

During the next three years, subject to market conditions, the Corporation intends to improve its community banking business by moderately increasing total assets (by increasing single-family, multi-family, commercial real estate, construction and commercial business loans). In addition, the Corporation intends to decrease the percentage of time deposits in its deposit base and to increase the percentage of lower cost checking and savings accounts. This strategy is intended to improve core revenue through a higher net interest margin and ultimately, coupled with the growth of the Corporation, an increase in net interest income. While the Corporation's long-term strategy is for moderate growth, management recognizes that growth may be affected by the COVID-19 pandemic and its impact to general economic conditions.

Investment services operations primarily consist of selling alternative investment products such as annuities and mutual funds to the Bank's depositors. Investment services and trustee services contribute a very small percentage of gross revenue.

Provident Financial Corp performs trustee services for the Bank's real estate secured loan transactions and has in the past held, and may in the future hold, real estate for investment.

There are a number of risks associated with the business activities of the Corporation, many of which are beyond the Corporation's control, including: changes in accounting principles, laws, regulation, interest rates and the economy, among others. The Corporation attempts to mitigate many of these risks through prudent banking practices, such as interest rate risk management, credit risk management, operational risk management, and liquidity risk management. The California economic environment presents heightened risk for the Corporation primarily with respect to real estate values and loan delinquencies. Since the majority of the Corporation's loans are secured by real estate located within California, significant declines in the value of California real estate may also inhibit the Corporation's ability to recover on defaulted loans by selling the underlying real estate. For further details on risk factors and uncertainties, see "Safe-Harbor Statement" included above in this Item 7, and Item 1A, "Risk Factors."

**Comparison of Financial Condition at June 30, 2022 and 2021**

Total assets increased slightly to $1.19 billion at June 30, 2022 from $1.18 billion at June 30, 2021. The increase was primarily attributable to an increase in loans held for investment, partly offset by decreases in cash and cash equivalents and investment securities.

Total cash and cash equivalents, primarily excess cash deposited with the Federal Reserve Bank of San Francisco, decreased $46.9 million, or 67%, to $23.4 million at June 30, 2022 from $70.3 million at June 30, 2021. The decrease was primarily attributable to the utilization of cash to fund loans held for investment. The balance of cash and cash equivalents at June 30, 2022 was consistent with the Corporation's strategy of adequately managing credit and liquidity risk.

Total investment securities (held to maturity and available for sale) decreased $38.5 million, or 17%, to $188.4 million at June 30, 2022 from $226.9 million at June 30, 2021. The decrease was primarily the result of scheduled and accelerated principal payments on investment securities, partly offset by purchases of investment securities held to maturity. For additional information on investment securities, see Note 2 of the Notes to Consolidated Financial Statements included in Item 8 of this Form 10-K.

Loans held for investment increased $89.0 million, or 10% to $940.0 million at June 30, 2022 from $851.0 million at June 30, 2021. In fiscal 2022, the Corporation originated $299.8 million of loans held for investment, consisting primarily of single-family, multi-family and commercial real estate loans, up 39% from $215.0 million, consisting primarily of single-family and multi-family loans, for fiscal 2021. In addition, the Corporation purchased $6.4 million of loans to be held for investment (solely comprised of single-family loans) in fiscal 2022, down 62% from $16.9 million of purchased loans to be held for investment (consisting of single-family and multi-family loans) in fiscal 2021. Total loan principal payments in fiscal 2022 were $221.3 million, down 21% from $281.5 million in fiscal 2021. There was no REO acquired in the settlement of loans in both fiscal 2022 and fiscal 2021. The balance of multi-family, commercial real estate, construction and commercial business loans, net of undisbursed loan funds, decreased 4% to $559.5 million at June 30, 2022 from $583.6 million at June 30, 2021, and represented 60% and 68% of loans held for investment, respectively. The balance of single-family loans held for investment increased $109.9 million, or 41%, to $378.2 million at June 30, 2022, from $268.3

million at June 30, 2021. For additional information on loans held for investment, see Note 3 of the Notes to Consolidated Financial Statements included in Item 8 of this Form 10-K.

Total deposits increased $17.5 million, or 2%, to $955.5 million at June 30, 2022 from $938.0 million at June 30, 2021. Transaction accounts increased $36.9 million, or 5%, to $834.4 million at June 30, 2022 from $797.5 million at June 30, 2021; while time deposits decreased $19.3 million, or 14%, to $121.1 million at June 30, 2022 from $140.4 million at June 30, 2021. As of June 30, 2022 and 2021, the percentage of transaction accounts to total deposits was 87% and 85%, respectively. Non interest-bearing deposits as a percentage of total deposits remained unchanged at 13% on June 30, 2022 as compared to June 30, 2021. The change in deposit mix was consistent with the Corporation's marketing strategy to promote transaction accounts and the strategic decision to increase the percentage of lower cost checking and savings accounts in its deposit base and decrease the percentage of time deposits by competing less aggressively for time deposits. For additional information on deposits, see Note 6 of the Notes to Consolidated Financial Statements included in Item 8 of this Form 10-K.

Borrowings, consisting of FHLB – San Francisco advances decreased $16.0 million, or 16%, to $85.0 million at June 30, 2022 from $101.0 million at June 30, 2021. The decrease was due to scheduled maturities and prepayments of advances during fiscal 2022, partly offset by a new $5.0 million overnight advance on June 30, 2022. The weighted-average maturity of the Corporation's FHLB – San Francisco advances was approximately 16 months at June 30, 2022, down from 24 months at June 30, 2021. For additional information on borrowings, see Note 7 of the Notes to Consolidated Financial Statements included in Item 8 of this Form 10-K.

Total stockholders' equity increased $1.4 million or 1% to $128.7 million at June 30, 2022 from $127.3 million at June 30, 2021, primarily as a result of net income and the amortization of stock-based compensation benefits in fiscal 2022, partly offset by stock repurchases (see Part II, Item 5, "Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities" of this Form 10-K) and quarterly cash dividends paid to shareholders.

**Comparison of Operating Results for the Years Ended June 30, 2022 and 2021**

**General.** The Corporation recorded net income of $9.1 million, or $1.22 per diluted share, for the fiscal year ended June 30, 2022, up $1.5 million, or 20%, from $7.6 million, or $1.00 per per diluted share, for the fiscal year ended June 30, 2021. The increase in net income in fiscal 2022 compared to fiscal 2021 was primarily attributable to a $956,000 increase in net interest income and a $1.8 million increase in the recovery from the allowance for loan losses. The Corporation's efficiency ratio, defined as non-interest expense divided by the sum of net interest income and non-interest income, improved to 71% in fiscal 2022 from 73% in fiscal 2021. Return on average assets in fiscal 2022 increased to 0.76% from 0.64% in fiscal 2021 and return on average stockholders' equity in fiscal 2022 increased to 7.14% from 6.05% in fiscal 2021.

**Net Interest Income.** Net interest income increased $956,000, or 3%, to $31.6 million in fiscal 2022 from $30.6 million in fiscal 2021. This increase resulted from an increase in the net interest margin and, to a lesser extent, an increase in the average balance of interest-earning assets. The net interest margin increased six basis points to 2.72% in fiscal 2022 from 2.66% in fiscal 2021, due primarily to a 14 basis points decrease in the average cost of interest-bearing liabilities, partly offset by a six basis points decrease in the average yield on interest-earning assets. The average balance of interest-earning assets increased $8.2 million, or 1%, to $1.16 billion in fiscal 2022 from $1.15 billion in fiscal 2021. The average balance of interest-bearing liabilities increased $8.4 million or 1% to $1.05 billion during fiscal 2022 as compared to $1.04 billion during fiscal 2021.

**Interest Income.** Total interest income decreased $471,000, or 1%, to $34.7 million for fiscal 2022 from $35.2 million for fiscal 2021. The decrease was primarily attributable to a decrease in interest income on loans receivable, partly offset by an increase in interest income on investment securities, FHLB – San Francisco stock and interest-earning deposits.

Interest income on loans receivable decreased $695,000, or 2%, to $32.2 million in fiscal 2022 from $32.9 million in fiscal 2021. This decrease was attributable to a lower average loan yield, partly offset by a higher average loan balance. The weighted average loan yield during fiscal 2022 decreased 10 basis points to 3.70% from 3.80% in fiscal 2021, due primarily to the decrease in market interest rates resulting from the decline in the general economic conditions impacted by the

COVID-19 pandemic in the first half of fiscal 2022 with the reverse impact from the improved economic conditions in the second half of fiscal 2022. The average balance of loans receivable increased $6.8 million, or 1%, to $870.3 million during fiscal 2022 from $863.5 million during fiscal 2021.

Interest income from investment securities increased $57,000, or 3%, to $1.9 million in fiscal 2022 from $1.8 million in fiscal 2021. This increase was primarily a result of increases in both the average yield and the average balance. The average yield on investment securities increased two basis points to 0.92% for fiscal 2022 from 0.90% for fiscal 2021. The increase in the average yield of investment securities was primarily attributable to purchases of new investment securities during fiscal 2022 with a higher average yield than the existing portfolio, repricings of adjustable rate mortgage-backed securities to a higher yield and a lower premium amortization ($1.6 million compared to $2.0 million) resulting from lower principal payments. The average balance of investment securities increased $1.3 million, or 1%, to $206.9 million in fiscal 2022 from $205.6 million in fiscal 2021 as a result of the new purchases of investment securities, partly offset by scheduled and accelerated principal payments on mortgage-backed securities. During fiscal 2022, the Bank purchased $19.0 million of mortgage-backed securities and collateralized mortgage obligations with a weighted average yield of 1.34% and did not sell any investment securities.

During fiscal 2022, the Bank received $489,000 of cash dividends from its FHLB - San Francisco stock, an increase of $71,000 or 17% from the $418,000 of cash dividends received in fiscal 2021. The increase in cash dividends was due primarily to a higher average yield (5.98% vs. 5.22%) and, to a lesser extent, a higher average balance of FHLB-San Francisco stock owned ($8.2 million vs. $8.0 million).

Interest income from interest-earning deposits, primarily cash deposited at the Federal Reserve Bank of San Francisco, increased $96,000, or 123%, to $174,000 in fiscal 2022 from $78,000 in fiscal 2021, due to a higher average yield. The average yield increased 13 basis points to 0.23% in fiscal 2022 from 0.10% in fiscal 2021, resulting from increases in the targeted federal funds interest rate in the second half of fiscal 2022.

**Interest Expense.** Total interest expense for fiscal 2022 was $3.1 million as compared to $4.6 million for fiscal 2021, a decrease of $1.5 million, or 33%. This decrease was primarily attributable to a lower interest expense on borrowings and, to a lesser extent, a lower interest expense on deposits, particularly on time deposits. The average cost of interest-bearing liabilities was 0.30% during fiscal 2022, down 14 basis point from 0.44% during fiscal 2021, while the average balance of interest-bearing liabilities was $1.05 billion during fiscal 2022, up $8.4 million or 1% from $1.04 billion during fiscal 2021.

Interest expense on deposits for fiscal 2022 was $1.1 million as compared to $1.7 million for fiscal 2021, a decrease of $601,000, or 34%. The decrease in interest expense on deposits was attributable to a lower average cost, particularly for time deposits, partly offset by an increase in average balance. The average cost of deposits decreased seven basis points to 0.12% in fiscal 2022 from 0.19% in fiscal 2021. The average cost of transaction accounts was 0.05% in fiscal 2022, down one basis point from 0.06% in fiscal 2021; while the average cost of time deposits in fiscal 2022 was 0.57%, down 25 basis points, from 0.82% in fiscal 2021. The average balance of deposits increased $47.1 million, or 5%, to $961.5 million during fiscal 2022 from $914.4 million during fiscal 2021. The average balance of transaction accounts increased $70.0 million, or 9%, to $830.0 million in fiscal 2022 from $760.0 million in fiscal 2021. The average balance of time deposits decreased by $22.9 million, or 15%, to $131.5 million in fiscal 2022 from $154.4 million in fiscal 2021. The average balance of transaction accounts to total deposits in the fiscal 2022 was 86%, compared to 83% in fiscal 2021. The increase in the average balance of transaction accounts and the decrease in the average balance of time deposits are consistent with the Bank's marketing strategy to promote transaction accounts and the strategic decision to compete less aggressively on time deposit interest rates.

Interest expense on borrowings, consisting of FHLB - San Francisco advances, for fiscal 2022 decreased $826,000, or 29%, to $2.0 million as compared to $2.8 million in fiscal 2021. The decrease in interest expense on borrowings was due primarily to a lower average balance, partly offset by a slightly higher average cost. The average balance of borrowings decreased $38.7 million, or 31%, to $86.9 million during fiscal 2022 from $125.6 million during fiscal 2021. The decrease in the average balance was due primarily to the maturities and prepayment of advances in fiscal 2022. The average cost of borrowings was 2.29% in fiscal 2022, up five basis points from 2.24% in fiscal 2021. The Bank prepaid a total of $10.0 million in advances with total prepayment fees of $39,000 in fiscal 2022, as compared to the prepayment of $25.0 million in advances with total prepayment fees of $33,000 in fiscal 2021.

**Provision (Recovery) for Loan Losses.** During fiscal 2022, the Corporation recorded a recovery from the allowance for loan losses of $2.5 million, as compared to a recovery from the allowance for loan losses of $708,000 during fiscal 2021. The recovery from the allowance for loan losses in fiscal 2022 was primarily due to an improvement in the forecasted economic metrics utilized in the qualitative component adjustment to the allowance for loan losses reflecting improved general economic conditions and recoveries from the allowance for loan losses from non-performing loans and classified loans that were upgraded or paid off, partly offset by an increase in loans held for investment. The recovery from the allowance for loan losses in fiscal 2021 was primarily due to an improvement in the forecasted economic metrics utilized in the qualitative component adjustment to the allowance for loan losses attributable to an improved economic outlook during the second half of fiscal 2021, reducing the expected impact of the COVID-19 pandemic to the credit quality of the loan portfolio, and a decrease in loans held for investment.

Non-performing assets, comprised soley of non-performing loans (net of the collectively evaluated allowances and individually evaluated allowances), with underlying collateral primarily located in Southern California, was $1.4 million at June 30, 2022, down $7.2 million or 84% from $8.6 million at June 30, 2021. Non-performing loans at June 30, 2022 were $1.4 million, comprised of seven single-family loans. As of June 30, 2022, all of the non-performing loans have a current payment status. Net loan recoveries in fiscal 2022 were $439,000 or 0.05% of average loans receivable, compared to net loan recoveries of $30,000 or 0.00% of average loans receivable in fiscal 2021. At both June 30, 2022 and June 30, 2021, there was no REO.

Management believes that, based on currently available information, the allowance for loan losses is sufficient to absorb potential losses inherent in loans held for investment at June 30, 2022 under the incurred loss methodology.

Classified assets, comprised soley of loans, were $1.6 million at June 30, 2022, comprised of $224,000 in the special mention category and $1.4 million in the substandard category. Classified assets at June 30, 2021 were $10.4 million, comprised of $1.8 million in the special mention category and $8.6 million in the substandard category. For additional information, see Item 1, “Business - “Delinquencies and Classified Assets” in this Form 10-K.

For the fiscal year ended June 30, 2022, there were no loans that were newly modified from their original terms, re-underwritten or identified as a restructured loan; three loans were upgraded to the pass category; seven loans were paid off; and no loans were converted to real estate owned. For the fiscal year ended June 30, 2021, there were 20 loans that were newly modified from their original terms (including 19 COVID-19 related forbearance loans downgraded when their monthly payment deferrals were extended beyond six months), re-underwritten or identified as restructured loans; two loans were upgraded to the pass category; three loans were paid off; and no loans were converted to real estate owned. The outstanding balance of restructured loans at June 30, 2022 was $4.5 million (13 loans), down 43% from $7.9 million (23 loans) at June 30, 2021. As of June 30, 2022, one restructured loan of $722,000 was in non-accrual status. As of June 30, 2022, all of the restructured loans have a current payment status, consistent with their modified payment terms. During fiscal 2022, no restructured loans were in default within a 12-month period subsequent to their original restructuring.

The allowance for loan losses was $5.6 million at June 30, 2022, or 0.59% of gross loans held for investment, compared to $7.6 million, or 0.88% of gross loans held for investment at June 30, 2021. The allowance for loan losses at June 30, 2022 includes $38,000 of individually evaluated allowances, compared to $384,000 of individually evaluated allowances at June 30, 2021. Management believes that, based on currently available information, the allowance for loan losses is sufficient to absorb potential losses inherent in loans held for investment at June 30, 2022. For additional information, see Item 1, “Business - Delinquencies and Classified Assets - Allowance for Loan Losses” in this Form 10-K.

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 portfolio 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 (recoveries) for loan losses are charged (credited) against operations on a quarterly basis, as necessary, to maintain the allowance at appropriate levels. Management believes that the amount maintained in the allowance will be adequate to absorb probable 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, including as a result of the COVID-19 pandemic.

**Non-Interest Income.** Total non-interest income was $4.7 million in fiscal 2022, an increase of $143,000 or 3% from $4.6 million in fiscal 2021. The increase was primarily attributable to an increase in other non-interest income as well as in deposit account fees, partly offset by the decrease in loan servicing and other fees.

Loan servicing and other fees decreased $114,000, or 10%, to $1.1 million for fiscal 2022 from $1.2 million in fiscal 2021. The decrease was due primarily to a fair value adjustment of loans held at fair value, partly offset by a higher mortgage servicing asset valuation.

Other non-interest income increased $168,000, or 30%, to $719,000 in fiscal 2022 from $551,000 in fiscal 2021. The increase was due primarily to a $40,000 recovery from the recourse reserve for sold loans in fiscal 2022 as compared to a $105,000 provision for losses on sold loans in fiscal 2021.

**Non-Interest Expense.** Total non-interest expense in fiscal 2022 was $25.9 million, an increase of $182,000 or 1% from $25.7 million in fiscal 2021. The increase in non-interest expense was primarily attributable to increases in salaries and employee benefits and equipment expense, partly offset by decreases in premises and occupancy expense, professional expense and other non-interest expenses.

Salaries and employee benefits expense increased $676,000, or 4%, to $15.8 million in fiscal 2022 from $15.2 million in fiscal 2021. The increase in salaries and employee benefits expense was primarily due to a lower credit from the Employee Retention Tax Credit ("ERTC"), partly offset by decreases in equity incentive compensation expense and retirement benefit expense. The ERTC credit was recorded for qualified wages consistent with the criteria outlined within the CAA and American Rescue Plan Act of 2021 where eligible employers can claim a maximum credit equal to 70 percent of $10,000 of qualified wages paid to an employee per calendar quarter for the year 2021. The Bank recorded a $1.2 million ERTC credit in fiscal 2022, down $1.2 million or 50% from $2.4 million in fiscal 2021. The Bank recorded $798,000 of stock-based compensation expense in fiscal 2022, down $505,000 or 39% from $1.3 million in fiscal 2021, primarily due to adjustments upon vesting of prior restricted stock grants. The Bank also recorded a $217,000 accrual for the retirement benefit expense in fiscal 2022, down $346,000 or 61% from $563,000 in fiscal 2021.

Equipment expense increased $129,000 or 11% to $1.3 million in fiscal 2022 from $1.2 million in fiscal 2021. The increase was primarily due to a higher maintenance of software license costs resulting from additional software implementations and increases in software renewal costs in fiscal 2022.

Premises and occupancy expense decreased $311,000, or 9%, to $3.2 million in fiscal 2022 from $3.5 million in fiscal 2021. The decrease was due primarily to a lower network services expense, including a refund of $136,000 from a vendor on previously paid network services invoices that were overstated when billed.

Professional expenses decreased $142,000, or 9%, to $1.4 million in fiscal 2022 from $1.6 million in fiscal 2021. The decrease was due primarily to lower legal expenses as litigation was settled in fiscal 2021.

Other non-interest expenses decreased $123,000, or 4%, to $3.0 million in fiscal 2022 from $3.1 million in fiscal 2021. The decrease was due primarily to a litigation settlement of $145,000 in fiscal 2021, not replicated in fiscal 2022.

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

The provision for income taxes was $3.8 million for fiscal 2022, representing an effective tax rate of 29.3%, as compared to $2.6 million in fiscal 2021, representing an effective tax rate of 25.8%. The higher provision for income taxes in fiscal 2022 in comparison to fiscal 2021 was due primarily to a higher net income before provision for income taxes, while the higher effective tax rate in fiscal 2022 was attributable to no tax benefits from the exercise of stock options and the non-taxable treatment of the lower ERTC for state tax purposes in fiscal 2022 as compared to fiscal 2021.

The Corporation’s effective tax rate may differ from the estimated tax rates described above due to discrete items such as further adjustments to net deferred tax assets, excess tax benefits derived from stock option exercises and non-taxable earnings from bank owned life insurance, among other items. The Corporation determined that the above tax rates meet its estimated income tax obligations. For additional information, see Note 8, "Income Taxes," of the Notes to Consolidated Financial Statements, contained in Item 8 of this Form 10-K.

**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. 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, | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2022 | | | 2021 | | | 2020 | | |
| (Dollars In Thousands) | Average Balance | Interest | Yield/ Cost | Average Balance | Interest | Yield/ Cost | Average Balance | Interest | Yield/ Cost |
| Interest-earning assets: | | | | | | | | | |
| Loans receivable, net[1] | $ 870,328 | $ 32,161 | 3.70 % | $ 863,507 | $ 32,856 | 3.80 % | $ 915,353 | $ 39,145 | 4.28 % |
| Investment securities | 206,876 | 1,906 | 0.92 % | 205,628 | 1,849 | 0.90 % | 86,761 | 2,120 | 2.44 % |
| FHLB – San Francisco stock | 8,172 | 489 | 5.98 % | 8,008 | 418 | 5.22 % | 8,155 | 534 | 6.55 % |
| Interest-earning deposits | 74,897 | 174 | 0.23 % | 74,952 | 78 | 0.10 % | 71,766 | 657 | 0.90 % |
| Total interest-earning assets | 1,160,273 | 34,730 | 2.99 % | 1,152,095 | 35,201 | 3.06 % | 1,082,035 | 42,456 | 3.92 % |
| Non interest-earning assets | 32,787 | | | 30,916 | | | 31,720 | | |
| Total assets | $ 1,193,060 | | | $ 1,183,011 | | | $ 1,113,755 | | |
| Interest-bearing liabilities: | | | | | | | | | |
| Checking and money market accounts[2] | $ 505,726 | 220 | 0.04 % | $ 470,129 | 268 | 0.06 % | $ 396,399 | 424 | 0.11 % |
| Savings accounts | 324,292 | 172 | 0.05 % | 289,848 | 208 | 0.07 % | 261,432 | 496 | 0.19 % |
| Time deposits | 131,479 | 752 | 0.57 % | 154,374 | 1,269 | 0.82 % | 186,317 | 2,023 | 1.09 % |
| Total deposits[3] | 961,497 | 1,144 | 0.12 % | 914,351 | 1,745 | 0.19 % | 844,148 | 2,943 | 0.35 % |
| Borrowings | 86,883 | 1,991 | 2.29 % | 125,589 | 2,817 | 2.24 % | 127,882 | 3,112 | 2.43 % |
| Total interest-bearing liabilities | 1,048,380 | 3,135 | 0.30 % | 1,039,940 | 4,562 | 0.44 % | 972,030 | 6,055 | 0.62 % |
| Non interest-bearing liabilities | 17,272 | | | 18,158 | | | 18,968 | | |
| Total liabilities | 1,065,652 | | | 1,058,098 | | | 990,998 | | |
| Stockholders' equity | 127,408 | | | 124,913 | | | 122,757 | | |
| Total liabilities and stockholders' equity | $ 1,193,060 | | | $ 1,183,011 | | | $ 1,113,755 | | |
| Net interest income | | $ 31,595 | | | $ 30,639 | | | $ 36,401 | |
| Interest rate spread[4] | | | 2.69 % | | | 2.62 % | | | 3.30 % |
| Net interest margin[5] | | | 2.72 % | | | 2.66 % | | | 3.36 % |
| Ratio of average interest-earning assets to average interest-bearing liabilities | | | 110.67 % | | | 110.78 % | | | 111.32 % |

(1) Includes non-performing loans, as well as net deferred loan costs of $1.8 million, $2.5 million and $1.1 million for the years ended June 30, 2022, 2021 and 2020, respectively.

(2) Includes the average balance of non interest-bearing checking accounts of $119.5 million, $116.1 million and $90.0 million in the years ended June 30, 2022, 2021 and 2020, respectively.

(3) Includes the average balance of uninsured deposits of $169.2 million, $152.9 million and $122.3 million in the years ended June 30, 2022, 2021 and 2020, respectively.

(4) Represents the difference between the weighted-average yield on all interest-earning assets and the weighted-average rate on all interest-bearing liabilities.

(5) Represents net interest income as a percentage of average interest-earning assets.

**Rate/Volume Variance**

The following tables set forth the effects of changing rates and volumes on interest income and expense of the Corporation for the period presented. 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 the effects attributable to changes that cannot be allocated between rate and volume.

| | Year Ended June 30, 2022 Compared To Year Ended June 30, 2021 Increase (Decrease) Due to | | | |
|---|---|---|---|---|
| (In Thousands) | Rate | Volume | Rate/Volume | Net |
| Interest-earning assets: | | | | |
| Loans receivable[1] | $ (947) | $ 259 | $ (7) | $ (695) |
| Investment securities | 46 | 11 | — | 57 |
| FHLB – San Francisco stock | 61 | 9 | 1 | 71 |
| Interest-bearing deposits | 96 | — | — | 96 |
| Total net change in income on interest-earning assets | (744) | 279 | (6) | (471) |
| | | | | |
| Interest-bearing liabilities: | | | | |
| Checking and money market accounts | (62) | 21 | (7) | (48) |
| Savings accounts | (53) | 24 | (7) | (36) |
| Time deposits | (386) | (188) | 57 | (517) |
| Borrowings | 60 | (867) | (19) | (826) |
| Total net change in expense on interest-bearing liabilities | (441) | (1,010) | 24 | (1,427) |
| Net (decrease) increase in net interest income | $ (303) | $ 1,289 | $ (30) | $ 956 |

[1] Includes non-performing loans. For purposes of calculating volume, rate and rate/volume variances, non-performing loans were included in the weighted-average balance outstanding.

| | Year Ended June 30, 2021 Compared To Year Ended June 30, 2020 Increase (Decrease) Due to | | | |
|---|---|---|---|---|
| (In Thousands) | Rate | Volume | Rate/ Volume | Net |
| Interest-earning assets: | | | | |
| Loans receivable[1] | $ (4,319) | $ (2,219) | $ 249 | $ (6,289) |
| Investment securities | (1,340) | 2,900 | (1,831) | (271) |
| FHLB – San Francisco stock | (108) | (10) | 2 | (116) |
| Interest-earning deposits | (583) | 29 | (25) | (579) |
| Total net change in income on interest-earning assets | (6,350) | 700 | (1,605) | (7,255) |
| | | | | |
| Interest-bearing liabilities: | | | | |
| Checking and money market accounts | (200) | 81 | (37) | (156) |
| Savings accounts | (308) | 54 | (34) | (288) |
| Time deposits | (492) | (348) | 86 | (754) |
| Borrowings | (243) | (56) | 4 | (295) |
| Total net change in expense on interest-bearing liabilities | (1,243) | (269) | 19 | (1,493) |
| Net (decrease) increase in net interest income | $ (5,107) | $ 969 | $ (1,624) | $ (5,762) |

[1] Includes non-performing loans. For purposes of calculating volume, rate and rate/volume variances, non-performing loans were included in the weighted-average balance outstanding.

**Liquidity and Capital Resources**

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

The primary investing activity of the Bank has been the origination and purchase of loans held for investment. During the fiscal years ended June 30, 2022 and 2021, the Bank originated loans held for investment of $299.8 million and $215.0 million, respectively. In addition, the Bank purchased loans held for investment from other financial institutions in fiscal 2022 and 2021 of $6.4 million and $16.9 million, respectively. At June 30, 2022 and 2021, the Bank had loan origination commitments totaling $43.4 million and $21.9 million, respectively, with undisbursed loan funds of $3.4 million and $4.5 million, respectively. 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, 2022 and 2021, the net increase in deposits was $17.5 million and $45.0 million, respectively. On June 30, 2022, time deposits that are scheduled to mature in one year or less were $78.6 million. Historically, the Bank has been able to retain a significant percentage of its time deposits as they mature by adjusting deposit rates based upon 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, 2022, total cash and cash equivalents were $23.4 million, or 2.0% 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, 2022, the remaining financing availability at FHLB - San Francisco was $310.3 million and the remaining available collateral was $310.5 million. In addition, the Bank has secured a $153.9 million discount window facility at the Federal Reserve Bank of San Francisco, collateralized by investment securities with a fair market value of $163.7 million. The Bank also has a federal funds facility with its correspondent bank for $50.0 million which matures on June 30, 2023. As of June 30, 2022, there were no outstanding borrowings under the discount window facility or the federal funds facility with its correspondent bank.

Regulations require the Bank 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, 2022 decreased to 24.3% from 32.0% during the same quarter ended June 30, 2021. The decrease in the liquidity ratio was due primarily to the decrease in average qualifying liquid assets and the increase in average deposits and borrowings during the quarter ended June 30, 2022 in comparison to the quarter ended June 30, 2021. The Bank augments its liquidity by maintaining sufficient borrowing capacity at the FHLB - San Francisco, Federal Reserve Bank of San Francisco and its correspondent bank.

We incur capital expenditures on an ongoing basis to expand and improve our product offerings, enhance and modernize our technology infrastructure, and to introduce new technology-based products to compete effectively in our markets. We evaluate capital expenditure projects based on a variety of factors, including expected strategic impacts (such as forecasted impact on revenue growth, productivity, expenses, service levels and customer retention) and our expected return on investment. The amount of capital investment is influenced by, among other things, current and projected demand for our services and products, cash flow generated by operating activities, cash required for other purposes and regulatory considerations.

Based on our current capital allocation objectives, during fiscal 2023 we project expending approximately $989,000 to $1.9 million of cash for capital investment in property, plant and equipment. In addition, we currently expect to continue our current practice of paying quarterly cash dividends on our common stock subject to our Board of Directors' discretion to modify or terminate this practice at any time and for any reason without prior notice. Our current quarterly common stock dividend rate is $0.14 per share, as approved by our Board of Directors, which we believe is a dividend rate per share

which enables us to balance our multiple objectives of managing and investing in the Bank, and returning a substantial portion of our cash to our shareholders.

The Bank, as a federally-chartered, federally insured savings bank, is subject to the capital requirements established by the OCC. Under the OCC's capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weighting and other factors. In addition, Provident Financial Holdings, Inc., as a savings and loan holding company registered with the FRB, is required by the FRB to maintain capital adequacy that generally parallels the OCC requirements. Since the holding company has less than $3.0 billion in assets, the capital guidelines apply on a bank only basis, and the Federal Reserve expects the holding company's subsidiary bank to be well capitalized under the prompt corrective action regulations.

At June 30, 2022, the Bank exceeded all regulatory capital requirements. Under the prompt corrective action provisions, minimum ratios of 5.0% for Tier 1 Leverage Capital, 6.5% for CET1 Capital, 8.0% for Tier 1 Risk-based Capital and 10.0% for Total Risk-based Capital are required to be deemed "well capitalized." As of June 30, 2022, the Bank exceeded the capital ratios needed to be considered well capitalized with Tier 1 Leverage Capital, CET1 Capital, Tier 1 Risk-based Capital and Total Risk-based Capital ratios of 10.5%, 19.6%, 19.6% and 20.5%, respectively.

**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 gain 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 losses, the estimated fair value of derivative financial instruments and the valuation of mortgage servicing rights and real estate owned. These policies and judgments, estimates and assumptions are described in greater detail in this Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and in the section entitled "Organization and Summary of Significant Accounting Policies" contained in Note 1 of the Notes to the Consolidated Financial Statements included in Item 8 of this Form 10-K. 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 accounting policies, changes to the judgments, estimates and assumptions used could result in material differences in the results of operations or financial condition.

## Item 7A. Quantitative and Qualitative Disclosures about Market Risk

**Quantitative Aspects of Market Risk.** The Corporation does not maintain a trading account for any class of financial instrument nor does it purchase high-risk derivative financial instruments. Furthermore, the Corporation is not subject to foreign currency exchange rate risk or commodity price risk. The primary market risk that the Corporation faces is interest rate risk. For information regarding the sensitivity to interest rate risk of the Corporation's interest-earning assets and interest-bearing liabilities, see "Interest Rate Risk" below and Item 1, "Business - Lending Activities - Maturity of Loans Held for Investment," "- Investment Securities Activities," and "- Deposit Activities and Other Sources of Funds - Time Deposits by Maturities" in this Form 10-K.

**Interest Rate Risk.** One of the Corporation's principal financial objectives is to achieve long-term profitability while reducing its exposure to fluctuating interest rates. The Corporation, through the Corporation's Asset-Liability Committee, has sought to reduce the exposure of its earnings to changes in interest rates by attempting to manage the repricing mismatch between interest-earning assets and interest-bearing liabilities. The principal element in achieving this objective is to increase the interest rate sensitivity of the Corporation's interest-earning assets by retaining for its portfolio new loan originations with interest rates subject to periodic adjustment to market conditions. In addition, the Corporation maintains an investment portfolio, which is largely comprised of U.S. government agency MBS and U.S. government sponsored enterprise MBS and CMOs with contractual maturities of up to 30 years that reprice frequently or have a relatively short-average life. The Corporation relies on retail deposits as its primary source of funds while utilizing FHLB - San Francisco

advances as a secondary source of funding. Management believes retail deposits, unlike brokered deposits, reduce the effects of interest rate fluctuations because they generally represent a more stable source of funds. As part of its interest rate risk management strategy, the Corporation promotes transaction accounts and time deposits with terms up to seven years. For additional information, see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Form 10-K.

Through the use of an internal interest rate risk model, the Corporation is able to analyze its interest rate risk exposure by measuring the change in net portfolio value ("NPV") over a variety of interest rate scenarios. NPV is defined as the net present value of expected future cash flows from assets, liabilities and off-balance sheet contracts. The calculation is intended to illustrate the change in NPV that would occur in the event of an immediate change in interest rates of -100, +100, +200 and +300 basis points ("bp") with no effect given to steps that management might take to counter the effect of the interest rate movement. As of June 30, 2022, the targeted federal funds rate range was 1.50% to 1.75%, making an immediate change of minus 300 basis points or more unlikely.

The following table sets forth as of June 30, 2022 the estimated changes in NPV based on the indicated interest rate environment (dollars in thousands):

| Basis Points ("bp") Change in Rates | Net Portfolio Value | NPV Change[1] | Portfolio Value of Assets | NPV as Percentage of Portfolio Value Assets[2] | Sensitivity Measure[3] |
|---|---|---|---|---|---|
| +300 bp | $ 197,876 | $ 94,639 | $ 1,251,834 | 15.81 % | +694 bp |
| +200 bp | $ 171,305 | $ 68,068 | $ 1,227,494 | 13.96 % | +509 bp |
| +100 bp | $ 140,221 | $ 36,984 | $ 1,198,690 | 11.70 % | +283 bp |
| - | $ 103,237 | $ — | $ 1,164,038 | 8.87 % | — |
| -100 bp | $ 99,176 | $ (4,061) | $ 1,161,691 | 8.54 % | (33) bp |
| -200 bp | $ 124,158 | $ 20,921 | $ 1,189,093 | 10.44 % | 157 bp |

(1) Represents the increase (decrease) of the NPV at the indicated interest rate change in comparison to the NPV at June 30, 2022 ("base case").

(2) Calculated as the NPV divided by the portfolio value of total assets.

(3) Calculated as the change in the NPV ratio (NPV as a Percentage of Portfolio Value Assets) from the base case amount assuming the indicated change in interest rates (expressed in basis points).

The following table is derived from the internal interest rate risk model and represents the change in the NPV at a -100 basis point rate shock at June 30, 2022 and 2021:

| | At June 30, 2022 | At June 30, 2021 |
|---|---|---|
| | (-100 bp rate shock) | (-100 bp rate shock) |
| Pre-Shock NPV Ratio: NPV as a % of PV Assets | 8.87 % | 12.54 % |
| Post-Shock NPV Ratio: NPV as a % of PV Assets | 8.54 % | 11.25 % |
| Sensitivity Measure: Change in NPV Ratio | -33 bp | -129 bp |

The pre-shock NPV ratio decreased 367 basis points to 8.87 percent at June 30, 2022 from 12.54 percent at June 30, 2021 and the post-shock NPV ratio decreased 271 basis points to 8.54 percent at June 30, 2022 from 11.25 percent at June 30, 2021. The decrease of the NPV ratios was primarily attributable to increases in market interest rates and a $7.5 million cash dividend distribution from the Bank to the Corporation in September 2021, partly offset by the net income in fiscal 2022 and amortization of stock-based compensation expense.

As with any method of measuring interest rate risk, certain shortcomings are inherent in the method of analysis presented in the foregoing tables. For example, although certain assets and liabilities may have similar maturities or periods to repricing, they may react in different degrees to changes in market interest rates. Also, the interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types of assets and liabilities may lag behind changes in market interest rates. Additionally, certain assets, such as ARM loans, have features that restrict changes in interest rates on a short-term basis and over the life of the asset. Further, in the event of a change in interest rates, expected rates of prepayments on loans and early withdrawals from time deposits could likely deviate significantly from those assumed when calculating the results described in the tables above. It is also possible that,

as a result of an interest rate increase, the higher mortgage payments required from ARM borrowers could result in an increase in delinquencies and defaults. Accordingly, the data presented in the tables in this section should not be relied upon as indicative of actual results in the event of changes in interest rates. Furthermore, the NPV presented in the foregoing tables is not intended to present the fair market value of the Corporation, nor does it represent amounts that would be available for distribution to shareholders in the event of the liquidation of the Corporation.

The Corporation measures and evaluates the potential effects of interest rate movements through an interest rate sensitivity "gap" analysis. Interest rate sensitivity reflects the potential effect on net interest income when there is movement in interest rates. For loans, securities and liabilities with contractual maturities, the table presents contractual repricing or scheduled maturity. For transaction accounts (checking, money market and savings deposits) that have no contractual maturity, the table presents estimated principal cash flows and, as applicable, the Corporation's historical experience, management's judgment and statistical analysis concerning their most likely withdrawal behaviors.

The following table represents the interest rate gap analysis of the Corporation's assets and liabilities as of June 30, 2022:

| | **Term to Contractual Repricing, Estimated Repricing, or Contractual Maturity[1] As of June 30, 2022** | | | | |
|---|---|---|---|---|---|
| (Dollars In Thousands) | **12 months or less** | **Greater than 1 year to 3 years** | **Greater than 3 years to 5 years** | **Greater than 5 years or non-sensitive** | **Total** |
| Repricing Assets: | | | | | |
| Cash and cash equivalents | $ 15,567 | $ — | $ — | $ 7,847 | $ 23,414 |
| Investment securities | 11,657 | — | — | 176,764 | 188,421 |
| Loans held for investment | 234,257 | 177,477 | 203,393 | 324,865 | 939,992 |
| FHLB - San Francisco stock | 8,239 | — | — | — | 8,239 |
| Other assets | 2,966 | — | — | 24,006 | 26,972 |
| Total assets | 272,686 | 177,477 | 203,393 | 533,482 | 1,187,038 |
| Repricing Liabilities and Equity: | | | | | |
| Checking deposits - non interest-bearing | — | — | — | 125,089 | 125,089 |
| Checking deposits - interest bearing | 50,368 | 100,736 | 100,736 | 83,948 | 335,788 |
| Savings deposits | 66,716 | 133,432 | 133,433 | — | 333,581 |
| Money market deposits | 19,949 | 19,948 | — | — | 39,897 |
| Time deposits | 78,644 | 34,490 | 6,738 | 1,277 | 121,149 |
| Borrowings | 35,000 | 50,000 | — | — | 85,000 |
| Other liabilities | 211 | — | — | 17,673 | 17,884 |
| Stockholders' equity | — | — | — | 128,650 | 128,650 |
| Total liabilities and stockholders' equity | 250,888 | 338,606 | 240,907 | 356,637 | 1,187,038 |
| Repricing gap positive (negative) | $ 21,798 | $ (161,129) | $ (37,514) | $ 176,845 | $ — |
| Cumulative repricing gap: | | | | | |
| Dollar amount | $ 21,798 | $ (139,331) | $ (176,845) | $ — | $ — |
| Percent of total assets | 2 % | (12)% | (15)% | — % | — % |

(1) Cash and cash equivalents are presented as estimated repricing; investment securities and loans held for investment are presented as contractual maturities or contractual repricing (without consideration for prepayments); FHLB - San Francisco stock is presented as contractual repricing; transaction accounts (checking, savings and money market deposits) are presented as estimated repricing; while time deposits (without consideration for early withdrawals) and borrowings are presented as contractual maturities.

The static gap analysis under 12 months or less duration shows a positive position in the "Cumulative repricing gap - dollar amount" category, indicating more assets are sensitive to repricing than liabilities in the short term. Management views non interest-bearing deposits to be the least sensitive to changes in market interest rates and these accounts are therefore characterized as long-term funding. Interest-bearing checking deposits are considered more sensitive, followed by increased sensitivity for savings and money market deposits. For the purpose of calculating gap, a portion of these interest-bearing deposit balances are assumed to be subject to estimated repricing as follows: interest-bearing checking deposits at 15% per year, savings deposits at 20% per year and money market deposits at 50% in the first and second years.

The gap results presented above could vary substantially if different assumptions are used or if actual experience differs from the assumptions used in the preparation of the gap analysis. Furthermore, the gap analysis provides a static view of interest rate risk exposure at a specific point in time without taking into account redirection of cash flows activity and deposit fluctuations.

The extent to which the net interest margin will be impacted by changes in prevailing interest rates will depend on a number of factors, including how quickly interest-earning assets and interest-bearing liabilities react to interest rate changes. It is not uncommon for rates on certain assets or liabilities to lag behind changes in the market rates of interest. Additionally, prepayments of loans and early withdrawals of certificates of deposit could cause interest sensitivities to vary. As a result, the relationship between interest-earning assets and interest-bearing liabilities, as shown in the previous table, is only a general indicator of interest rate sensitivity and the effect of changing interest rates on net interest income is likely to be different from that predicted solely on the basis of the interest rate sensitivity analysis set forth in the previous table.

The Corporation also models the sensitivity of net interest income for the 12-month period subsequent to any given month-end assuming a dynamic balance sheet accounting for, among other items:

- The Corporation’s current balance sheet and repricing characteristics;
- Forecasted balance sheet growth consistent with the business plan;
- Current interest rates and yield curves and management estimates of projected interest rates;
- Embedded options, interest rate floors, periodic caps and lifetime caps;
- Repricing characteristics for market rate sensitive instruments;
- Loan, investment, deposit and borrowing cash flows;
- Loan prepayment estimates for each type of loan; and
- Immediate, permanent and parallel movements in interest rates of plus 300, 200 and 100, minus 100 and minus 200 basis points.

The following table describes the results of the analysis at June 30, 2022 and 2021:

| At June 30, 2022 | | At June 30, 2021 | |
|---|---|---|---|
| **Basis Point (bp) Change in Rates** | **Change in Net Interest Income** | **Basis Point (bp) Change in Rates** | **Change in Net Interest Income** |
| +300 bp | 3.32% | +300 bp | 4.55% |
| +200 bp | 2.14% | +200 bp | 2.06% |
| +100 bp | 1.05% | +100 bp | 0.23% |
| -100 bp | -0.09% | -100 bp | 0.22% |
| -200 bp | -3.28% | -200 bp | 0.15% |

At June 30, 2022 and 2021, the Corporation was asset sensitive as its interest-earning assets at those dates are expected to reprice more quickly than its interest-bearing liabilities during the subsequent 12-month period. Therefore, in a rising interest rate environment, the model projects an increase in net interest income over the subsequent 12-month period. In a falling interest rate environment, the results project a decrease in net interest income over the subsequent 12-month period, except for the -100 and -200 basis point scenarios at June 30, 2021.

Management believes that the assumptions used to complete the analysis described in the table above are reasonable. However, past experience has shown that immediate, permanent and parallel movements in interest rates will not

necessarily occur. Additionally, while the analysis provides a tool to evaluate the projected net interest income to changes in interest rates, actual results may be substantially different if actual experience differs from the assumptions used to complete the analysis, particularly with respect to the 12-month business plan when asset growth is forecast. Therefore, the model results that the Corporation discloses should be thought of as a risk management tool to compare the trends of the Corporation's current disclosure to previous disclosures, over time, within the context of the actual performance of the treasury yield curve.

## Item 8. Financial Statements and Supplementary Data

Please refer to the Consolidated Financial Statements and Notes to Consolidated Financial Statements in this Form 10-K and incorporated into this Item 8 by reference.

## Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

None.

## Item 9A. Controls and Procedures

a) An evaluation of the Corporation's disclosure controls and procedures (as defined in Section 13a-15(e) or 15d-15(e) of the Securities Exchange Act of 1934 (the "Act")) was carried out under the supervision and with the participation of the Corporation's Chief Executive Officer, Chief Financial Officer and the Corporation's Disclosure Committee as of the end of the period covered by this report. In designing and evaluating the Corporation's disclosure controls and procedures, management recognizes that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Also, because of the inherent limitations in all control procedures, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Corporation have been detected. Additionally, in designing disclosure controls and procedures, management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any disclosure controls and procedures is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Based on their evaluation, the Corporation's Chief Executive Officer and Chief Financial Officer concluded that the Corporation's disclosure controls and procedures as of June 30, 2022 are effective, at the reasonable assurance level, in ensuring that the information required to be disclosed by the Corporation in the reports it files or submits under the Act is (i) accumulated and communicated to the Corporation's management (including the Chief Executive Officer and Chief Financial Officer) in a timely manner, and (ii) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

b) There have been no changes in the Corporation's internal control over financial reporting (as defined in Rule 13a-15(f) of the Act) that occurred during the fiscal year ended June 30, 2022, that has materially affected, or is reasonably likely to materially affect, the Corporation's internal control over financial reporting. The Corporation does not expect that its internal control over financial reporting will prevent all error and all fraud. A control procedure, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control procedure are met. Because of the inherent limitations in all control procedures, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Corporation have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any control procedure is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control procedure, misstatements due to error or fraud may occur and not be detected.

**Management Report on Internal Control Over Financial Reporting**

This management report includes the subsidiary institution of Provident Financial Holdings, Inc. (the "Corporation"), Provident Savings Bank, F.S.B. which is subject to Part 363 in the statement of management's responsibilities; the report on management's assessment of compliance with the Federal laws and regulations pertaining to insider loans and the Federal and, if applicable, State laws and regulations pertaining to dividend restrictions; and the report on management's assessment of internal control over financial reporting.

Management of the Corporation is responsible for preparing the Corporation's annual consolidated financial statements in accordance with generally accepted accounting principles; for establishing and maintaining an adequate internal control structure and procedures for financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions for the Parent Company Only Financial Statements for Small Holding Companies (Form FR Y-9SP); and for complying with the Federal laws and regulations pertaining to insider loans and the Federal and, if applicable, State laws and regulations pertaining to dividend restrictions. The Corporation's internal control over financial reporting was designed 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.

To comply with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002, the Corporation designed and implemented a structured and comprehensive assessment process to evaluate its internal control over financial reporting across the enterprise. The assessment of the effectiveness of the Corporation's internal control over financial reporting was based on criteria established in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management's assessment of the Corporation's internal control over financial reporting was also conducted to meet the reporting requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA), which include controls over the preparation of the schedules equivalent to the basic financial statements in accordance with the instructions for the Parent Company Only Financial Statements for Small Holding Companies (Form FR Y-9SP).

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. Based on its assessment, management has concluded that, as of June 30, 2022, the Corporation's internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions for the Parent Company Only Financial Statements for Small Holding Companies (Form FR Y-9SP), is effective based on the criteria established in Internal Control-Integrated Framework (2013).

Management of the Corporation has assessed the Corporation's compliance with the Federal laws and regulations pertaining to insider loans and the Federal and, if applicable, State laws and regulations pertaining to dividend restrictions during the fiscal year ended on June 30, 2022. Management has concluded that the Corporation complied with the Federal laws and regulations pertaining to insider loans and the Federal and, if applicable, State laws and regulations pertaining to dividend restrictions during the fiscal year ended on June 30, 2022.

Date: September 2, 2022

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

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

## Item 9B. Other Information

Not applicable.

## Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections

Not applicable.

# PART III

## Item 10. Directors, Executive Officers and Corporate Governance

The information required by this item regarding the Corporation's Board of Directors is incorporated herein by reference from the section captioned "Proposal I – Election of Directors" in the Corporation's Proxy Statement, a copy of which will be filed with the Securities and Exchange Commission no later than 120 days after the Corporation's fiscal year end.

The executive officers of the Corporation and the Bank are elected annually and hold office until their respective successors have been elected and qualified or until death, resignation or removal by the Board of Directors. For information regarding the Corporation's executive officers, see Item 1, "Business - Executive Officers" in this Form 10-K.

### Code of Ethics for Senior Financial Officers

The Corporation has adopted a Code of Ethics, which applies to all directors, officers, and employees of the Corporation. The Code of Ethics is publicly available as Exhibit 14 to the Corporation's Annual Report on Form 10-K for the fiscal year June 30, 2007, and is available on the Corporation's website, www.myprovident.com. If the Corporation makes any substantial amendments to the Code of Ethics or grants any waiver, including any implicit waiver, from a provision of the Code to the Corporation's Chief Executive Officer, Chief Financial Officer or Controller, the Corporation will disclose the nature of such amendment or waiver on the Corporation's website and in a report on Form 8-K.

### Audit Committee and Audit Committee Financial Expert

The Corporation has a separately-designated standing audit committee established in accordance with section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended. The audit committee consists of three independent directors of the Corporation: Joseph P. Barr, Judy A. Carpenter and Debbi H. Guthrie. The Corporation has designated Joseph P. Barr, Audit Committee Chairman, as its audit committee financial expert. Mr. Barr is independent, as independence for audit committee members is defined under the listing standards of the NASDAQ Stock Market, a Certified Public Accountant in California and Ohio (inactive) and has been practicing public accounting for over 46 years.

### Nominating Procedures

There have been no material changes to the procedures by which shareholders may recommend nominees to its Board of Directors since last disclosed to shareholders.

## Item 11. Executive Compensation

The information required by this item is incorporated herein by reference from the sections captioned "Executive Compensation" and "Directors' Compensation" in the Proxy Statement, a copy of which will be filed with the Securities and Exchange Commission no later than 120 days after the Corporation's fiscal year end.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

a) Security Ownership of Certain Beneficial Owners.

The information required by this item is incorporated herein by reference from the section captioned "Security Ownership of Certain Beneficial Owners and Management" in the Corporation's Proxy Statement, a copy of which will be filed with the Securities and Exchange Commission no later than 120 days after the Corporation's fiscal year end.

b) Security Ownership of Management.

The information required by this item is incorporated herein by reference from the sections captioned "Security Ownership of Certain Beneficial Owners and Management" and "Proposal 1 - Election of Directors" in the Corporation's Proxy Statement, a copy of which will be filed with the Securities and Exchange Commission no later than 120 days after the Corporation's fiscal year end.

c) Changes in Control.

The Corporation is not aware of any arrangements, including any pledge by any person of securities of the Corporation, the operation of which may at a subsequent date result in a change in control of the Corporation.

d) Equity Compensation Plan Information.

The following table summarizes share and exercise price information regarding the Corporation's equity compensation plans as of June 30, 2022:

| Plan Category | Number of Securities to Be Issued Upon Exercise of Outstanding Options, Warrants and Rights | | Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights | Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) |
|---|---|---|---|---|
| | (a) | | (b) | (c) |
| Equity compensation plans approved by security holders: | | | | |
| 2006 Equity Incentive Plan: | | | | |
| Stock Options | 31,000 | $ | 15.78 | — |
| 2010 Equity Incentive Plan: | | | | |
| Stock Options | 177,000 | $ | 15.74 | — |
| Restricted Stock | 3,375 | | N/A | — |
| 2013 Equity Incentive Plan: | | | | |
| Stock Options | 223,000 | $ | 16.70 | 43,500 |
| Restricted Stock | 91,375 | | N/A | 68,250 |
| Equity compensation plans not approved by security holders | N/A | | N/A | N/A |
| Total | 525,750 | $ | 16.24 [(1)] | 111,750 |

(1) Excludes restricted stock from the calculation since restricted stock awards do not contain an exercise price requirement.

## Item 13. Certain Relationships and Related Transactions, and Director Independence

**Certain Relationships and Related Transactions.** The information required by this item is incorporated herein by reference from the section captioned "Board of Directors' Meetings, Board Committees and Corporate Governance Matters - Corporate Governance - Certain Relationships and Related Transactions" in the Corporation's Proxy Statement, a copy of which will be filed with the Securities and Exchange Commission no later than 120 days after the Corporation's fiscal year end.

**Director Independence.** The information contained in the section captioned "Board of Directors' Meetings, Board Committees and Corporate Governance Matters - Corporate Governance - Director Independence" in the Proxy Statement is incorporated herein by reference.

## Item 14. Principal Accountant Fees and Services

The information required by this item is incorporated herein by reference from the section captioned "Proposal 3 - Ratification of Appointment of Independent Auditor" in the Corporation's Proxy Statement, a copy of which will be filed with the Securities and Exchange Commission no later than 120 days after the Corporation's fiscal year end.

## PART IV

### Item 15. Exhibits, Financial Statement Schedules.

(a) 1. Financial Statements
See Exhibit 13 to Consolidated Financial Statements beginning on this Form 10-K.

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 (a) Amended and Restated Certificate of Incorporation of Provident Financial Holdings, Inc. as filed with the Delaware Secretary of State on November 24, 2009 (incorporated by reference to Exhibit 3.1 to the Corporation's Quarterly Report on Form 10-Q filed on November 9, 2010)

3.1 (b) Amended and Restated Bylaws of Provident Financial Holdings, Inc. (incorporated by reference to Exhibit 3.1 to the Corporation's Current Report on Form 8-K filed on December 1, 2014)

4.1 Form of Certificate of Provident's Common Stock (incorporated by reference to the Corporation's Registration Statement on Form S-1 (333-2230) filed on March 11, 1996))

4.2 Description of Capital Stock of Provident Financial Holdings, Inc. (incorporated by reference to Exhibit 4.2 to the Corporation's Annual Report on Form 10-K for the year ended June 30, 2019)

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 Post-Retirement Compensation Agreement with Donavon P. Ternes (incorporated by reference to Exhibit 10.1 to the Corporation's Form 8-K dated July 7, 2009)

10.4 Form of Severance Agreement with Deborah L. Hill, Robert "Scott" Ritter, Lilian Salter, Donavon P. Ternes, David S. Weiant and Gwendolyn L. Wertz (incorporated by reference to Exhibit 10.1 and 10.2 in the Corporation's Form 8-K dated February 24, 2012)

10.5 2006 Equity Incentive Plan (incorporated by reference to Exhibit A to the Corporation's proxy statement dated October 12, 2006)

10.6 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)

10.7 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)

10.8 Form of Restricted Stock Agreement for restricted shares awarded under the 2006 Equity Incentive Plan (incorporated by reference to Exhibit 10.12 in the Corporation's Form 10-Q for the quarter ended December 31, 2006)

10.9 2010 Equity Incentive Plan (incorporated by reference to Exhibit A to the Corporation's proxy statement dated October 28, 2010)

10.10 Form of Incentive Stock Option Agreement for options granted under the 2010 Equity Incentive Plan (incorporated by reference to Exhibit 10.1 in the Corporation's Form 8-K dated November 30, 2010)

10.11 Form of Non-Qualified Stock Option Agreement for options granted under the 2010 Equity Incentive Plan (incorporated by reference to Exhibit 10.2 in the Corporation's Form 8-K dated November 30, 2010)

10.12 Form of Restricted Stock Agreement for restricted shares awarded under the 2010 Equity Incentive Plan (incorporated by reference to Exhibit 10.3 in the Corporation's Form 8-K dated November 30, 2010)

10.13 2013 Equity Incentive Plan (incorporated by reference to Exhibit A to the Corporation's proxy statement dated October 24, 2013)

10.14 Form of Incentive Stock Option Agreement for options granted under the 2013 Equity Incentive Plan (incorporated by reference to Exhibit 10.2 in the Corporation's Registration Statement on Form S-8 (333-192727) dated December 9, 2013)

10.15 Form of Non-Qualified Stock Option Agreement for options granted under the 2013 Equity Incentive Plan (incorporated by reference to Exhibit 10.3 in the Corporation's Registration Statement on Form S-8 (333-192727) dated December 9, 2013)

10.16 Form of Restricted Stock Agreement for restricted shares awarded under the 2013 Equity Incentive Plan (incorporated by reference to Exhibit 10.4 in the Corporation's Registration Statement on Form S-8 (333-192727) dated December 9, 2013)

13 2022 Annual Report to Stockholders

14.0 Code of Ethics for the Corporation's directors, officers and employees (Registrant elects to satisfy Regulation S-K §229.406(c) by posting its Code of Ethics on its website at www.myprovident.com in the section titled About: Investor Relations.

21.1 Subsidiaries of the 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 |
| 101 | The following materials from the Corporation's Annual Report on Form 10-K for the fiscal year ended June 30, 2022, formatted in Extensible Business Reporting Language (XBRL): (1) Consolidated Statements of Financial Condition; (2) Consolidated Statements of Operations; (3) Consolidated Statements of Comprehensive Income; (4) Consolidated Statements of Stockholders' Equity; (5) Consolidated Statements of Cash Flows; and (6) Selected Notes to Consolidated Financial Statements. |
| 104 | The cover page from this Annual Report on Form 10-K for the quarter ended June 30, 2022, formatted in Inline XBRL and contained in Exhibit 101 |

**Item 16. Form 10-K Summary**

None.

**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.

Date: September 2, 2022

Provident Financial Holdings, Inc.

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| SIGNATURES | TITLE | DATE |
|---|---|---|
| /s/ Craig G. Blunden<br>Craig G. Blunden | Chairman and<br>Chief Executive Officer<br>(Principal Executive Officer) | September 2, 2022 |
| /s/ Donavon P. Ternes<br>Donavon P. Ternes | President, Chief Operating Officer<br>and Chief Financial Officer<br>(Principal Financial and<br>Accounting Officer) | September 2, 2022 |
| /s/ Joseph P. Barr<br>Joseph P. Barr | Director | September 2, 2022 |
| /s/ Bruce W. Bennett<br>Bruce W. Bennett | Director | September 2, 2022 |
| /s/ Judy A. Carpenter<br>Judy A. Carpenter | Director | September 2, 2022 |
| /s/ Debbi H. Guthrie<br>Debbi H. Guthrie | Director | September 2, 2022 |
| /s/ Kathy M. Michalak<br>Kathy M. Michalak | Director | September 2, 2022 |
| /s/ Roy H. Taylor<br>Roy H. Taylor | Director | September 2, 2022 |
| /s/ William E. Thomas<br>William E. Thomas | Director | September 2, 2022 |

**Provident Financial Holdings, Inc.**
**Consolidated Financial Statements**
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## Report of Independent Registered Public Accounting Firm

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

**Opinion on the Financial Statements**

We have audited the accompanying consolidated statements of financial condition of Provident Financial Holdings and subsidiary (the "Corporation") as of June 30, 2022 and 2021, the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows, for each of the three years in the period ended June 30, 2022, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Corporation as of June 30, 2022 and 2021, and the results of its operations and its cash flows for each of the three years in the period ended June 30, 2022, in conformity with accounting principles generally accepted in the United States of America.

**Basis for Opinion**

These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on the Corporation's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Corporation in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Corporation is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

**Critical Audit Matter**

The critical audit matter communicated below are matters arising from the current-period audit of the financial statements that were communicated or required to be communicated to the audit committee and that (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matter does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing separate opinions on the critical audit matter or on the accounts or disclosures to which it relates.

**Loans Held for Investment - Allowance for Loan Losses — Refer to Notes 1 and 3 to the financial statements**

*Critical Audit Matter Description*

Management estimates the Corporation's allowance for loan losses ("ALL") for the probable losses inherent in loans held for investment, segregating collectively evaluated allowances and individually evaluated allowances for loans. The total estimate was $5.6 million at June 30, 2022. The determination of the appropriate ALL inherently involves a high degree of subjectivity and requires significant estimates of the existing credit risks using both quantitative and qualitative analyses.

For the collectively evaluated allowances, the Corporation uses historical experience to develop quantitative loss factors, which it applies to these loans based on management's assigned internal risk ratings. The Corporation also applies qualitative loss factors by assessing general economic indicators such as gross domestic product, retail sales, unemployment rates, employment growth, California home sales and median California home prices, as well as peer group data, reflecting the effect of events that have occurred but are not yet evidenced in the historical data.

Auditing the collectively evaluated loans of the Corporation's ALL, specifically management's qualitative loss factors for certain single-family, multi-family and commercial real estate loans, involved especially significant judgment. Given the significant judgments in determining these qualitative loss factors, performing procedures to evaluate the reasonableness of management's estimates for these qualitative loss factors involved a high degree of auditor judgment and an increased extent of effort.

*How the Critical Audit Matter Was Addressed in the Audit*

Our audit procedures related to the qualitative loss factors for certain loan types described above included the following, among others:

- We performed inquiries and examined documentation to understand management's methodology and process in determining the ALL, including the key assumptions and relevant data utilized.
- We tested the design and operating effectiveness of internal controls over type of loan, loan classification, and determination of the qualitative loss factors and management's review of the relevant qualitative loss factors.
- We tested the completeness and accuracy of the inputs used in the determination of the loss factors by selecting loans and through the reconciliation of the loan data testing to the ALL data inputs.
- We made a selection of loans and reviewed the supporting loan files, which includes borrower correspondence, payment history, property inspections, and status of current borrower-provided financial information, to evaluate the appropriateness of the loans' classification considered as input to the ALL.
- We compared the Corporation's loan loss factors, with benchmark data obtained independently to assess whether the ALL is within a reasonable range for specific loan categories.
- We evaluated the Corporation's historical allowance estimation process by comparing the ALL recorded in historical periods to actual results.

*/s/Deloitte & Touche LLP*

Costa Mesa, California
September 2, 2022

We have served as the Corporation's auditor since 2001.

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

| (In Thousands, Except Share Information) | June 30, 2022 | June 30, 2021 |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | $ 23,414 | $ 70,270 |
| Investment securities - held to maturity, at cost | 185,745 | 223,306 |
| Investment securities - available for sale, at fair value | 2,676 | 3,587 |
| Loans held for investment, net of allowance for loan losses of $5,564 and $7,587, respectively; includes $1,396 and $1,874 of loans held at fair value, respectively; $570.4 million and $607.0 million pledged to FHLB - San Francisco, respectively | 939,992 | 850,960 |
| Accrued interest receivable | 2,966 | 2,999 |
| Federal Home Loan Bank ("FHLB") - San Francisco stock | 8,239 | 8,155 |
| Premises and equipment, net | 8,826 | 9,377 |
| Prepaid expenses and other assets | 15,180 | 14,942 |
| Total assets | $ 1,187,038 | $ 1,183,596 |
| **Liabilities and Stockholders' Equity** | | |
| Liabilities: | | |
| Non interest-bearing deposits | $ 125,089 | $ 123,179 |
| Interest-bearing deposits | 830,415 | 814,794 |
| Total deposits | 955,504 | 937,973 |
| Borrowings | 85,000 | 100,983 |
| Accounts payable, accrued interest and other liabilities | 17,884 | 17,360 |
| Total liabilities | 1,058,388 | 1,056,316 |
| Commitments and Contingencies (Note 13) | | |
| Stockholders' equity: | | |
| Preferred stock, $0.01 par value (2,000,000 shares authorized; none issued and outstanding) | — | — |
| Common stock, $0.01 par value; (40,000,000 shares authorized; 18,229,615 and 18,229,615 shares issued; 7,285,184 and 7,541,469 shares outstanding, respectively) | 183 | 183 |
| Additional paid-in capital | 98,826 | 97,978 |
| Retained earnings | 202,680 | 197,733 |
| Treasury stock at cost (10,944,431 and 10,688,146 shares, respectively) | (173,041) | (168,686) |
| Accumulated other comprehensive income, net of tax | 2 | 72 |
| Total stockholders' equity | 128,650 | 127,280 |
| Total liabilities and stockholders' equity | $ 1,187,038 | $ 1,183,596 |

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

## PROVIDENT FINANCIAL HOLDINGS, INC.
## Consolidated Statements of Operations

| (In Thousands, Except Per Share Information) | Year Ended June 30, 2022 | 2021 |
|---|---|---|
| Interest income: | | |
| Loans receivable, net | $ 32,161 | $ 32,856 |
| Investment securities | 1,906 | 1,849 |
| FHLB - San Francisco stock | 489 | 418 |
| Interest-earning deposits | 174 | 78 |
| Total interest income | 34,730 | 35,201 |
| | | |
| Interest expense: | | |
| Deposits | 1,144 | 1,745 |
| Borrowings | 1,991 | 2,817 |
| Total interest expense | 3,135 | 4,562 |
| | | |
| Net interest income | 31,595 | 30,639 |
| Recovery from the allowance for loan losses | (2,462) | (708) |
| Net interest income, after recovery from the the allowance for loan losses | 34,057 | 31,347 |
| | | |
| Non-interest income: | | |
| Loan servicing and other fees | 1,056 | 1,170 |
| Deposit account fees | 1,302 | 1,247 |
| Card and processing fees | 1,639 | 1,605 |
| Other | 719 | 551 |
| Total non-interest income | 4,716 | 4,573 |
| | | |
| Non-interest expense: | | |
| Salaries and employee benefits | 15,833 | 15,157 |
| Premises and occupancy | 3,189 | 3,500 |
| Equipment expense | 1,282 | 1,153 |
| Professional expense | 1,419 | 1,561 |
| Sales and marketing expense | 642 | 680 |
| Deposit insurance premium and regulatory assessments | 543 | 552 |
| Other | 3,007 | 3,130 |
| Total non-interest expense | 25,915 | 25,733 |
| | | |
| Income before income taxes | 12,858 | 10,187 |
| Provision for income taxes | 3,765 | 2,626 |
| Net income | $ 9,093 | $ 7,561 |
| | | |
| Basic earnings per share | $ 1.23 | $ 1.01 |
| Diluted earnings per share | $ 1.22 | $ 1.00 |

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

## PROVIDENT FINANCIAL HOLDINGS, INC.
## Consolidated Statements of Comprehensive Income

| (In Thousands) | Year Ended June 30, 2022 | 2021 |
|---|---|---|
| Net income | $ 9,093 | $ 7,561 |
| Change in unrealized holding losses on securities available for sale and interest-only strips | (99) | (45) |
| Reclassification of losses to net income | — | — |
| Other comprehensive loss, before income tax benefit | (99) | (45) |
| Income tax benefit | (29) | (13) |
| Other comprehensive loss | (70) | (32) |
| Total comprehensive income | $ 9,023 | $ 7,529 |

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

# PROVIDENT FINANCIAL HOLDINGS, INC.
## Consolidated Statements of Stockholders' Equity

| (In Thousands, Except Share Information) | Common Stock Shares | Common Stock Amount | Additional Paid-In Capital | Retained Earnings | Treasury Stock | Accumulated Other Comprehensive Income (Loss), Net of Tax | Total |
|---|---|---|---|---|---|---|---|
| Balance at June 30, 2020 | 7,436,315 | $ 181 | $ 95,593 | $ 194,345 | $ (166,247) | $ 104 | $ 123,976 |
| Net income | | | | 7,561 | | | 7,561 |
| Other comprehensive loss | | | | | | (32) | (32) |
| Purchase of treasury stock [1] | (139,596) | | | | (2,336) | | (2,336) |
| Distribution of restricted stock | 112,750 | | | | | | — |
| Forfeiture of restricted stock | | | 103 | | (103) | | — |
| Amortization of restricted stock | | | 1,206 | | | | 1,206 |
| Exercise of stock options | 132,000 | 2 | 979 | | | | 981 |
| Stock options expense | | | 97 | | | | 97 |
| Cash dividends[2] | | | | (4,173) | | | (4,173) |
| Balance at June 30, 2021 | 7,541,469 | $ 183 | $ 97,978 | $ 197,733 | $ (168,686) | $ 72 | $ 127,280 |
| Net income | | | | 9,093 | | | 9,093 |
| Other comprehensive loss | | | | | | (70) | (70) |
| Purchase of treasury stock | (257,285) | | | | (4,305) | | (4,305) |
| Distribution of restricted stock | 1,000 | | | | | | — |
| Awards for restricted stock | | | (9) | | 9 | | — |
| Forfeiture of restricted stock | | | 59 | | (59) | | — |
| Amortization of restricted stock | | | 747 | | | | 747 |
| Stock options expense | | | 51 | | | | 51 |
| Cash dividends[2] | | | | (4,146) | | | (4,146) |
| Balance at June 30, 2022 | 7,285,184 | $ 183 | $ 98,826 | $ 202,680 | $ (173,041) | $ 2 | $ 128,650 |

[1] Includes the purchase of 0 shares and 34,614 shares of distributed restricted stock in fiscal 2022 and 2021 in settlement of employees' withholding tax obligations, respectively.

[2] Cash dividends of $0.56 per share were paid in both fiscal 2022 and 2021.

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

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

| (In Thousands) | Year Ended June 30, 2022 | 2021 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net income | $ 9,093 | $ 7,561 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 4,849 | 6,266 |
| Recovery from the allowance for loan losses | (2,462) | (708) |
| Stock-based compensation | 798 | 1,303 |
| Provision for deferred income taxes | 1,140 | 481 |
| Increase (decrease) in accounts payable, accrued interest and other liabilities | 484 | (658) |
| Increase in prepaid expenses and other assets | (2,109) | (2,672) |
| Net cash provided by operating activities | 11,793 | 11,573 |
| | | |
| Cash flows from investing activities: | | |
| (Increase) decrease in loans held for investment, net | (88,320) | 50,088 |
| Purchase of investment securities - held to maturity | (19,120) | (158,984) |
| Maturity of investment securities - held to maturity | 600 | 800 |
| Principal payments from investment securities - held to maturity | 54,530 | 51,544 |
| Principal payments from investment securities - available for sale | 813 | 1,090 |
| Purchase of FHLB - San Francisco stock | (84) | (185) |
| Purchase of premises and equipment | (165) | (225) |
| Net cash used for investing activities | (51,746) | (55,872) |
| | | |
| Cash flows from financing activities: | | |
| Increase in deposits, net | 17,531 | 45,004 |
| Repayments of long-term borrowings | (20,983) | (35,064) |
| Proceeds from (repayment of) short-term borrowings, net | 5,000 | (5,000) |
| Treasury stock purchases | (4,305) | (2,336) |
| Proceeds from exercise of stock options | — | 981 |
| Withholding taxes on stock-based compensation | — | (877) |
| Cash dividends | (4,146) | (4,173) |
| Net cash used for financing activities | (6,903) | (1,465) |
| | | |
| Net decrease in cash and cash equivalents | (46,856) | (45,764) |
| Cash and cash equivalents at beginning of year | 70,270 | 116,034 |
| Cash and cash equivalents at end of year | $ 23,414 | $ 70,270 |
| Supplemental information: | | |
| Cash paid for interest | $ 3,171 | $ 4,660 |
| Cash paid for income taxes | $ 2,725 | $ 3,320 |

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

## Note 1: Organization and Summary of Significant Accounting Policies

**Basis of presentation**
The consolidated financial statements include the accounts of Provident Financial Holdings, Inc., and its wholly owned subsidiary, Provident Savings Bank, F.S.B. (collectively, the "Corporation"). All inter-company balances and transactions have been eliminated.

Provident Savings Bank, F.S.B. (the "Bank") converted from a federally chartered mutual savings bank to a federally chartered stock savings bank effective June 27, 1996. Provident Financial Holdings, Inc., a Delaware corporation organized by the Bank, acquired all of the capital stock of the Bank issued in the conversion; the transaction was recorded on a book value basis.

The Corporation has determined that it operates in one business segment through the Bank. The Bank's activities include attracting deposits, offering banking services and originating and purchasing single-family, multi-family, commercial real estate, construction and other mortgage loans and, to a lesser extent, commercial business and consumer loans held for investment. Deposits are collected primarily from 13 banking locations located in Riverside and San Bernardino counties in California. Additional activities may include originating saleable single-family loans, primarily fixed-rate first mortgages. Loans are primarily originated and purchased in Southern and Northern California.

**Use of estimates**
The accounting and reporting policies of the Corporation conform to generally accepted accounting principles in the United States of America ("GAAP"). The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the loan repurchase reserve, the valuation of investment securities, the valuation of loans held for investment at fair value, deferred tax assets, loan servicing assets, real estate owned and deferred compensation costs.

The following accounting policies, together with those disclosed elsewhere in the consolidated financial statements, represent the significant accounting policies of Provident Financial Holdings, Inc. and the Bank.

**Cash and cash equivalents**
Cash and cash equivalents include cash on hand and due from banks, as well as overnight deposits placed at the Federal Reserve Bank – San Francisco and correspondent banks.

**Investment securities**
The Corporation classifies its qualifying investments as available for sale or held to maturity. The Corporation classifies investments as held to maturity when it has the ability and it is management's positive intent to hold such securities to maturity. Securities held to maturity are carried at amortized historical cost. All other securities are classified as available for sale and are carried at fair value. Fair value generally is determined based upon quoted market prices. Changes in net unrealized gains (losses) on securities available for sale are included in accumulated other comprehensive income, net of tax. Gains and losses on sale or dispositions of investment securities are included in non-interest income and are determined using the specific identification method. Purchase premiums and discounts are amortized over the expected average life of the securities using the effective interest method.

Investment securities are reviewed annually for possible other-than-temporary impairment ("OTTI"). For debt securities, an OTTI is evident if the Corporation intends to sell the debt security or will more likely than not be required to sell the debt security before full recovery of the entire amortized cost basis is realized. However, even if the Corporation does not intend to sell the debt security and will not likely be required to sell the debt security before recovery of its entire amortized cost basis, the Corporation must evaluate expected cash flows to be received and determine if a credit loss has occurred. In the event of a credit loss, the credit component of the impairment is recognized within non-interest income and the non-credit component is recognized through accumulated other comprehensive income, net of tax.

**Loans held for investment**
Loans held for investment consist of long-term adjustable and fixed rate loans secured by first trust deeds on single-family residences and multi-family and commercial real estate loans secured by commercial property, land and other residential properties. These loans are generally offered to customers and businesses located in California.

Net loan origination fees and certain direct origination expenses are deferred and amortized to interest income over the contractual life of the loan using the effective interest method. Amortization is discontinued for non-performing loans. Interest receivable represents, for the most part, the current month's interest, which will be included as a part of the borrower's next monthly loan payment. Interest receivable is accrued only if deemed collectible. Loans are placed on non-performing status when they become 90 days past due or if the loan is deemed impaired. When a loan is placed on non-performing status, interest accrued but not received is reversed against interest income. Interest income on non-performing loans is subsequently recognized only to the extent that cash is received and the principal balance is deemed collectible. If the principal balance is not deemed collectible, the entire payment received (principal and interest) is applied to the outstanding loan balance. Non-performing loans that become current as to both principal and interest are returned to accrual status after demonstrating satisfactory payment history (usually six consecutive months) and when future payments are expected to be collected.

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

The allowance is based on two principles of accounting: (i) Accounting Standards Codification ("ASC") 450, "Contingencies," which requires that losses be accrued when they are probable of occurring and can be estimated; and (ii) ASC 310, "Receivables," which requires that losses be accrued for non-performing loans that may be determined on an individually evaluated basis or based on an aggregated pooling method.

The allowance has two components: collectively evaluated allowances and individually evaluated allowances. Each of these components is based upon estimates that can change over time. The allowance is based on historical experience and, as a result, can differ from actual losses incurred in the future. The Corporation also applies qualitative loss factors by assessing general economic indicators such as gross domestic product, retail sales, unemployment rates, employment growth, California home sales and median California home prices, as well as peer group data, reflecting the effect of events that have occurred but are not yet evidenced in the historical data. The historical data is reviewed at least quarterly and adjustments are made as needed. Management considers, based on currently available information, the allowance for loan losses sufficient to absorb probable losses inherent in loans held for investment. Various techniques are used to arrive at an individually evaluated allowance, including 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.

**Allowance for unfunded loan commitments**
The Corporation maintains the allowance for unfunded loan commitments at a level that is adequate to absorb estimated probable losses related to these unfunded credit facilities. The Corporation determines the adequacy of the allowance based on periodic evaluations of the unfunded credit facilities, including an assessment of the probability of commitment usage, credit risk factors for loans outstanding to these same customers, and the terms and expiration dates of the unfunded credit facilities. The allowance for unfunded loan commitments is recorded in other liabilities on the Consolidated Statements of Financial Condition. Net adjustments to the allowance for unfunded loan commitments are included in other non-interest expense on the Consolidated Statements of Operations.

**Loans in forbearance**
On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act for 2020, as amended ("CARES Act") was signed into law and on April 7, 2020, the Board of Governors of the Federal Reserve System ("Federal Reserve"), Federal Deposit Insurance Corporation ("FDIC"), National Credit Union Administration, Office of the Comptroller of the Currency ("OCC ") and Consumer Financial Protection Bureau issued the Interagency Statement on Loan Modifications

and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus ("Interagency Statement"). Among other things, the CARES Act and Interagency Statement provided relief to borrowers, including the opportunity to defer loan payments while not negatively affecting their credit standing. For commercial and consumer customers, the Corporation provided relief options, including payment deferrals and fee waivers.

All loans modified due to COVID-19 pandemic were separately monitored and any request for continuation of relief beyond the initial modification were reassessed to determine if a further modification should be granted and if a downgrade in risk rating was appropriate.

After the payment deferral period (forbearance period), normal loan payments once again became due and payable. The forbearance amount will be due and payable in full as a balloon payment at the end of the loan term or sooner if the loan becomes due and payable in full at an earlier date. As of March 31, 2021, the Corporation ceased accepting new forbearance requests and as of June 30, 2022, the Corporation had no pending requests for this type of payment relief. As of June 30, 2022, the Corporation had no forbearance loans that were modified and operating under forbearance agreements in accordance with the CARES Act and Interagency Statement. For additional information, see Note 3 of the Notes to Consolidated Financial Statements.

**Troubled debt restructuring ("restructured loans")**
A restructured loan is a loan which the Corporation, for reasons related to a borrower's financial difficulties, grants a more than insignificant concession to the borrower that the Corporation would not otherwise consider. These financial difficulties include, but are not limited to, the borrowers' default status on any of their debts, bankruptcy and recent changes in their financial circumstances (loss of job, etc.).

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

a) A reduction in the stated interest rate.
b) An extension of the maturity at an interest rate below market.
c) A reduction in the accrued interest.
d) Extensions, deferrals, renewals and rewrites.
e) Loans that have been discharged in a Chapter 7 Bankruptcy that have not been reaffirmed by the borrower.

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

The Corporation measures the allowance for loan losses of restructured loans based on the difference between the loan's original carrying amount and the present value of expected future cash flows discounted at the original effective yield of the loan. Based on the OCC guidance with respect to restructured loans and to conform to general practices within the banking industry, the Corporation maintains certain restructured loans on accrual status, provided there is reasonable assurance of repayment and performance, consistent with the modified terms based upon a current, well-documented credit evaluation. All other restructured loans are classified as "Substandard" and placed on non-performing status.

The Corporation typically upgrades restructured loans to the pass category if the borrower has demonstrated satisfactory contractual payments for at least six consecutive months or 12 consecutive months for those loans that were restructured more than once. Once the borrower has demonstrated satisfactory contractual payments beyond 12 consecutive months, the loan is no longer categorized as a restructured loan. In addition to the payment history described above; multi-family, commercial real estate, construction and commercial business loans must also demonstrate a combination of corroborating characteristics to be upgraded, such as: satisfactory cash flow, satisfactory guarantor support, and additional collateral support, among others.

**Non-performing loans**
The Corporation assesses loans individually and classifies as non-performing when the accrual of interest has been discontinued, loans have been restructured or management has serious doubts about the future collectability of principal and interest, even though the loans may currently be performing. Factors considered in determining classification include, but are not limited to, expected future cash flows, the financial condition of the borrower and current economic conditions. The Corporation measures each non-performing loan based on ASC 310, establishes a collectively evaluated or individually evaluated allowance and charges off those loans or portions of loans deemed uncollectible.

**Real estate owned**
Real estate acquired through foreclosure is initially recorded at the fair value of the real estate acquired, less estimated selling costs. Subsequent to foreclosure, the Corporation charges current earnings for estimated losses if the carrying value of the property exceeds its fair value. Gains or losses on the sale of real estate are recognized upon disposition of the property. Costs relating to improvement, maintenance and repairs of the property are expensed as incurred under gain (loss) on sale and operations of real estate owned acquired in the settlement of loans within the Consolidated Statements of Operations.

**Impairment of long-lived assets**
The Corporation reviews its long-lived assets for impairment annually or when events or circumstances indicate that the carrying amount of these assets may not be recoverable. Long-lived assets include buildings, land, fixtures, furniture and equipment. An asset is considered impaired when the expected discounted cash flows over the remaining useful life are less than the net book value. When impairment is indicated for an asset, the amount of impairment loss is the excess of the net book value over its fair value.

**Premises and equipment**
Premises and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation is computed primarily on a straight-line basis over the estimated useful lives as follows:

| | |
|---|---|
| Buildings | 10 to 40 years |
| Furniture and fixtures | 3 to 10 years |
| Automobiles | 3 to 5 years |
| Computer equipment | 3 to 5 years |

Leasehold improvements are amortized over the lesser of their respective lease terms or the useful life of the improvement, which ranges from one to 10 years. Maintenance and repair costs are charged to operations as incurred.

**Income taxes**
The Corporation accounts for income taxes in accordance with ASC 740, “Income Taxes.” ASC 740 requires the affirmative evaluation that it is more likely than not, based on the technical merits of a tax position, that an enterprise is entitled to economic benefits resulting from positions taken in income tax returns. If a tax position does not meet the more-likely-than-not recognition threshold, the benefit of that position is not recognized in the financial statements.

ASC 740 requires that when determining the need for a valuation allowance against a deferred tax asset, management must assess both positive and negative evidence with regard to the realizability of the tax losses represented by that asset. To the extent available, if sources of taxable income are insufficient to absorb tax losses, a valuation allowance is necessary. Sources of taxable income for this analysis include prior years’ tax returns, the expected reversals of taxable temporary differences between book and tax income, prudent and feasible tax-planning strategies, and future taxable income. The deferred income tax asset related to the allowance for loan losses will be realized when actual charge-offs are made against the allowance. Based on the availability of loss carry-backs and projected taxable income during the periods for which loss carry-forwards are available, management believes it is more likely than not the Corporation will realize the deferred tax asset. The Corporation continues to monitor the deferred tax asset on a quarterly basis for a valuation allowance. The future realization of these tax benefits primarily hinges on adequate future earnings to utilize the tax benefit. Prospective earnings or losses, tax law changes or capital changes could prompt the Corporation to reevaluate the assumptions which may be used to establish a valuation allowance. As of June 30, 2022 and 2021, the estimated deferred tax asset, which is included in prepaid expenses and other assets, was $1.4 million and $2.5 million, respectively. The Corporation maintains net deferred tax assets for deductible temporary tax differences, such as loss reserves, deferred compensation, non-accrued

interest and unrealized gains, among other items. The decrease in the net deferred tax asset resulted primarily from a decreases in loan loss reserves and deferred loan costs. The Corporation did not have any liabilities for uncertain tax positions or any known unrecognized tax benefit at June 30, 2022 or 2021.

**Bank owned life insurance ("BOLI")**
ASC 715-60-35, "Accounting for Deferred Compensation and Post-retirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements," requires an employer to recognize obligations associated with endorsement split-dollar life insurance arrangements that extend into the participant's post-employment benefit cost for the continuing life insurance or based on the future death benefit depending on the contractual terms of the underlying agreement. The Corporation adopted ASC 715-60-35 using the latter option, i.e., based on the future death benefit. The Bank purchases BOLI policies on the lives of certain executive officers while they are employed by the Bank and is the owner and beneficiary of the policies. The Bank invests in BOLI to provide an efficient form of funding for long-term retirement and other employee benefits costs. The Bank records these BOLI policies within prepaid expenses and other assets in the Consolidated Statements of Financial Condition at each policy's respective cash surrender value, with net changes recorded in other non-interest income in the Consolidated Statements of Operations.

**Cash dividend**
A declaration or payment of dividends is at the discretion of the Corporation's Board of Directors, who take into account the Corporation's financial condition, results of operations, tax considerations, capital requirements, industry standards, economic conditions and other factors, including the regulatory restrictions which affect the payment of dividends by the Bank to the Corporation. Under Delaware law, dividends may be paid either out of surplus or, if there is no surplus, out of net profits for the current fiscal year and/or the preceding fiscal year in which the dividend is declared. For additional information, see Note 19 of the Notes to Consolidated Financial Statements regarding the subsequent event related to the cash dividend.

**Stock repurchases**
The Corporation repurchased 257,285 shares of its common stock with an average cost of $16.73 per share during fiscal 2022 pursuant to its April 2020 stock repurchase plan that expired on April 27, 2022. The Board of Directors approved a new stock repurchase plan on April 28, 2022 which authorized 364,259 shares for repurchase and expires on April 28, 2023, all of which remain available for purchase at June 30, 2022.

**Earnings per common share ("EPS")**
Basic EPS represents net income divided by the weighted average common shares outstanding during the period excluding any potential dilutive effects. Diluted EPS gives effect to any potential issuance of common stock that would have caused basic EPS to be lower as if the issuance had already occurred. Accordingly, diluted EPS reflects an increase in the weighted average shares outstanding as a result of the assumed exercise of stock options and the vesting of restricted stock. The computation of diluted EPS does not assume exercise of stock options and vesting of restricted stock that would have an anti-dilutive effect on EPS.

**Stock-based compensation**
ASC 718, "Compensation – Stock Compensation," requires companies to recognize in the Consolidated Statements of Operations the grant-date fair value of stock options and other equity-based compensation issued to employees and directors. Stock-based compensation expense, inclusive of restricted stock expense, recognized in the Consolidated Statements of Operations for the years ended June 30, 2022 and 2021 was $798,000 and $1.3 million, respectively.

**Employee Stock Ownership Plan ("ESOP")**
The Corporation recognizes compensation expense when the Bank contributes funds to the ESOP for the purchase of the Corporation's common stock to be allocated to the ESOP participants. Since the contributions are discretionary, the benefits payable under the ESOP cannot be estimated.

**Restricted stock**
The Corporation recognizes compensation expense over the vesting period of the shares awarded, equal to the fair value of the shares at the award date. A total of $747,000 and $1.2 million of restricted stock expense was amortized during fiscal 2022 and 2021, respectively.

**Post-retirement benefits**
The estimated obligation for post-retirement health care and life insurance benefits is determined based on an actuarial computation of the cost of current and future benefits for the eligible (grandfathered) retirees and employees. The post retirement benefit liability is included in accounts payable, accrued interest and other liabilities in the Consolidated Statements of Financial Condition. Effective July 1, 2003, the Corporation discontinued the post-retirement health care and life insurance benefits to any employee not previously qualified (grandfathered) for these benefits. At June 30, 2022 and 2021, the accrued liability for post-retirement benefits was $174,000 and $125,000, respectively, which was fully funded consistent with actuarially determined estimates of the future obligation.

**Comprehensive income**
ASC 220, "Comprehensive Income," requires that realized revenue, expenses, gains and losses be included in net income (loss). Unrealized gains (losses) on available for sale securities and interest-only strips are reported as a separate component of the stockholders' equity section of the Consolidated Statements of Financial Condition and the change in the unrealized gains (losses) are reported on the Consolidated Statements of Comprehensive Income and Consolidated Statements of Stockholders' Equity.

**Accounting standard updates ("ASU")**

ASU 2021-10:
In November 2021, the Financial Accounting Standards Board ("FASB") issued ASU 2021-10, "Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance," This ASU requires the following annual disclosures about transactions with a government that are accounted for by applying a grant or contribution accounting model by analogy: (1) Information about the nature of the transactions and the related accounting policy used to account for the transactions, (2) The line items on the balance sheet and income statement that are affected by the transactions, and the amounts applicable to each financial statement line item and (3) Significant terms and conditions of the transactions, including commitments and contingencies. This ASU is effective for all entities within their scope for financial statements issued for annual periods beginning after December 15, 2021. The Corporation has adopted this ASU and it did not have a material impact on the Corporation's consolidated financial statements. See Note 18 for additional disclosure.

ASU 2016-13:
In June 2016, the FASB issued ASU 2016-13, "Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments," and subsequent amendments to the initial guidance in November 2018, ASU No. 2018-19, April 2019, ASU 2019-04, May 2019, ASU 2019-05, November 2019, ASU 2019-11, February 2020, ASU 2020-02, March 2020, ASU 2020-03 and March 2022, ASU 2022-02, all of which clarifies codification and corrects unintended application of the guidance. In November 2019, the FASB also issued ASU 2019-10, "Financial Instruments — Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates" extending the adoption date for certain registrants, including the Corporation. These ASUs will be effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. The Corporation is evaluating its current expected loss methodology of its loan and investment portfolios to identify the necessary modifications in accordance with these standards and expects a change in the processes and procedures to calculate the allowance for loan losses, including changes in assumptions and estimates to consider expected credit losses over the life of the loan versus the current accounting practice that utilizes the incurred loss model. A valuation adjustment to its allowance for loan losses or investment portfolio that is identified in this process will be reflected as a one-time adjustment in equity rather than earnings upon adoption. The Corporation is in the process of compiling historical data that will be used to calculate expected credit losses on its loan portfolio to ensure the Corporation is fully compliant with these ASUs at the adoption date and is evaluating the potential impact upon adoption that these ASUs will have on the Corporation's Consolidated Financial Statements. Once adopted, the Corporation anticipates the allowance for loan losses to increase through a one-time adjustment to retained earnings, however, until the evaluation is complete the magnitude of the potential increase will be unknown.

ASU 2020-04:
In March 2020, the FASB issued ASU No. 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of reference Rate Reform on Financial Reporting. This ASU applies to contracts, hedging relationships and other transactions that reference LIBOR or other rate references expected to be discontinued because of reference rate reform. The ASU permits an entity to make necessary modifications to eligible contracts or transactions without requiring contract re-

measurement or reassessment of a previous accounting determination. In January 2021, ASU 2021-01 clarifies that certain optional expedients and exceptions in Topic 848 for contract modifications and hedge accounting apply to derivatives that are affected by the changes in the interest rates used for margining, discounting, or contract price alignment for derivative instruments that are being implemented as part of the market-wide transition to new reference rates (commonly referred to as the "discounting transition"). This ASU is effective for all entities as of March 12, 2020 through December 31, 2022. The Corporation is in the process of compiling data on the impact of reference rate reform and has not determined the impact of the adoption of this ASU on its consolidated financial statements.

## Note 2: Investment Securities

The amortized cost and estimated fair value of investment securities as of June 30, 2022 and 2021 were as follows:

| June 30, 2022 | Amortized Cost | Gross Unrealized Gains | Gross Unrealized (Losses) | Estimated Fair Value | Carrying Value |
|---|---|---|---|---|---|
| (In Thousands) | | | | | |
| **Held to maturity** | | | | | |
| U.S. government sponsored enterprise MBS[1] | $ 180,492 | $ 63 | $ (13,945) | $ 166,610 | $ 180,492 |
| U.S. government sponsored enterprise CMO[2] | 3,913 | — | (150) | 3,763 | 3,913 |
| U.S. SBA securities[3] | 940 | 11 | — | 951 | 940 |
| Certificate of deposits | 400 | — | — | 400 | 400 |
| Total investment securities - held to maturity | 185,745 | 74 | (14,095) | 171,724 | 185,745 |
| | | | | | |
| **Available for sale** | | | | | |
| U.S. government agency MBS[1] | 1,698 | 6 | (6) | 1,698 | 1,698 |
| U.S. government sponsored enterprise MBS[1] | 865 | 4 | (4) | 865 | 865 |
| Private issue CMO[2] | 118 | — | (5) | 113 | 113 |
| Total investment securities - available for sale | 2,681 | 10 | (15) | 2,676 | 2,676 |
| Total investment securities | $ 188,426 | $ 84 | $ (14,110) | $ 174,400 | $ 188,421 |

[1] Mortgage-backed securities ("MBS").
[2] Collateralized Mortgage Obligations ("CMO").
[3] Small Business Administration ("SBA").

| June 30, 2021 | Amortized Cost | Gross Unrealized Gains | Gross Unrealized (Losses) | Estimated Fair Value | Carrying Value |
|---|---|---|---|---|---|
| (In Thousands) | | | | | |
| **Held to maturity** | | | | | |
| U.S. government sponsored enterprise MBS | $ 220,448 | $ 2,209 | $ (810) | $ 221,847 | $ 220,448 |
| U.S. SBA securities | 1,858 | 16 | — | 1,874 | 1,858 |
| Certificate of deposits | 1,000 | — | — | 1,000 | 1,000 |
| Total investment securities - held to maturity | 223,306 | 2,225 | (810) | 224,721 | 223,306 |
| | | | | | |
| **Available for sale** | | | | | |
| U.S. government agency MBS | 2,146 | 76 | — | 2,222 | 2,222 |
| U.S. government sponsored enterprise MBS | 1,197 | 14 | — | 1,211 | 1,211 |
| Private issue CMO | 151 | 3 | — | 154 | 154 |
| Total investment securities - available for sale | 3,494 | 93 | — | 3,587 | 3,587 |
| Total investment securities | $ 226,800 | $ 2,318 | $ (810) | $ 228,308 | $ 226,893 |

In fiscal 2022 and 2021, the Corporation received MBS principal payments of $55.3 million and $52.6 million, respectively and did not sell any investment securities. The Corporation purchased MBS totaling $19.0 million and $158.0 million during fiscal 2022 and 2021, respectively.

As of June 30, 2022 and 2021, the Corporation held investments with an unrealized loss position of $14.1 million and $810,000, respectively.

| As of June 30, 2022 (In Thousands) | Unrealized Holding Losses Less Than 12 Months | | Unrealized Holding Losses 12 Months or More | | Unrealized Holding Losses Total | |
|---|---|---|---|---|---|---|
| Description of Securities | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| **Held to maturity** | | | | | | |
| U.S. government sponsored enterprise MBS | $ 121,844 | $ 9,018 | $ 35,528 | $ 4,927 | $ 157,372 | $ 13,945 |
| U.S. government sponsored enterprise CMO | 3,764 | 150 | — | — | 3,764 | 150 |
| Total investment securities - held to maturity | 125,608 | 9,168 | 35,528 | 4,927 | 161,136 | 14,095 |
| **Available for sale** | | | | | | |
| U.S government agency MBS | 826 | 6 | — | — | 826 | 6 |
| U.S. government sponsored enterprise MBS | 671 | 4 | — | — | 671 | 4 |
| Private issue CMO | 113 | 5 | — | — | 113 | 5 |
| Total investment securities - available for sale | 1,610 | 15 | — | — | 1,610 | 15 |
| Total investment securities | $ 127,218 | $ 9,183 | $ 35,528 | $ 4,927 | $ 162,746 | $ 14,110 |

| As of June 30, 2021 (In Thousands) | Unrealized Holding Losses Less Than 12 Months | | Unrealized Holding Losses 12 Months or More | | Unrealized Holding Losses Total | |
|---|---|---|---|---|---|---|
| Description of Securities | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| **Held to maturity** | | | | | | |
| U.S. government sponsored enterprise MBS | $ 84,600 | $ 810 | $ — | $ — | $ 84,600 | $ 810 |
| Total investment securities - held to maturity | 84,600 | 810 | — | — | 84,600 | 810 |
| Total investment securities | $ 84,600 | $ 810 | $ — | $ — | $ 84,600 | $ 810 |

As of June 30, 2022, the Corporation had investment securities with unrealized holding losses of $9.2 million that were less than 12 months and $4.9 million that were in an unrealized loss position for more than 12 months, as compared to investment securities at June 30, 2021 with unrealized holding losses of $810,000 that were less than 12 months and none that were in an unrealized loss position for more than 12 months. The unrealized loss at June 30, 2022 was primarily attributable to 39 U.S. government sponsored enterprise MBS, two U.S. government sponsored enterprise CMOs and three private issue CMOs and, based on the nature of the investments, management concluded that such unrealized losses were not other than temporary. The unrealized loss at June 30, 2021 was attributable to 16 U.S. government sponsored enterprise MBS and, based on the nature of the investments, management concluded that such unrealized losses were not other than temporary. The Corporation does not believe that there was any OTTI at June 30, 2022 and 2021. At each of these dates, the Corporation intended and had the ability to hold the investment securities and was not likely to be required to sell the securities before realizing a full recovery.

Contractual maturities of investment securities as of June 30, 2022 and 2021 were as follows:

| (In Thousands) | June 30, 2022 Amortized Cost | June 30, 2022 Estimated Fair Value | June 30, 2021 Amortized Cost | June 30, 2021 Estimated Fair Value |
|---|---|---|---|---|
| **Held to maturity** | | | | |
| Due in one year or less | $ 1,427 | $ 1,425 | $ 1,209 | $ 1,218 |
| Due after one through five years | 10,908 | 10,805 | 14,544 | 15,179 |
| Due after five through ten years | 77,167 | 72,625 | 90,798 | 91,780 |
| Due after ten years | 96,243 | 86,869 | 116,755 | 116,544 |
| Total investment securities - held to maturity | $ 185,745 | $ 171,724 | $ 223,306 | $ 224,721 |
| | | | | |
| **Available for sale** | | | | |
| Due in one year or less | $ — | $ — | $ — | $ — |
| Due after one through five years | — | — | — | — |
| Due after five through ten years | 98 | 98 | — | — |
| Due after ten years | 2,583 | 2,578 | 3,494 | 3,587 |
| Total investment securities - available for sale | $ 2,681 | $ 2,676 | $ 3,494 | $ 3,587 |
| Total investment securities | $ 188,426 | $ 174,400 | $ 226,800 | $ 228,308 |

## Note 3: Loans Held for Investment

Loans held for investment consisted of the following at June 30, 2022 and 2021:

| (In Thousands) | June 30, 2022 | June 30, 2021 |
|---|---|---|
| Mortgage loans: | | |
| Single-family | $ 378,234 | $ 268,272 |
| Multi-family | 464,676 | 484,408 |
| Commercial real estate | 90,429 | 95,279 |
| Construction | 3,216 | 3,040 |
| Other | 123 | 139 |
| Commercial business loans | 1,206 | 849 |
| Consumer loans | 86 | 95 |
| Total loans held for investment, gross | 937,970 | 852,082 |
| | | |
| Advance payments of escrows | 47 | 157 |
| Deferred loan costs, net | 7,539 | 6,308 |
| Allowance for loan losses | (5,564) | (7,587) |
| Total loans held for investment, net | $ 939,992 | $ 850,960 |

The following table sets forth information at June 30, 2022 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 11% and 4% of loans held for investment at June 30, 2022 and June 30, 2021, respectively. Adjustable rate loans having no stated repricing date that reprice when the index to which 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 | $ 49,101 | $ 25,507 | $ 35,862 | $ 170,359 | $ 97,405 | $ 378,234 |
| Multi-family | 135,586 | 131,136 | 146,148 | 51,634 | 172 | 464,676 |
| Commercial real estate | 46,777 | 20,934 | 21,382 | — | 1,336 | 90,429 |
| Construction | 2,142 | — | — | — | 1,074 | 3,216 |
| Other | — | — | — | — | 123 | 123 |
| Commercial business loans | 869 | — | — | — | 337 | 1,206 |
| Consumer loans | 86 | — | — | — | — | 86 |
| Total loans held for investment, gross | $ 234,561 | $ 177,577 | $ 203,392 | $ 221,993 | $ 100,447 | $ 937,970 |

The Corporation has developed an internal loan grading system to evaluate and quantify the Bank's loans held for investment portfolio with respect to quality and risk. Management continually evaluates the credit quality of the Corporation's loan portfolio and conducts a quarterly review of the adequacy of the allowance for loan losses using quantitative and qualitative methods. The Corporation has adopted an internal risk rating policy in which each loan is rated for credit quality with a rating of pass, special mention, substandard, doubtful or loss. The two primary components that are used during the loan review process to determine the proper allowance levels are individually evaluated allowances and collectively evaluated allowances. Quantitative loan loss factors are developed by determining the historical loss experience, expected future cash flows, discount rates and collateral fair values, among others. Qualitative loan loss factors are developed by assessing general economic indicators such as Gross Domestic Product, Retail Sales, Unemployment Rates, Employment Growth, California Home Sales and Median California Home Prices, among others. The Corporation assigns individual factors for the quantitative and qualitative methods for each loan category and each internal risk rating.

The Corporation categorizes all of the loans held for investment into risk categories based on relevant information about the ability of the borrower to service their debt such as current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors.

A description of the general characteristics of the risk grades is as follows:

- Pass - These loans range from minimal credit risk to average however still acceptable credit risk. The likelihood of loss is considered remote.
- Special Mention - A special mention asset has potential weaknesses that may be temporary or, if left uncorrected, may result in a loss. While concerns exist, the Bank is currently protected and loss is considered unlikely and not imminent.
- Substandard - A substandard loan is inadequately protected by the current sound worth and paying capacity of the borrower or of the collateral pledged, if any. Loans so classified must have a well-defined weakness, or weaknesses, that may jeopardize the liquidation of the debt. A substandard loan is characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.
- Doubtful - A doubtful loan has all of the weaknesses inherent in one classified as substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of the currently existing facts, conditions and values, highly questionable and improbable.
- Loss - A loss loan is considered uncollectible and of such little value that continuance as an asset of the Bank is not warranted.

The following tables summarize gross loans held for investment by loan types and risk category at the dates indicated:

| | June 30, 2022 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| (In Thousands) | Single-family | Multi-family | Commercial Real Estate | Construction | Other Mortgage | Commercial Business | Consumer | Total |
| Pass | $ 376,502 | $ 464,676 | $ 90,429 | $ 3,216 | $ 123 | $ 1,206 | $ 86 | $ 936,238 |
| Special Mention | 224 | — | — | — | — | — | — | 224 |
| Substandard | 1,508 | — | — | — | — | — | — | 1,508 |
| Total loans held for investment, gross | $ 378,234 | $ 464,676 | $ 90,429 | $ 3,216 | $ 123 | $ 1,206 | $ 86 | $ 937,970 |

| | June 30, 2021 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| (In Thousands) | Single-family | Multi-family | Commercial Real Estate | Construction | Other Mortgage | Commercial Business | Consumer | Total |
| Pass | $ 258,217 | $ 483,289 | $ 95,279 | $ 3,040 | $ 139 | $ 849 | $ 95 | $ 840,908 |
| Special Mention | 1,767 | — | — | — | — | — | — | 1,767 |
| Substandard | 8,288 | 1,119 | — | — | — | — | — | 9,407 |
| Total loans held for investment, gross | $ 268,272 | $ 484,408 | $ 95,279 | $ 3,040 | $ 139 | $ 849 | $ 95 | $ 852,082 |

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 (recoveries) for loan losses are charged (credited) against operations on a quarterly basis, as necessary, to maintain the allowance at appropriate levels. 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.

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 reports as 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 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 still in their restructuring period, classified lower than pass, and containing an embedded loss component 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. For non-performing commercial real estate loans, individually evaluated allowances are calculated based on their fair values and if their fair values are higher than their loan balances, no allowances are required.

The following tables summarize the Corporation's allowance for loan losses and recorded investment in gross loans, by portfolio type, at the dates and for the years indicated.

| | Year Ended June 30, 2022 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| (In Thousands) | Single-family | Multi-family | Commercial Real Estate | Construction | Other Mortgage | Commercial Business | Consumer | Total |
| Allowance at beginning of period | $ 2,000 | $ 4,485 | $ 1,006 | $ 51 | $ 3 | $ 36 | $ 6 | $ 7,587 |
| (Recovery) provision for loan losses | (1,056) | (1,203) | (190) | (28) | — | 16 | (1) | (2,462) |
| Recoveries | 439 | — | — | — | — | — | — | 439 |
| Charge-offs | — | — | — | — | — | — | — | — |
| Allowance for loan losses, end of period | $ 1,383 | $ 3,282 | $ 816 | $ 23 | $ 3 | $ 52 | $ 5 | $ 5,564 |
| **Allowance:** | | | | | | | | |
| Individually evaluated for allowances | $ 38 | $ — | $ — | $ — | $ — | $ — | $ — | $ 38 |
| Collectively evaluated for allowances | 1,345 | 3,282 | 816 | 23 | 3 | 52 | 5 | 5,526 |
| Allowance for loan losses, end of period | $ 1,383 | $ 3,282 | $ 816 | $ 23 | $ 3 | $ 52 | $ 5 | $ 5,564 |
| **Gross Loans:** | | | | | | | | |
| Individually evaluated for allowances | $ 1,275 | $ — | $ — | $ — | $ — | $ — | $ — | $ 1,275 |
| Collectively evaluated for allowances | 376,959 | 464,676 | 90,429 | 3,216 | 123 | 1,206 | 86 | 936,695 |
| Total loans held for investment, gross | $ 378,234 | $ 464,676 | $ 90,429 | $ 3,216 | $ 123 | $ 1,206 | $ 86 | $ 937,970 |
| Allowance for loan losses as a percentage of gross loans held for investment | 0.37 % | 0.71 % | 0.90 % | 0.72 % | 2.44 % | 4.31 % | 5.81 % | 0.59 % |
| Net (recoveries) charge-offs to average loans receivable, net during the period | (0.15)% | — % | — % | — % | — % | — % | — % | (0.05)% |

| | Year Ended June 30, 2021 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| (In Thousands) | Single-family | Multi-family | Commercial Real Estate | Construction | Other Mortgage | Commercial Business | Consumer | Total |
| Allowance at beginning of period | $ 2,622 | $ 4,329 | $ 1,110 | $ 171 | $ 3 | $ 24 | $ 6 | $ 8,265 |
| (Recovery) provision for loan losses | (653) | 156 | (104) | (120) | — | 12 | 1 | (708) |
| Recoveries | 31 | — | — | — | — | — | 1 | 32 |
| Charge-offs | — | — | — | — | — | — | (2) | (2) |
| Allowance for loan losses, end of period | $ 2,000 | $ 4,485 | $ 1,006 | $ 51 | $ 3 | $ 36 | $ 6 | $ 7,587 |
| **Allowance:** | | | | | | | | |
| Individually evaluated for allowances | $ 384 | $ — | $ — | $ — | $ — | $ — | $ — | $ 384 |
| Collectively evaluated for allowances | 1,616 | 4,485 | 1,006 | 51 | 3 | 36 | 6 | 7,203 |
| Allowance for loan losses, end of period | $ 2,000 | $ 4,485 | $ 1,006 | $ 51 | $ 3 | $ 36 | $ 6 | $ 7,587 |
| **Gross Loans:** | | | | | | | | |
| Individually evaluated for allowances | $ 8,039 | $ — | $ — | $ — | $ — | $ — | $ — | $ 8,039 |
| Collectively evaluated for allowances | 260,233 | 484,408 | 95,279 | 3,040 | 139 | 849 | 95 | 844,043 |
| Total loans held for investment, gross | $ 268,272 | $ 484,408 | $ 95,279 | $ 3,040 | $ 139 | $ 849 | $ 95 | $ 852,082 |
| Allowance for loan losses as a percentage of gross loans held for investment | 0.75 % | 0.93 % | 1.06 % | 1.68 % | 2.16 % | 4.24 % | 6.32 % | 0.88 % |
| Net (recoveries) charge-offs to average loans receivable, net during the period | (0.01)% | — % | — % | — % | — % | — % | 1.22 % | (0.00)% |

The following summarizes the components of the net change in the allowance for loan losses for the years indicated:

| | Year Ended June 30, | |
|---|---|---|
| (In Thousands) | 2022 | 2021 |
| Balance, beginning of year | $ 7,587 | $ 8,265 |
| Recovery from the allowance for loan losses | (2,462) | (708) |
| Recoveries | 439 | 32 |
| Charge-offs | — | (2) |
| Balance, end of year | $ 5,564 | $ 7,587 |

The following tables identify the Corporation's total recorded investment in non-performing loans by type at the dates and for the years indicated. Generally, a loan is placed on non-accrual status when it becomes 90 days past due as to principal or interest or if the loan is deemed impaired, after considering economic and business conditions and collection efforts, where the borrower's financial condition is such that collection of the contractual principal or interest on the loan is

doubtful. In addition, interest income is not recognized on any loan where management has determined that collection is not reasonably assured. A non-performing loan may be restored to accrual status when delinquent principal and interest payments are brought current and future monthly principal and interest payments are expected to be collected on a timely basis. Loans with a related allowance reserve have been individually evaluated for impairment using either a discounted cash flow analysis or, for collateral dependent loans, current appraisals less costs to sell to establish realizable value. This evaluation may identify a specific impairment amount needed or may conclude that no reserve is needed. Loans that are not individually evaluated for impairment are included in pools of homogeneous loans for evaluation of related allowance reserves.

| | At or For the Year Ended June 30, 2022 | | | | | | |
|---|---|---|---|---|---|---|---|
| (In Thousands) | Unpaid Principal Balance | Related Charge-offs | Recorded Investment | Allowance[1] | Net Recorded Investment | Average Recorded Investment | Interest Income Recognized |
| Mortgage loans: | | | | | | | |
| Single-family: | | | | | | | |
| With a related allowance | $ 993 | $ — | $ 993 | $ (85) | $ 908 | $ 2,594 | $ 98 |
| Without a related allowance[2] | 548 | (33) | 515 | — | 515 | 635 | 232 |
| Total single-family loans | 1,541 | (33) | 1,508 | (85) | 1,423 | 3,229 | 330 |
| Multi-family: | | | | | | | |
| With a related allowance | — | — | — | — | — | 957 | 46 |
| Total multi-family loans | — | — | — | — | — | 957 | 46 |
| Total non-performing loans | $ 1,541 | $ (33) | $ 1,508 | $ (85) | $ 1,423 | $ 4,186 | $ 376 |

[1] Consists of collectively and individually evaluated allowances, specifically assigned to the individual loan.
[2] There was no related allowance for loan losses because these loans have been charged-off to their fair value or the fair value of the collateral is higher than the loan balance.

| | At or For the Year Ended June 30, 2021 | | | | | | |
|---|---|---|---|---|---|---|---|
| (In Thousands) | Unpaid Principal Balance | Related Charge-offs Related | Recorded Investment | Allowance[1] | Net Recorded Investment | Average Recorded Investment | Interest Income Recognized |
| Mortgage loans: | | | | | | | |
| Single-family: | | | | | | | |
| With a related allowance | $ 7,400 | $ — | $ 7,400 | $ (434) | $ 6,966 | $ 7,187 | $ 140 |
| Without a related allowance[2] | 1,335 | (436) | 899 | — | 899 | 1,516 | — |
| Total single-family loans | 8,735 | (436) | 8,299 | (434) | 7,865 | 8,703 | 140 |
| Multi-family: | | | | | | | |
| With a related allowance | 1,119 | — | 1,119 | (338) | 781 | 374 | 15 |
| Total mutlti-family loans | 1,119 | — | 1,119 | (338) | 781 | 374 | 15 |
| Commercial business loans: | | | | | | | |
| With a related allowance | — | — | — | — | — | 13 | 1 |
| Total commercial business loans | — | — | — | — | — | 13 | 1 |
| Total non-performing loans | $ 9,854 | $ (436) | $ 9,418 | $ (772) | $ 8,646 | $ 9,090 | $ 156 |

[1] Consists of collectively and individually evaluated allowances, specifically assigned to the individual loan.
[2] There was no related allowance for loan losses because these loans have been charged-off to their fair value or the fair value of the collateral is higher than the loan balance.

At June 30, 2022 and 2021, there were no commitments to lend additional funds to those borrowers whose loans were classified as non-performing.

During the fiscal years ended June 30, 2022 and 2021, the Corporation's average investment in non-performing loans was $4.2 million and $9.1 million, respectively. The Corporation records payments on non-performing loans utilizing the cash basis or cost recovery method of accounting during the periods when the loans are on non-performing status. For the fiscal year ended June 30, 2022, the Bank received $405,000 in interest payments from non-performing loans, of which $376,000 was recognized as interest income. The remaining $29,000 was applied to reduce the loan balances under the cost recovery method. In comparison, for the fiscal year ended June 30, 2021, the Bank received $209,000 in interest payments from non-performing loans, of which $156,000 was recognized as interest income. The remaining $53,000 was applied to reduce the loan balances under the cost recovery method.

The Corporation has modified loans in accordance with the CARES Act and Interagency Statement. The CARES Act and Interagency Statement provided guidance around the modification of loans as a result of the COVID-19 pandemic, and outlined, among other criteria, that short-term modifications of up to six months made on a good faith basis to borrowers who were current as defined under the CARES Act and Interagency Statement prior to any relief are not restructured loans and if all payments are current in accordance with the revised terms of the loan, the loan would not be reported as past due. As of June 30, 2022, the Corporation had no remaining forbearance loans that were modified and operating under forbearance agreements in accordance with the CARES Act and Interagency Statement.

As of June 30, 2022, loan forbearance related to COVID-19 hardship requests are described below:

| | Forbearance Granted | | Forbearance Completed[1] | | Forbearance Remaining | |
|---|---|---|---|---|---|---|
| (Dollars In Thousands) | Number of Loans | Amount | Number of Loans | Amount | Number of Loans | Amount |
| Single-family loans | 59 | $ 22,980 | 59 | $ 22,980 | — | $ — |
| Multi-family loans | 5 | 2,268 | 5 | 2,268 | — | — |
| Commercial real estate loans | 3 | 1,954 | 3 | 1,954 | — | — |
| Total loan forbearance | 67 | $ 27,202 | 67 | $ 27,202 | — | $ — |

(1) Includes 19 single-family loans totaling $6.9 million where forbearance was subsequently extended and were classified as restructured non-performing loans, consistent with the Interagency Statement. As of June 30, 2022, five loans totaling $2.2 million were paid off and 13 loans totaling $3.9 million were upgraded to the pass category, while one loan totaling $760,000 remained as non-performing.

As of March 31, 2021, the Corporation ceased offering the COVID-19 forbearance relief program and as of June 30, 2022, the Corporation had no pending requests for this type of payment relief.

After the payment deferral period, normal loan payments once again became due and payable. The forbearance amount is due and payable in full as a balloon payment at the end of the loan term or sooner if the loan becomes due and payable in full at an earlier date.

The following tables provide information on the past due status of the Corporation's loans held for investment, gross, at the dates indicated.

| | June 30, 2022 | | | |
|---|---|---|---|---|
| (In Thousands) | Current | 30-89 Days Past Due | Non-Accrual[1] | Total Loans Held for Investment, Gross |
| Mortgage loans: | | | | |
| Single-family | $ 376,726 | $ — | $ 1,508 | $ 378,234 |
| Multi-family | 464,676 | — | — | 464,676 |
| Commercial real estate | 90,429 | — | — | 90,429 |
| Construction | 3,216 | — | — | 3,216 |
| Other | 123 | — | — | 123 |
| Commercial business loans | 1,206 | — | — | 1,206 |
| Consumer loans | 83 | 3 | — | 86 |
| Total loans held for investment, gross | $ 936,459 | $ 3 | $ 1,508 | $ 937,970 |

(1) All loans 90 days or greater past due are placed on non-accrual status.

| (In Thousands) | June 30, 2021 Current | 30-89 Days Past Due | Non-Accrual[1] | Total Loans Held for Investment, Gross |
|---|---|---|---|---|
| Mortgage loans: | | | | |
| Single-family | $ 259,984 | $ — | $ 8,288 | $ 268,272 |
| Multi-family | 483,289 | — | 1,119 | 484,408 |
| Commercial real estate | 95,279 | — | — | 95,279 |
| Construction | 3,040 | — | — | 3,040 |
| Other | 139 | — | — | 139 |
| Commercial business loans | 849 | — | — | 849 |
| Consumer loans | 88 | 7 | — | 95 |
| Total loans held for investment, gross | $ 842,668 | $ 7 | $ 9,407 | $ 852,082 |

[1] All loans 90 days or greater past due are placed on non-accrual status.

For the fiscal year ended June 30, 2022, there were no loans that were newly modified from their original terms, reunderwritten or identified as a restructured loan; three loans were upgraded to the pass category; seven loans were paid off; and no loans were converted to real estate owned. For the fiscal year ended June 30, 2021, there were 20 loans that were newly modified from their original terms, reunderwritten or identified as a restructured loan, including 19 COVID-19 related forbearance loans downgraded when their monthly payment deferrals were extended beyond six months; two loans were upgraded to the pass category; three loans were paid off; and no loans were converted to real estate owned. During the fiscal years ended June 30, 2022 and 2021, no restructured loans were in default within a 12-month period subsequent to their original restructuring. Additionally, during the fiscal year ended June 30, 2022, there were no restructured loans that were extended beyond the initial maturity of the modification; while in fiscal 2021, there were 12 restructured loans totaling $4.7 million (which were all COVID-19 related forbearance loans prior to their restructuring) that were extended beyond the initial maturity of the modification.

As of June 30, 2022, the net outstanding balance of the Corporation's 13 restructured loans was $4.5 million; one loan with an outstanding balance of $722,000 was classified as substandard on non-accrual status. As of June 30, 2022, all of the restructured loans were current with respect to their payment status, consistent with their modified terms. As of June 30, 2021, the net outstanding balance of the Corporation's 23 restructured loans was $7.9 million; 20 loans totaling $7.0 million were classified as substandard on non-accrual status and three loans totaling $876,000 were classified as pass category on accrual status. As of June 30, 2021, $7.7 million, or 97 percent, of the restructured loans were current with respect to their payment status, consistent with their modified terms. At both June 30, 2022 and June 30, 2021, there were no commitments to lend additional funds to those borrowers whose loans were restructured.

The following table summarizes at the dates indicated the restructured loan balances, net of allowance for loan losses or charge-offs, by loan type and non-accrual versus accrual status at June 30, 2022 and 2021 :

| (In Thousands) | At June 30, 2022 | 2021 |
|---|---|---|
| Restructured loans on non-accrual status: | | |
| Mortgage loans: | | |
| Single-family | $ 722 | $ 6,983 |
| Total | 722 | 6,983 |
| | | |
| Restructured loans on accrual status: | | |
| Mortgage loans: | | |
| Single-family | 3,748 | 876 |
| Total | 3,748 | 876 |
| Total restructured loans | $ 4,470 | $ 7,859 |

The following tables show the restructured loans by type, net of allowance for loan losses or charge-offs, at June 30, 2022 and 2021:

| | At June 30, 2022 | | | | |
|---|---|---|---|---|---|
| (In Thousands) | Unpaid Principal Balance | Related Charge-offs | Recorded Investment | Allowance[1] | Net Recorded Investment |
| Mortgage loans: | | | | | |
| Single-family: | | | | | |
| With a related allowance | $ 760 | $ — | $ 760 | $ (38) | $ 722 |
| Without a related allowance[2] | 3,748 | — | 3,748 | — | 3,748 |
| Total single-family | 4,508 | — | 4,508 | (38) | 4,470 |
| Total restructured loans | $ 4,508 | $ — | $ 4,508 | $ (38) | $ 4,470 |

(1) Consists of collectively and individually evaluated allowances, specifically assigned to the individual loan.
(2) There was no related allowance for loan losses because these loans have been charged-off to their fair value or the fair value of the collateral is higher than the loan balance.

| | At June 30, 2021 | | | | |
|---|---|---|---|---|---|
| (In Thousands) | Unpaid Principal Balance | Related Charge-offs | Recorded Investment | Allowance[1] | Net Recorded Investment |
| Mortgage loans: | | | | | |
| Single-family: | | | | | |
| With a related allowance | $ 7,151 | $ — | $ 7,151 | $ (384) | $ 6,767 |
| Without a related allowance[2] | 1,457 | (365) | 1,092 | — | 1,092 |
| Total single-family | 8,608 | (365) | 8,243 | (384) | 7,859 |
| Total restructured loans | $ 8,608 | $ (365) | $ 8,243 | $ (384) | $ 7,859 |

(1) Consists of collectively and individually evaluated allowances, specifically assigned to the individual loan.
(2) There was no related allowance for loan losses because these loans have been charged-off to their fair value or the fair value of the collateral is higher than the loan balance.

In the ordinary course of business, the Bank makes loans to its directors, officers and employees on substantially the same terms prevailing at the time of origination for comparable transactions with unaffiliated borrowers. The following is a summary of related-party loan activity:

| | Year Ended June 30, | |
|---|---|---|
| (In Thousands) | 2022 | 2021 |
| Balance, beginning of year | $ — | $ 1 |
| Sales and payments | — | (1) |
| Balance, end of year | $ — | $ — |

As of June 30, 2022 and 2021, there were no outstanding related-party loans.

## Note 4: Leases

The Corporation accounts for its leases in accordance with ASC 842, which was implemented on July 1, 2019, and requires the Corporation to record liabilities for future lease obligations as well as assets representing the right to use the underlying leased assets. The Corporation's leases primarily represent future obligations to make payments for the use of buildings, space or equipment for its operations. Liabilities to make future lease payments are recorded in accounts payable, accrued interest and other liabilities, while right-of-use assets are recorded in premises and equipment in the Corporation's Consolidated Statements of Financial Condition. At June 30, 2022, all of the Corporation's leases were classified as operating leases and the Corporation did not have any operating leases with an initial term of 12 months or less ("short-term leases").

Liabilities to make future lease payments and right-of-use assets are recorded for operating leases and do not include short-term leases. These liabilities and right-of-use assets are determined based on the total contractual base rents for each lease, which include options to extend or renew each lease, where applicable, and where the Corporation believes it has an economic incentive to extend or renew the lease. Due to the fact that lease extensions are not reasonably certain, the Corporation generally does not recognize payments occurring during option periods in the calculation of its operating right-of-use lease assets and operating lease liabilities. The Corporation utilizes the FHLB - San Francisco interest rates as a discount rate for each of the remaining contractual terms at the adoption date as well as for future leases if the discount rate is not stated in the lease. For leases that contain variable lease payments, the Corporation assumes future lease payment escalations based on a lease payment escalation rate specified in the lease or the specified index rate observed at the time of lease commencement. Liabilities to make future lease payments are accounted for using the interest method, being reduced by periodic contractual lease payments net of periodic interest accretion. Right-of-use assets for operating leases are amortized over the term of the associated lease by amounts that represent the difference between periodic straight-line lease expense and periodic interest accretion in the related liability to make future lease payments.

For the fiscal years ended June 30, 2022 and 2021, expenses associated with the Corporation's leases totaled $880,000 and $866,000, respectively, and were recorded in premises and occupancy expenses and equipment expenses in the Consolidated Statements of Operations.

The following table presents supplemental information related to operating leases at the date and for the years indicated:

| | As of June 30, | |
|---|---|---|
| (In Thousands) | 2022 | 2021 |
| **Consolidated Statements of Condition:** | | |
| Premises and equipment - Operating lease right of use assets | $ 1,969 | $ 2,117 |
| Accounts payable, accrued interest and other liabilities – Operating lease liabilities | $ 1,998 | $ 2,192 |

| | Year Ended June 30, | |
|---|---|---|
| | 2022 | 2021 |
| **Consolidated Statements of Operations:** | | |
| Premises and occupancy expenses from operating leases[(1)] | $ 788 | $ 797 |
| Equipment expenses from operating leases | $ 92 | $ 69 |
| **Consolidated Statements of Cash Flows:** | | |
| Operating cash flows from operating leases, net | $ 921 | $ 905 |

(1) Includes immaterial variable lease costs.

The following table provides information related to remaining minimum contractual lease payments and other information associated with the Corporation's leases as of June 30, 2022:

| Year Ending June 30, | Amount[1] (In Thousands) |
|---|---|
| 2023 | $ 832 |
| 2024 | 555 |
| 2025 | 400 |
| 2026 | 236 |
| 2027 | 39 |
| Thereafter | — |
| Total contract lease payments | $ 2,062 |
| | |
| Total liability to make lease payments | $ 1,998 |
| Difference in undiscounted and discounted future lease payments | $ 64 |
| Weighted average discount rate | 1.97 % |
| Weighted average remaining lease term (years) | 3.1 |

(1) Contractual base rents do not include property taxes and other operating expenses due under respective lease agreements.

## Note 5: Premises and Equipment

Premises and equipment at June 30, 2022 and 2021 consisted of the following:

| (In Thousands) | June 30, 2022 | 2021 |
|---|---|---|
| Land | $ 2,853 | $ 2,853 |
| Buildings | 9,896 | 9,772 |
| Leasehold improvements | 2,996 | 3,033 |
| Furniture and equipment | 5,427 | 5,416 |
| Automobiles | 167 | 164 |
| Operating lease – right of use assets [1] | 1,969 | 2,117 |
| | 23,308 | 23,355 |
| Less accumulated depreciation and amortization | (14,482) | (13,978) |
| Total premises and equipment, net | $ 8,826 | $ 9,377 |

(1) Net of accumulated amortization.

Depreciation and amortization expense for the years ended June 30, 2022 and 2021 amounted to $1.5 million and $1.6 million, respectively.

## Note 6: Deposits

Deposits at June 30, 2022 and 2021 consisted of the following:

| | June 30, 2022 | | June 30, 2021 | |
|---|---|---|---|---|
| (Dollars in Thousands) | Interest Rate | Amount | Interest Rate | Amount |
| Checking deposits – non interest-bearing | — | $ 125,089 | — | $ 123,179 |
| Checking deposits – interest-bearing[(1)] | 0.00% - 0.20% | 335,788 | 0.00% - 0.20% | 327,388 |
| Savings deposits[(1)] | 0.00% - 0.70% | 333,581 | 0.00% - 0.70% | 307,299 |
| Money market deposits[(1)] | 0.00% - 2.00% | 39,897 | 0.00% - 2.00% | 39,670 |
| Time deposits:[(1)] | | | | |
| Under $100 | 0.00% - 2.13% | 60,721 | 0.00% - 2.13% | 71,026 |
| $100 and over | 0.05% - 2.13% | 60,428 | 0.05% - 2.13% | 69,411 |
| Total deposits | | $ 955,504 | | $ 937,973 |
| Weighted-average interest rate on deposits | | 0.11 % | | 0.15 % |

(1) Certain interest-bearing checking, savings, money market and time deposits require a minimum balance to earn interest.

The aggregate annual maturities of time deposits at June 30, 2022 and 2021 were as follows:

| | June 30, | |
|---|---|---|
| (In Thousands) | 2022 | 2021 |
| One year or less | $ 78,644 | $ 76,705 |
| Over one to two years | 20,600 | 37,687 |
| Over two to three years | 13,890 | 11,230 |
| Over three to four years | 3,552 | 11,923 |
| Over four to five years | 3,186 | 2,493 |
| Over five years | 1,277 | 399 |
| Total time deposits | $ 121,149 | $ 140,437 |

Interest expense on deposits for the years indicated is summarized as follows:

| | Year Ended June 30, | |
|---|---|---|
| (In Thousands) | 2022 | 2021 |
| Checking deposits – interest-bearing | $ 149 | $ 188 |
| Savings deposits | 172 | 208 |
| Money market deposits | 71 | 80 |
| Time deposits | 752 | 1,269 |
| Total interest expense on deposits | $ 1,144 | $ 1,745 |

The Bank is required to maintain reserve balances with the Federal Reserve Bank of San Francisco. Effective March 26, 2020, the Federal Reserve lowered the reserve ratios on transaction accounts maintained at a depository institution to zero percent so there was no required reserve balance at June 30, 2022 and 2021.

## Note 7: Borrowings

Advances from the FHLB – San Francisco, which mature on various dates through 2025, are collateralized by pledges of certain real estate loans with an aggregate balance at June 30, 2022 and 2021 of $570.4 million and $607.0 million, respectively. In addition, the Bank pledged investment securities totaling $4.7 million and $1.6 million to collateralize its FHLB – San Francisco advances under the Securities-Backed Credit ("SBC") program at June 30, 2022 and 2021, respectively. The Bank's FHLB – San Francisco borrowing capacity, which is limited to 35% of total assets reported on the Bank's quarterly Call Report, was approximately $415.7 million and $416.2 million at June 30, 2022 and 2021, respectively. As of June 30, 2022 and 2021, the remaining/available borrowing facility was $310.3 million and $296.8 million, respectively, and the remaining/available collateral was $310.5 million and $343.1 million, respectively.

In addition, as of June 30, 2022 and 2021, the Bank had a $153.9 million and $206.1 million discount window facility, respectively, at the Federal Reserve Bank of San Francisco, collateralized by investment securities with a fair market value of $163.7 million and $219.2 million, respectively. As of June 30, 2022 and 2021, the Bank also had a borrowing arrangement in the form of a federal funds facility with its correspondent bank for $50.0 million and $17.0 million, respectively. The Bank intends to request a renewal of its borrowing arrangement with the correspondent bank prior to maturity. As of both June 30, 2022 and 2021, there were no outstanding borrowings under the discount window facility or the federal funds facility with the correspondent bank.

Borrowings at June 30, 2022 and 2021 consisted of the following:

| | June 30, | |
|---|---|---|
| (In Thousands) | 2022 | 2021 |
| FHLB - San Francisco advances | $ 85,000 | $ 100,983 |

In addition to the total borrowings described above, the Bank utilizes its borrowing facility for letters of credit and MPF credit enhancement. The outstanding letters of credit at June 30, 2022 and 2021 were $18.0 million and $16.0 million, respectively; and the outstanding MPF credit enhancement was $2.5 million at both, June 30, 2022 and June 30, 2021.

As a member of the FHLB – San Francisco, the Bank is required to maintain a minimum investment in FHLB – San Francisco capital stock. At both June 30, 2022 and 2021, the Bank held a stock investment of $8.2 million with no excess capital stock at either date.

During fiscal 2022, the FHLB – San Francisco did not redeem any excess capital stock, while the Bank purchased $84,000 of FHLB - San Francisco capital stock. During fiscal 2021, the FHLB – San Francisco did not redeem any excess capital stock, while the Bank purchased $185,000 of FHLB - San Francisco capital stock. In fiscal 2022 and 2021, the FHLB – San Francisco distributed $489,000 and $418,000 of cash dividends, respectively, to the Bank.

The following tables set forth certain information regarding borrowings by the Bank at the dates and for the years indicated:

| | At or For the Year Ended June 30, | |
|---|---|---|
| (Dollars in Thousands) | 2022 | 2021 |
| Balance outstanding at the end of year: | | |
| FHLB - San Francisco advances | $ 85,000 | $ 100,983 |
| Weighted-average rate at the end of year: | | |
| FHLB - San Francisco advances | 2.20 % | 2.19 % |
| Maximum amount of borrowings outstanding at any month end: | | |
| FHLB - San Francisco advances | $ 100,978 | $ 141,042 |
| Average short-term borrowings during the year with respect to:[1] | | |
| FHLB - San Francisco advances | $ 25,513 | $ 35,631 |
| Weighted-average short-term borrowing rate during the year with respect to:[1] | | |
| FHLB - San Francisco advances | 1.87 % | 2.14 % |

[1] Borrowings with a remaining term of 12 months or less.

The aggregate annual contractual maturities of borrowings at June 30, 2022 and 2021 were as follows:

| (Dollars in Thousands) | June 30, 2022 | 2021 |
|---|---|---|
| Within one year | $ 35,000 | $ 20,983 |
| Over one to two years | 30,000 | 30,000 |
| Over two to three years | 20,000 | 30,000 |
| Over three to four years | — | 20,000 |
| Over four to five years | — | — |
| Over five years | — | — |
| Total borrowings | $ 85,000 | $ 100,983 |
| Weighted average interest rate | 2.20 % | 2.19 % |

## Note 8: Income Taxes

ASC 740, "Income Taxes," requires the affirmative evaluation that it is more likely than not, based on the technical merits of a tax position, that an enterprise is entitled to economic benefits resulting from positions taken in income tax returns. If a tax position does not meet the more-likely-than-not recognition threshold, the benefit of that position is not recognized in the financial statements. Management has determined that there were no unrecognized tax benefits to be reported in the Corporation's consolidated financial statements for the years ended June 30, 2022 and 2021.

Under generally accepted accounting principles, the Corporation uses the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

The Corporation's effective tax rate may differ from the estimated statutory tax rates described above due to discrete items such as further adjustments to net deferred tax assets, excess tax benefits derived from stock option exercises and non-taxable earnings from bank owned life insurance, among other items.

The Corporation utilizes the asset and liability method of accounting for income taxes whereby deferred tax assets are recognized for deductible temporary differences and tax credit carryforwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effect of changes in tax laws and rates on the date of enactment.

The provision for income taxes for the years indicated consisted of the following:

| **(In Thousands)** | **Year Ended June 30, 2022** | **2021** |
|---|---|---|
| Current: | | |
| Federal | $ 1,781 | $ 1,547 |
| State | 844 | 598 |
| | 2,625 | 2,145 |
| Deferred: | | |
| Federal | 696 | 303 |
| State | 444 | 178 |
| | 1,140 | 481 |
| Provision for income taxes | $ 3,765 | $ 2,626 |

The Corporation's tax benefit from non-qualified equity compensation recognized in the Consolidated Statements of Operations in connection with the adoption of ASU 2016-09 for fiscal 2022 and 2021 was $0 and $91,000, respectively.

The provision for income taxes differs from the amount of income tax determined by applying the applicable U.S. statutory federal income tax rate to net income before income taxes as a result of the following differences for the years indicated:

| | Year Ended June 30, | | | |
|---|---|---|---|---|
| | 2022 | | 2021 | |
| (In Thousands) | Amount | Tax Rate | Amount | Tax Rate |
| Federal income tax at statutory rate | $ 2,700 | 21.00 % | $ 2,139 | 21.00 % |
| State income tax, net of federal income tax benefit | 988 | 7.68 % | 614 | 6.05 % |
| Changes in taxes resulting from: | | | | |
| Bank-owned life insurance | (39) | (0.31)% | (40) | (0.39)% |
| Non-deductible expenses | 8 | 0.06 % | 6 | 0.06 % |
| Non-deductible stock-based compensation | — | — % | (30) | (0.30)% |
| Excess tax benefit on stock-based compensation | — | — % | (64) | — % |
| Return to provision adjustment | 107 | 0.84 % | — | — % |
| Other | 1 | 0.01 % | 1 | (0.64)% |
| Effective income tax | $ 3,765 | 29.28 % | $ 2,626 | 25.78 % |

Deferred tax assets at June 30, 2022 and 2021 by jurisdiction were as follows:

| | June 30, | |
|---|---|---|
| (In Thousands) | 2022 | 2021 |
| Deferred taxes - federal | $ 947 | $ 1,617 |
| Deferred taxes - state | 485 | 926 |
| Total net deferred tax assets | $ 1,432 | $ 2,543 |

Net deferred tax assets at June 30, 2022 and 2021 were comprised of the following:

| | June 30, | |
|---|---|---|
| (In Thousands) | 2022 | 2021 |
| Loss reserves | $ 1,968 | $ 2,734 |
| Non-accrued interest | 199 | 392 |
| Deferred compensation | 2,903 | 2,512 |
| Accrued vacation | 178 | 197 |
| Depreciation | 211 | 153 |
| State tax | 64 | — |
| Other | 245 | 307 |
| Total deferred tax assets | 5,768 | 6,295 |
| | | |
| FHLB - San Francisco stock dividends | (645) | (645) |
| Prepaid expenses | (28) | (41) |
| Unrealized loss (gain) on investment securities | 1 | (27) |
| Unrealized gain on interest-only strips | (2) | (3) |
| Deferred loan costs | (3,662) | (2,974) |
| State tax | — | (62) |
| Total deferred tax liabilities | (4,336) | (3,752) |
| Net deferred tax assets | $ 1,432 | $ 2,543 |

The net deferred tax assets were included in prepaid expenses and other assets in the Consolidated Statements of Financial Condition. The Corporation analyzes the deferred tax assets to determine whether a valuation allowance is required based on the more-likely-than-not criteria that such assets will be realized principally through future taxable income. This criteria takes into account the actual earnings and the estimates of future profitability. The Corporation may carryback net federal tax losses to the preceding five taxable years and forward to the succeeding 20 taxable years. At June 30, 2022 and 2021, the Corporation had no federal and state net tax loss carryforwards. Based on management's consideration of historical and anticipated future income before income taxes, as well as the reversal period for the items giving rise to the deferred tax assets and liabilities, a valuation allowance was not considered necessary at June 30, 2022 and 2021 and management believes it is more likely than not the Corporation will realize its deferred tax asset.

Retained earnings at June 30, 2022 and 2021 include approximately $9.0 million (pre-1988 bad debt reserve for tax purposes) for which federal income tax of $3.1 million has not been provided. If the amounts that qualify as deductions for federal income tax purposes are later used for purposes other than for bad debt losses, including distribution in liquidation, they will be subject to federal income tax at the then-current corporate tax rate. If those amounts are not so used, they will not be subject to tax even in the event the Bank were to convert its charter from a thrift to a bank.

The Corporation files income tax returns for the United States and California jurisdictions. The Internal Revenue Service has audited the Bank's income tax returns through 1996 and the California Franchise Tax Board has audited the Bank through 1990. Also, the Internal Revenue Service completed a review of the Corporation's income tax returns for fiscal 2006 and 2007; and the California Franchise Tax Board completed a review of the Corporation's income tax returns for fiscal 2009 and 2010. Fiscal years of 2019 and thereafter remain subject to federal examination, while the California state tax returns for fiscal years 2018 and thereafter are subject to examination by state taxing authorities.

It is the Corporation's policy to record any penalties or interest charges arising from federal or state taxes as a component of income tax expense. For the fiscal years ended June 30, 2022 and 2021, there were no tax penalties and no interest charges arising from federal or state taxes.

## Note 9: Capital

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

For a bank holding company such as the Corporation with less than $3.0 billion in assets, the capital guidelines apply on a bank only basis. The Federal Reserve expects the holding company's subsidiary bank to be well capitalized under the prompt corrective action regulations. If the Corporation was subject to regulatory guidelines for bank holding companies at June 30, 2022, it would have exceeded all regulatory capital requirements.

The Bank is subject to capital regulations which establish minimum required capital ratios for Tier 1 leverage, common equity Tier 1 ("CET1"), Tier 1 risk-based and total risk-based capital. Additionally, a capital conservation buffer is required over the required minimum capital ratios, and capital regulations also defines what qualifies as capital for purposes of meeting the capital requirements. Failure to meet minimum requirements can initiate certain mandatory and possibly additional discretionary actions by bank regulators that, if undertaken, could have a direct material effect on the Corporation's financial statements.

In addition to the minimum capital ratios, the Bank has to maintain a capital conservation buffer consisting of additional CET1 capital greater than 2.5% above the required minimum levels in order to avoid limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses based on percentages of eligible retained income that could be utilized for such actions.

For calendar 2020 and thereafter, the minimum requirements call for a Tier 1 leverage capital ratio of 4.00%, a CET1 capital ratio of 7.00%, a Tier 1 risk-based capital ratio of 8.50%, and a Total risk-based capital ratio of 10.50%.

Under the standards, in order to be considered well-capitalized, the Bank must have at minimum a Tier 1 leverage capital ratio of 5.00%, a CET1 capital ratio of 6.50%, a Tier 1 risk-based capital ratio of 8.00%, and a Total risk-based capital ratio of 10.00%.

The Bank's actual and required minimum capital amounts and ratios at the dates indicated are as follows (dollars in thousands):

| | | | Regulatory Requirements | | | |
|---|---|---|---|---|---|---|
| | | | Minimum for Capital Adequacy Purposes[1] | | Minimum to Be Well Capitalized | |
| | Actual | | | | | |
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| **Provident Savings Bank, F.S.B.:** | | | | | | |
| **As of June 30, 2022** | | | | | | |
| Tier 1 leverage capital (to adjusted average assets) | $ 124,871 | 10.47 % | $ 47,699 | 4.00 % | $ 59,624 | 5.00 % |
| CET1 capital (to risk-weighted assets) | $ 124,871 | 19.58 % | $ 44,653 | 7.00 % | $ 41,463 | 6.50 % |
| Tier 1 capital (to risk-weighted assets) | $ 124,871 | 19.58 % | $ 54,221 | 8.50 % | $ 51,032 | 8.00 % |
| Total capital (to risk-weighted assets) | $ 130,565 | 20.47 % | $ 66,979 | 10.50 % | $ 63,790 | 10.00 % |
| **As of June 30, 2021** | | | | | | |
| Tier 1 leverage capital (to adjusted average assets) | $ 121,621 | 10.19 % | $ 47,736 | 4.00 % | $ 59,670 | 5.00 % |
| CET1 capital (to risk-weighted assets) | $ 121,621 | 18.58 % | $ 45,816 | 7.00 % | $ 42,544 | 6.50 % |
| Tier 1 capital (to risk-weighted assets) | $ 121,621 | 18.58 % | $ 55,634 | 8.50 % | $ 52,361 | 8.00 % |
| Total capital (to risk-weighted assets) | $ 129,335 | 19.76 % | $ 68,724 | 10.50 % | $ 65,452 | 10.00 % |

[1] Inclusive of the conservation buffer of 2.50% for CET1 capital, Tier 1 capital and Total capital ratios.

At June 30, 2022, the Bank exceeded all regulatory capital requirements. The Bank was categorized as "well-capitalized" at June 30, 2022 under the regulations of the OCC.

The ability of the Corporation to pay dividends to stockholders depends primarily on the ability of the Bank to pay dividends to the Corporation. The Corporation and the Bank may not declare or pay cash dividends on or repurchase any of its shares of common stock, if the effect would cause stockholders' equity to be reduced below applicable regulatory capital maintenance requirements or if such declaration and payment would otherwise violate regulatory requirements.

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 or in troubled condition by the OCC may have its dividend authority restricted by the OCC. If the Bank, however, proposes to make a capital distribution when it does not meet its capital requirements (or will not following the proposed capital distribution) or that will exceed these net income-based limitations, it must obtain the OCC's approval prior to making such distribution. In addition, the Bank must file a prior written notice of a dividend with the Federal Reserve. The Federal Reserve or the OCC may object to a capital distribution based on safety and soundness concerns. Additional restrictions on Bank dividends may apply if the Bank fails the Qualified Thrift Lender test. In fiscal 2022 and 2021, the Bank declared and paid $7.5 million and $5.0 million of cash dividends to its parent, the Corporation, respectively.

## Note 10: Benefit Plans

The Corporation has a 401(k) defined-contribution plan covering all employees meeting specific age and service requirements. Under the plan, employees may contribute to the plan from their pretax compensation up to the limits set by the Internal Revenue Service. The Corporation makes matching contributions up to 3% of a participants' pretax compensation. Participants vest immediately in their own contributions with 100% vesting in the Corporation's contributions occurring after six years of credited service. The Corporation's expense for the plan was approximately $297,000 for both the years ended June 30, 2022 and 2021.

The Corporation has a multi-year employment agreement and a post-retirement compensation agreement with one executive officer and a post-retirement compensation agreement with another executive officer, which requires payments of certain benefits upon retirement. At June 30, 2022 and 2021, the accrued liability of the post-retirement compensation agreements was $6.8 million and $6.6 million, respectively; costs are being accrued and expensed annually. For fiscal 2022 and 2021, the accrued expense for these liabilities was $217,000 and $563,000, respectively. The current obligation for these post-retirement benefits was fully funded consistent with contractual requirements and actuarially determined estimates of the total future obligation. The Corporation invests in BOLI to provide sufficient funding for these post-retirement obligations. As of June 30, 2022 and 2021, the total outstanding cash surrender value of the BOLI was $8.2 million and $8.0 million, respectively. For fiscal 2022 and 2021, the total BOLI non-taxable income, net of mortality cost was $188,000 and $191,000, respectively.

**Employee Stock Ownership Plan**
The Corporation established an ESOP on June 27, 1996 for all employees who are age 21 or older and have completed one year of service with the Corporation during which they have served a minimum of 1,000 hours.

The Corporation recognizes compensation expense when the Corporation contributes funds to the ESOP for the purchase of the Corporation's common stock to be allocated to the ESOP participants. The Corporation's contribution to the ESOP plan is discretionary. During fiscal 2022, there were 20,000 shares that were purchased in the open market and $317,000 in cash contributions to fulfill the annual discretionary allocation. This compares to fiscal 2021 when the Corporation purchased 40,000 shares in the open market to fulfill the annual discretionary allocation. Since the annual contributions are discretionary, the benefits payable under the ESOP cannot be estimated.

Benefits generally become 100% vested after six years of credited service. Vesting accelerates upon retirement, death or disability of the participant or in the event of a change in control of the Corporation. Forfeitures are reallocated among remaining participating employees in the same proportion as contributions. Benefits are payable upon death, retirement, early retirement, disability or separation from service.

The net expense related to the ESOP for the years ended June 30, 2022 and 2021 was $659,000 and $577,000 respectively. Available shares and cash contributions, if any, are allocated every calendar year end; and the total allocated at December 31, 2021 and 2020 were 40,000 shares at both dates.

## Note 11: Incentive Plans

As of June 30, 2022, the Corporation had three share-based compensation plans, which are described below. These plans are the 2013 Equity Incentive Plan ("2013 Plan"), the 2010 Equity Incentive Plan ("2010 Plan") and the 2006 Equity Incentive Plan ("2006 Plan", collectively, the "Plans"). For the years ended June 30, 2022 and 2021, the compensation cost for the Plans was $798,000 and $1.3 million, respectively.

**Equity Incentive Plans.** The Corporation established and the shareholders approved the Plans for directors, advisory directors, directors emeriti, officers and employees of the Corporation and its subsidiary. The 2013 Plan authorizes 300,000 stock options and 300,000 shares of restricted stock. The 2013 Plan also provides that no person may be granted more than 60,000 stock options or 45,000 shares of restricted stock in any one year. The 2010 Plan authorized 586,250 stock options and 288,750 shares of restricted stock. The 2006 Plan authorized 365,000 stock options and 185,000 shares of restricted stock. As of June 30, 2022, equity awards may be made only from the 2013 plan as no new equity awards can be granted from the 2010 and 2006 Plans.

**Equity Incentive Plans - Stock Options.** Under the Plans, options may not be granted at a price less than the fair market value at the date of the grant. Options typically vest over a five-year or shorter period as long as the director, advisory director, director emeritus, officer or employee remains in service to the Corporation. The options are exercisable after vesting for up to the remaining term of the original grant. The maximum term of the options granted is 10 years.

The fair value of each option grant is estimated using the Black-Scholes option valuation model with the following assumptions as of the grant date for the periods indicated. The expected volatility is based on implied volatility from historical common stock closing prices for the prior 84 months. The expected dividend yield is based on the most recent quarterly dividend on an annualized basis. The expected term is based on the historical experience of all fully vested stock option grants and is reviewed annually. The risk-free interest rate is based on the U.S. Treasury note rate with a term similar to the underlying stock option on the particular grant date.

| | Fiscal 2022 | Fiscal 2021 |
|---|---|---|
| Expected volatility | 20.3 % | — % |
| Weighted-average volatility | 20.3 % | — % |
| Expected dividend yield | 3.4 % | — % |
| Expected term (in years) | 7.4 | — |
| Risk-free interest rate | 1.4 % | — % |

In fiscal 2022, there were 14,000 options granted and 3,000 options expired, while no options were exercised or forfeited. In fiscal 2021, there were no options granted, while 132,000 options were exercised and 5,500 options were forfeited.

As of June 30, 2022 and 2021, there were 43,500 options and 60,500 options available for future grants under the 2013 Plan, respectively.

The following tables summarize the stock option activity in the Plans during the years ended June 30, 2022 and 2021:

| Options | Shares | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Term (Years) | Aggregate Intrinsic Value ($000) |
|---|---|---|---|---|
| Outstanding at June 30, 2020 | 554,500 | $ 14.07 | | |
| Granted | — | $ — | | |
| Exercised | (132,000) | $ 7.43 | | |
| Forfeited | (5,500) | $ 10.68 | | |
| Outstanding at June 30, 2021 | 417,000 | $ 16.22 | 4.28 | $ 760 |
| Vested and expected to vest at June 30, 2021 | 408,000 | $ 16.13 | 4.20 | $ 760 |
| Exercisable at June 30, 2021 | 372,000 | $ 15.74 | 3.84 | $ 760 |

| | | | | |
|---|---|---|---|---|
| Outstanding at June 30, 2021 | 417,000 | $ 16.22 | | |
| Granted | 17,000 | $ 16.70 | | |
| Exercised | — | $ — | | |
| Forfeited | — | $ — | | |
| Expired | (3,000) | $ 16.70 | | |
| Outstanding at June 30, 2022 | 431,000 | $ 16.24 | 3.48 | $ 63 |
| Vested and expected to vest at June 30, 2022 | 419,200 | $ 16.15 | 3.36 | $ 63 |
| Exercisable at June 30, 2022 | 372,000 | $ 15.74 | 2.84 | $ 63 |

As of June 30, 2022 and 2021, there was $94,000 and $114,000 of unrecognized compensation expense, respectively, related to unvested share-based compensation arrangements with respect to stock options issued under the Plans. The expense is expected to be recognized over a weighted-average period of 1.6 years and 1.9 years, respectively. The forfeiture

rate during both fiscal 2022 and 2021 was 20 percent, and was calculated by using the historical forfeiture experience of all fully vested stock option grants which is reviewed annually.

**Equity Incentive Plans – Restricted Stock.** The Corporation used 300,000 shares, 288,750 shares and 185,000 shares of its treasury stock to fund awards of restricted stock under the 2013 Plan, the 2010 Plan and the 2006 Plan, respectively. Awarded shares typically vest over a five-year or shorter period as long as the director, advisory director, director emeriti, officer or employee remains in service to the Corporation. Once vested, a recipient of restricted stock will have all rights of a shareholder, including the power to vote and the right to receive dividends. The Corporation recognizes compensation expense for the restricted stock awards based on the fair value of the shares at the award date.

In fiscal 2022, 1,000 shares of restricted stock were awarded, while 1,000 shares were vested and distributed, and 6,500 shares were forfeited. In fiscal 2021, no shares of restricted stock were awarded and 112,750 shares were vested and distributed, while 11,500 shares were forfeited. As of June 30, 2022 and 2021, there were 68,250 and 62,750 shares available for future awards under the 2013 Plan, respectively.

The following table summarizes the restricted stock activity for the years ended June 30, 2022 and 2021:

| Unvested Shares | Shares | | Weighted-Average Award Date Fair Value |
|---|---|---|---|
| Unvested at June 30, 2020 | 225,500 | $ | 18.55 |
| Awarded | — | $ | — |
| Vested | (112,750) | $ | 18.53 |
| Forfeited | (11,500) | $ | 18.57 |
| Unvested at June 30, 2021 | 101,250 | $ | 18.57 |
| Expected to vest at June 30, 2021 | 81,000 | $ | 18.57 |
| | | | |
| Unvested at June 30, 2021 | 101,250 | $ | 18.57 |
| Awarded | 1,000 | $ | 16.70 |
| Vested | (1,000) | $ | 16.70 |
| Forfeited | (6,500) | $ | 18.57 |
| Unvested at June 30, 2022 | 94,750 | $ | 18.57 |
| Expected to vest at June 30, 2022 | 75,800 | $ | 18.57 |

As of June 30, 2022 and 2021, the unrecognized compensation expense was $994,000 and $1.8 million, respectively, related to unvested share-based compensation arrangements with respect to restricted stock issued under the Plans, and reported as a reduction to stockholders' equity. This expense is expected to be recognized over a weighted-average period of 0.9 years and 1.9 years, respectively. Similar to stock options, a forfeiture rate of 20 percent was applied to the restricted stock compensation expense calculations in fiscal 2022 and 2021. For the fiscal years ended June 30, 2022 and 2021, the fair value of shares vested and distributed was $17,000 and $2.1 million, respectively.

## Note 12: 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 Corporation.

As of June 30, 2022 and 2021, there were outstanding options to purchase 431,000 shares and 417,000 shares of the Corporation's common stock, respectively, of which 130,000 shares and 116,000 shares, respectively, were excluded from the diluted EPS computation as their effect was anti-dilutive. As of June 30, 2022 and 2021, there were outstanding restricted stock awards of 94,750 shares and 101,250 shares, respectively.

The following table provides the basic and diluted EPS computations for the fiscal years ended June 30, 2022 and 2021, respectively:

| | For the Year Ended June 30, 2022 | | |
|---|---|---|---|
| (Dollars in Thousands, Except Share Amount) | Income (Numerator) | Shares (Denominator) | Per-Share Amount |
| Basic EPS | $ 9,093 | 7,404,089 | $ 1.23 |
| Effect of dilutive shares: | | | |
| Stock options | | 29,614 | |
| Restricted stock | | 15,301 | |
| Diluted EPS | $ 9,093 | 7,449,004 | $ 1.22 |

| | For the Year Ended June 30, 2021 | | |
|---|---|---|---|
| (Dollars in Thousands, Except Share Amount) | Income (Numerator) | Shares (Denominator) | Per-Share Amount |
| Basic EPS | $ 7,561 | 7,464,814 | $ 1.01 |
| Effect of dilutive shares: | | | |
| Stock options | | 49,917 | |
| Restricted stock | | 23,678 | |
| Diluted EPS | $ 7,561 | 7,538,409 | $ 1.00 |

## Note 13: Commitments and Contingencies

Periodically, there have been various claims and lawsuits involving the Corporation, such as claims to enforce liens, condemnation proceedings on properties in which the Corporation holds security interests, claims involving the making and servicing of real property loans, employment matters and other issues in the ordinary course of and incidental to the Corporation's business. These proceedings and the associated legal claims are often contested and the outcome of individual matters is not always predictable. Additionally, in some actions, it is difficult to assess potential exposure because the Corporation is still in the early stages of the litigation. The Corporation is not a party to any pending legal proceedings that it believes would have a material adverse effect on its financial condition, operations or cash flows.

The Corporation conducts a portion of its operations in leased facilities and has maintenance contracts under non-cancelable agreements classified as operating leases, which include leases recorded under ASC 842 on liabilities for future lease obligations as well as assets representing the right to use the underlying leased assets (See Note 5 of the Notes to Consolidated Financial Statements).

The following is a schedule of the Corporation's lease and operating commitments:

| Year Ending June 30, | Amount (In Thousands) |
|---|---|
| 2023 | $ 1,192 |
| 2024 | 589 |
| 2025 | 435 |
| 2026 | 250 |
| 2027 | 41 |
| Thereafter | — |
| Total minimum payments required | $ 2,507 |

For the years ended June 30, 2022 and 2021, the lease and operating commitment expense was approximately $1.8 million and $1.7 million, respectively.

The Bank sold single-family mortgage loans to unrelated third parties with standard representation and warranty provisions in the ordinary course of its business activities. Under these provisions, the Bank is required to repurchase any previously sold loan for which the representations or warranties of the Bank prove to be inaccurate, incomplete or misleading. In the event of a borrower default or fraud, pursuant to a breached representation or warranty, the Bank may be required to reimburse the investor for any losses suffered. As of June 30, 2022 and 2021, the Bank maintained a non-contingent recourse liability related to these representations and warranties of $150,000 and $175,000, respectively. In addition, the Bank maintained a recourse liability of $10,000 and $25,000 at June 30, 2022 and 2021, respectively, for loans sold to the FHLB – San Francisco under the MPF program.

In the ordinary course of business, the Corporation enters into contracts with third parties under which the third parties provide services on behalf of the Corporation. In many of these contracts, the Corporation agrees to indemnify the third party service provider under certain circumstances. The terms of the indemnity vary from contract to contract and the amount of the indemnification liability, if any, cannot be determined. The Corporation also enters into other contracts and agreements; such as, loan sale agreements, litigation settlement agreements, confidentiality agreements, loan servicing agreements, leases and subleases, among others, in which the Corporation agrees to indemnify third parties for acts by the Corporation's agents, assignees and/or sub-lessees, and employees. Due to the nature of these indemnification provisions, the Corporation cannot calculate its aggregate potential exposure.

Pursuant to their governing instruments, the Corporation and its subsidiaries provide indemnification to directors, officers, employees and, in some cases, agents of the Corporation against certain liabilities incurred as a result of their service on behalf of or at the request of the Corporation and its subsidiaries. It is not possible for the Corporation to determine the aggregate potential exposure resulting from the obligation to provide this indemnity.

## Note 14: Derivative and Other Financial Instruments with Off-Balance Sheet Risks

The Corporation is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit in the form of originating loans or providing funds under existing lines of credit, loan sale commitments to third parties and option contracts. These instruments involve, to varying degrees, elements of credit and interest-rate risk in excess of the amount recognized in the accompanying Consolidated Statements of Financial Condition. The Corporation's exposure to credit loss, in the event of non-performance by the counterparty to these financial instruments, is represented by the contractual amount of these instruments. The Corporation uses the same credit policies in entering into financial instruments with off-balance sheet risk as it does for on-balance sheet instruments. As of June 30, 2022 and 2021, the Corporation had commitments to extend credit on loans to be held for investment of $43.4 million and $21.9 million, respectively.

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

| | June 30, | |
|---|---|---|
| **Commitments** | **2022** | **2021** |
| (In Thousands) | | |
| Undisbursed loan funds – Construction loans | $ 3,384 | $ 4,479 |
| Undisbursed lines of credit – Commercial business loans | 541 | 460 |
| Undisbursed lines of credit – Consumer loans | 390 | 425 |
| Commitments to extend credit on loans to be held for investment | 43,386 | 21,887 |
| Total | $ 47,701 | $ 27,251 |

The following table provides information regarding the allowance for loan losses for the undisbursed funds and commitments to extend credit on loans to be held for investment for the years ended June 30, 2022 and 2021:

| | Year Ended June 30, | |
|---|---|---|
| (In Thousands) | 2022 | 2021 |
| Balance, beginning of the year | $ 127 | $ 126 |
| Provision | 3 | 1 |
| Balance, end of the year | $ 130 | $ 127 |

## Note 15: Fair Value of Financial Instruments

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

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

| (In Thousands) | Aggregate Fair Value | Aggregate Unpaid Principal Balance | Net Unrealized Loss |
|---|---|---|---|
| As of June 30, 2022: | | | |
| Loans held for investment, at fair value | $ 1,396 | $ 1,569 | $ (173) |
| | | | |
| As of June 30, 2021: | | | |
| Loans held for investment, at fair value | $ 1,874 | $ 1,934 | $ (60) |

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

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

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

Level 3 - Unobservable inputs for the asset or liability that use significant assumptions, including assumptions of risks. These unobservable assumptions reflect the Corporation's estimate of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include the use of pricing models, discounted cash flow models and similar techniques.

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

The Corporation's financial assets and liabilities measured at fair value on a recurring basis consist of investment securities available for sale, loans held for investment at fair value and interest-only strips; while non-performing loans and MSA are measured at fair value on a nonrecurring basis.

Investment securities - available for sale are primarily comprised of U.S. government agency MBS, U.S. government sponsored enterprise MBS and privately issued CMO. The Corporation utilizes quoted prices in active markets for similar securities for its fair value measurement of MBS (Level 2) and broker price indications for similar securities in non-active markets for its fair value measurement of the privately issued CMO (Level 3).

Loans held for investment at fair value are primarily single-family loans which have been transferred from loans held for sale. The fair value is determined by management estimates of the specific credit risk attributes of each loan, in addition to the quoted secondary-market prices which account for the interest rate characteristics of each loan (Level 3).

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

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

The fair value of interest-only strips is derived using the same assumptions that are used to value the related MSA (Level 3).

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

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

| | Fair Value Measurement at June 30, 2022 Using: | | | |
|---|---|---|---|---|
| (In Thousands) | Level 1 | Level 2 | Level 3 | Total |
| Assets: | | | | |
| Investment securities - available for sale: | | | | |
| U.S. government agency MBS | $ — | $ 1,698 | $ — | $ 1,698 |
| U.S. government sponsored enterprise MBS | — | 865 | — | 865 |
| Private issue CMO | — | — | 113 | 113 |
| Investment securities - available for sale | — | 2,563 | 113 | 2,676 |
| | | | | |
| Loans held for investment, at fair value | — | — | 1,396 | 1,396 |
| Interest-only strips | — | — | 7 | 7 |
| Total assets | $ — | $ 2,563 | $ 1,516 | $ 4,079 |
| | | | | |
| Liabilities: | $ — | $ — | $ — | $ — |
| Total liabilities | $ — | $ — | $ — | $ — |

| | Fair Value Measurement at June 30, 2021 Using: | | | |
|---|---|---|---|---|
| (In Thousands) | Level 1 | Level 2 | Level 3 | Total |
| Assets: | | | | |
| Investment securities - available for sale: | | | | |
| U.S. government agency MBS | $ — | $ 2,222 | $ — | $ 2,222 |
| U.S. government sponsored enterprise MBS | — | 1,211 | — | 1,211 |
| Private issue CMO | — | — | 154 | 154 |
| Investment securities - available for sale | — | 3,433 | 154 | 3,587 |
| | | | | |
| Loans held for investment, at fair value | — | — | 1,874 | 1,874 |
| Interest-only strips | — | — | 10 | 10 |
| Total assets | $ — | $ 3,433 | $ 2,038 | $ 5,471 |
| | | | | |
| Liabilities: | $ — | $ — | $ — | $ — |
| Total liabilities | $ — | $ — | $ — | $ — |

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

| | Fair Value Measurement Using Significant Other Unobservable Inputs (Level 3) | | | |
|---|---|---|---|---|
| (In Thousands) | Private Issue CMO | Loans Held For Investment, at fair value[(1)] | Interest-Only Strips | Total |
| Beginning balance at June 30, 2021 | $ 154 | $ 1,874 | $ 10 | $ 2,038 |
| Total gains or losses (realized/unrealized): | | | | |
| Included in earnings | — | (113) | — | (113) |
| Included in other comprehensive income (loss) | (7) | — | (3) | (10) |
| Purchases | — | — | — | — |
| Issuances | — | — | — | — |
| Settlements | (34) | (365) | — | (399) |
| Transfers in and/or out of Level 3 | — | — | — | — |
| Ending balance at June 30, 2022 | $ 113 | $ 1,396 | $ 7 | $ 1,516 |

(1) The valuation of loans held for investment at fair value includes management's estimate of the specific credit risk attributes of each loan, in addition to the quoted secondary-market prices which account for interest rate characteristics.

| (In Thousands) | Fair Value Measurement Using Significant Other Unobservable Inputs (Level 3) | | | |
|---|---|---|---|---|
| | Private Issue CMO | Loans Held For Investment, at fair value[1] | Interest-Only Strips | Total |
| Beginning balance at June 30, 2020 | $ 197 | $ 2,258 | $ 14 | $ 2,469 |
| Total gains or losses (realized/ unrealized): | | | | |
| Included in earnings | — | 51 | — | 51 |
| Included in other comprehensive income (loss) | 9 | — | (4) | 5 |
| Purchases | — | — | — | — |
| Issuances | — | — | — | — |
| Settlements | (52) | (435) | — | (487) |
| Transfers in and/or out of Level 3 | — | — | — | — |
| Ending balance at June 30, 2021 | $ 154 | $ 1,874 | $ 10 | $ 2,038 |

(1) The valuation of loans held for investment at fair value includes management's estimate of the specific credit risk attributes of each loan, in addition to the quoted secondary-market prices which account for interest rate characteristics.

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

| (In Thousands) | Fair Value Measurement at June 30, 2022 Using: Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Non-performing loans | $ — | $ 515 | $ 908 | $ 1,423 |
| Mortgage servicing assets | — | — | 168 | 168 |
| Total | $ — | $ 515 | $ 1,076 | $ 1,591 |

| (In Thousands) | Fair Value Measurement at June 30, 2021 Using: Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Non-performing loans | $ — | $ 899 | $ 7,747 | $ 8,646 |
| Mortgage servicing assets | — | — | 208 | 208 |
| Total | $ — | $ 899 | $ 7,955 | $ 8,854 |

The following table presents additional information about valuation techniques and inputs used for assets and liabilities, including derivative financial instruments, which are measured at fair value and categorized within Level 3 as of June 30, 2022:

| (Dollars In Thousands) | Fair Value As of June 30, 2022 | Valuation Techniques | Unobservable Inputs | Range[1] (Weighted Average) | Impact to Valuation from an Increase in Inputs[2] |
|---|---|---|---|---|---|
| **Assets:** | | | | | |
| Securities available-for sale: Private issue CMO | $ 113 | Market comparable pricing | Comparability adjustment | 0.96% | Increase |
| Loans held for investment, at fair value | $ 1,396 | Relative value analysis | Broker quotes | 91.1% - 98.0% (93.4%) of par | Increase |
| | | | Credit risk factor | 1.2% - 100.0% (4.6%) | Decrease |
| Non-performing loans[3] | $ 722 | Discounted cash flow | Default rates | 5.0% | Decrease |
| Non-performing loans[4] | $ 186 | Relative value analysis | Credit risk factor | 20.0% | Decrease |
| Mortgage servicing assets | $ 168 | Discounted cash flow | Prepayment rate (CPR) | 4.8% - 60.0% (10.9%) | Decrease |
| | | | Discount rate | 9.0% - 10.5% (9.0%) | Decrease |
| Interest-only strips | $ 7 | Discounted cash flow | Prepayment rate (CPR) | 9.5% - 32.0% (30.6%) | Decrease |
| | | | Discount rate | 9.0% | Decrease |
| **Liabilities:** | | | | | |
| None | | | | | |

(1) The range is based on the historical estimated fair values and management estimates.
(2) Unless otherwise noted, this column represents the directional change in the fair value of the Level 3 investments that would result from an increase to the corresponding unobservable input. A decrease to the unobservable input would have the opposite effect. Significant changes in these inputs in isolation could result in significantly higher or lower fair value measurements.
(3) Consist of restructured loans.
(4) Consist of other non-performing loans, excluding restructured loans.

The significant unobservable inputs used in the fair value measurement of the Corporation’s assets and liabilities include the following: CMO offered quotes, prepayment rates and discount rates, among others. Significant increases or decreases in any of these inputs in isolation could result in significantly lower or higher fair value measurement. The various unobservable inputs used to determine valuations may have similar or diverging impacts on valuation. For the fiscal year ended June 30, 2022, there were no significant changes to the Corporation's valuation techniques and inputs that had, or are expected to have, a material impact on its consolidated financial position or results of operations.

The carrying amount and fair value of the Corporation's other financial instruments as of June 30, 2022 and 2021 were as follows:

| | June 30, 2022 | | | | |
|---|---|---|---|---|---|
| (In Thousands) | Carrying Amount | Fair Value | Level 1 | Level 2 | Level 3 |
| **Financial assets:** | | | | | |
| Loans held for investment, not recorded at fair value | $ 938,596 | $ 892,339 | $ — | $ — | $ 892,339 |
| Investment securities - held to maturity | $ 185,745 | $ 171,724 | $ — | $ 171,724 | $ — |
| FHLB – San Francisco stock | $ 8,239 | $ 8,239 | $ — | $ 8,239 | $ — |
| | | | | | |
| **Financial liabilities:** | | | | | |
| Deposits | $ 955,504 | $ 917,220 | $ — | $ — | $ 917,220 |
| Borrowings | $ 85,000 | $ 84,299 | $ — | $ — | $ 84,299 |

| | June 30, 2021 | | | | |
|---|---|---|---|---|---|
| (In Thousands) | Carrying Amount | Fair Value | Level 1 | Level 2 | Level 3 |
| **Financial assets:** | | | | | |
| Loans held for investment, not recorded at fair value | $ 849,086 | $ 848,727 | $ — | $ — | $ 848,727 |
| Investment securities - held to maturity | $ 223,306 | $ 224,721 | $ — | $ 224,721 | $ — |
| FHLB – San Francisco stock | $ 8,155 | $ 8,155 | $ — | $ 8,155 | $ — |
| | | | | | |
| **Financial liabilities:** | | | | | |
| Deposits | $ 937,973 | $ 904,673 | $ — | $ — | $ 904,673 |
| Borrowings | $ 100,983 | $ 104,526 | $ — | $ — | $ 104,526 |

Loans held for investment, not recorded at fair value: For loans that reprice frequently at market rates, the carrying amount approximates the fair value. For fixed-rate loans, the fair value is determined by either (i) discounting the estimated future cash flows of such loans over their estimated remaining contractual maturities using a current interest rate at which such loans would be made to borrowers, or (ii) quoted market prices.

Investment securities - held to maturity: The investment securities - held to maturity consist of time deposits at CRA qualified minority financial institutions, U.S. SBA securities, U.S. government sponsored enterprise MBS and U.S. government sponsored enterprise CMOs. Due to the short-term nature of the time deposits, the principal balance approximated fair value (Level 2). For the MBS, the U.S. SBA securities and U.S. government sponsored enterprise CMOs, the Corporation utilizes quoted prices in active markets for similar securities for its fair value measurement (Level 2).

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

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

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

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

While the Corporation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. For the fiscal year ended June 30, 2022, there were no significant changes to the Corporation's valuation techniques that had, or are expected to have, a material impact on its consolidated financial position or results of operations.

## Note 16: Revenue From Contracts With Customers

In accordance with ASC 606, revenues are recognized when goods or services are transferred to the customer in exchange for the consideration the Corporation expects to be entitled to receive. The largest portion of the Corporation's revenue is from interest income, which is not in the scope of ASC 606. All of the Corporation's revenue from contracts with customers in the scope of ASC 606 is recognized in non-interest income.

If a contract is determined to be within the scope of ASC 606, the Corporation recognizes revenue as it satisfies a performance obligation. Payments from customers are generally collected at the time services are rendered, monthly, or quarterly. For contracts with customers within the scope of ASC 606, revenue is either earned at a point in time or revenue is earned over time. Examples of revenue earned at a point in time are automated teller machine ("ATM") transaction fees, wire transfer fees, overdraft fees and interchange fees. Revenue is primarily based on the number and type of transactions that are generally derived from transactional information accumulated by the Bank's systems and is recognized immediately as the transactions occur or upon providing the service to complete the customer's transaction. The Corporation is generally the principal in these contracts, with the exception of interchanges fees, in which case the Corporation is acting as the agent and records revenue net of expenses paid to the principal. Examples of revenue earned over time, which generally occur on a monthly basis, are deposit account maintenance fees, investment advisory fees, merchant revenue, trust and investment management fees and safe deposit box fees. Revenue is generally derived from transactional information accumulated by its systems or those of third-parties and is recognized as the related transactions occur or services are rendered to the customer.

Disaggregation of Revenue:

The following table includes the Corporation's non-interest income disaggregated by type of services for the fiscal years ended June 30, 2022 and 2021:

| | Year Ended June 30, | |
|---|---|---|
| **Type of Services** | **2022** | **2021** |
| (In Thousands) | | |
| Loan servicing and other fees[(1)] | $ 1,056 | $ 1,170 |
| Deposit account fees | 1,302 | 1,247 |
| Card and processing fees | 1,639 | 1,605 |
| Other[(2)] | 719 | 551 |
| Total non-interest income | $ 4,716 | $ 4,573 |

(1) Not in scope of ASC 606.

(2) Includes BOLI of $188 thousand and $191 thousand and net gain on sale of loans of $40 thousand and net loss on sale of loans of $103 thousand for the years ended June 30, 2022 and 2021, respectively, which are not in scope of ASC 606.

For the fiscal years ended June 30, 2022 and 2021, substantially all of the Corporation's revenues within the scope of ASC 606 are for performance obligations satisfied at a specified date.

Revenues recognized in scope of ASC 606:

Deposit account fees: Fees are earned on the Bank's deposit accounts for various products offered to or services performed for the Bank's customers. Fees include business account fees, non-sufficient fund fees, ATM fees and others. These fees are recognized on a daily, monthly or quarterly basis, depending on the type of service.

Card and processing fees: Debit interchange income represents fees earned when a debit card issued by the Bank is used. The Bank earns interchange fees from cardholder transactions through a third party payment network. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder. The performance obligation is satisfied and the fees are earned when the cost of the transaction is charged to the cardholders' debit card. Certain expenses directly associated with the debit cards are recorded on a net basis with the interchange income.

Other: Includes asset management fees, stop payment fees, wire services fees, safe deposit box fees and other fees earned on other services, such as merchant services or occasional non-recurring type services, are recognized at the time of the event or the applicable billing cycle. Asset management fees are variable, since they are based on the underlying portfolio value, which is subject to market conditions and amounts invested by customers through a third-party provider. Asset management fees are recognized over the period that services are provided, and when the portfolio values are known or can be estimated at the end of each month.

## Note 17: Holding Company Condensed Financial Information

This information should be read in conjunction with the other notes to the consolidated financial statements. The following is the Condensed Statements of Financial Condition for Provident Financial Holdings (Holding Company only) as of June 30, 2022 and 2021 and Condensed Statements of Operations and Cash Flows for the fiscal years ended June 30, 2022 and 2021.

**Condensed Statements of Financial Condition**

| | June 30, | |
|---|---|---|
| (In Thousands) | **2022** | **2021** |
| **Assets** | | |
| Cash and cash equivalents | $ 3,751 | $ 5,576 |
| Investment in subsidiary | 124,875 | 121,696 |
| Other assets | 61 | 60 |
| | $ 128,687 | $ 127,332 |
| **Liabilities and Stockholders' Equity** | | |
| Other liabilities | $ 37 | $ 52 |
| Stockholders' equity | 128,650 | 127,280 |
| | $ 128,687 | $ 127,332 |

**Condensed Statements of Operations**

| (In Thousands) | Year Ended June 30, 2022 | 2021 |
|---|---|---|
| Dividend from the Bank | $ 7,500 | $ 5,000 |
| Interest and other income | 3 | 5 |
| Total income | 7,503 | 5,005 |
| General and administrative expenses | 1,219 | 1,117 |
| Earnings before income taxes and equity in undistributed earnings of the Bank | 6,284 | 3,888 |
| Income tax benefit | (358) | (328) |
| Earnings before equity in undistributed earnings of the Bank | 6,642 | 4,216 |
| Equity in undistributed earnings of the Bank | 2,451 | 3,345 |
| Net income | $ 9,093 | $ 7,561 |

**Condensed Statements of Cash Flows**

| (In Thousands) | Year Ended June 30, 2022 | 2021 |
|---|---|---|
| Cash flow from operating activities: | | |
| Net income | $ 9,093 | $ 7,561 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Equity in undistributed earnings of the Bank | (2,451) | (3,345) |
| (Increase) decrease in other assets | (1) | 48 |
| Decrease in other liabilities | (15) | (2) |
| Net cash provided by operating activities | 6,626 | 4,262 |
| Cash flow from financing activities: | | |
| Exercise of stock options | — | 981 |
| Treasury stock purchases | (4,305) | (2,336) |
| Cash dividends | (4,146) | (4,173) |
| Net cash used for financing activities | (8,451) | (5,528) |
| Net decrease in cash during the year | (1,825) | (1,266) |
| Cash and cash equivalents at beginning of year | 5,576 | 6,842 |
| Cash and cash equivalents at end of year | $ 3,751 | $ 5,576 |

## Note 18: Government Assistance

The Employee Retention Tax Credit ("ERTC") was created as part of the CARES Act to encourage businesses to continue paying employees by providing a credit to the eligible employer for wages paid to eligible employees. The refundable credit is available for wages paid from March 13, 2020 through September 30, 2021 and can be utilized even if companies received Paycheck Protection Program ("PPP") loans.

For calendar year 2021, the maximum ERTC was $7,000 per eligible employee per quarter. The 2021 credit was computed at a rate of 70 percent of qualified wages paid, up to $10,000 per eligible employee, per quarter. For Eligible Employers with less than 500 average full-time employees in 2019 and experienced a decline in gross receipts in current quarter or prior quarter compared to the same quarter in calendar year 2019, the credit was available for all employees receiving wages in 2021.

The Corporation recognized an ERTC of $1.2 million in the first quarter of fiscal 2022 and $2.4 million in the fourth quarter of fiscal 2021. The ERTC was recorded in the Consolidated Statement of Operations for the respective periods

under Salaries and employee benefits expense as a reduction to the total expense and the receivables were recorded in the Consolidated Statements of Financial Condition under Prepaid expenses and other assets. Also, the ERTC is a non-taxable credit for state income tax purposes. As of June 30, 2022 and 2021, the total outstanding ERTC was $3.6 million and $2.4 million, respectively.

## Note 19: Subsequent Events

On July 28, 2022, the Corporation announced that the Corporation's Board of Directors declared a quarterly cash dividend of $0.14 per share. Shareholders of the Corporation's common stock at the close of business on August 18, 2022 were entitled to receive the cash dividend, which will be payable on September 8, 2022.

**********

**EXHIBIT 21.1**

**SUBSIDIARIES OF THE REGISTRANT**

| **Parent Company:** | | |
|---|---|---|
| Provident Financial Holdings, Inc. | | |
| **Subsidiaries:** | **Percentage of ownership** | **Jurisdiction or State of Incorporation** |
| Provident Savings Bank, F.S.B. | 100% | United States of America |
| Provident Financial Corp[(1)] | 100% | California |
| Profed Mortgage, Inc.[(1)(2)] | 100% | California |
| First Service Corporation[(1)(2)] | 100% | California |

[(1)] This corporation is a wholly owned subsidiary of Provident Savings Bank, F.S.B.
[(2)] Currently inactive.

**EXHIBIT 23.1**

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in Registration Statement Nos. 333-140229, 333-171344, and 333-192727 on Form S-8 of our reports dated September 2, 2022, relating to the consolidated financial statements of Provident Financial Holdings, Inc., and subsidiary (the "Corporation"), appearing in this Annual Report on Form 10-K of the Corporation for the year ended June 30, 2022.

/s/ Deloitte & Touche LLP

Los Angeles, California
September 2, 2022

**EXHIBIT 31.1**

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

I, Craig G. Blunden, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: September 2, 2022

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

**EXHIBIT 31.2**

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

I, Donavon P. Ternes, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: September 2, 2022

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

**EXHIBIT 32.1**

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

In connection with the accompanying Annual Report on Form 10-K of Provident Financial Holdings, Inc. (the "Corporation") for the period ended June 30, 2022 (the "Report"), I, Craig G. Blunden, in my capacity as Chairman and Chief Executive Officer of the Corporation, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation as of the dates and for the periods presented in the financial statements included in such Report.

Date: September 2, 2022

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

EXHIBIT 32.2

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

In connection with the accompanying Annual Report on Form 10-K of Provident Financial Holdings, Inc. (the "Corporation") for the period ended June 30, 2022 (the "Report"), I, Donavon P. Ternes, in my capacity as President, Chief Operating Officer and Chief Financial Officer of the Corporation, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation as of the dates and for the periods presented in the financial statements included in such Report.

Date: September 2, 2022

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

# Shareholder **Information**

## ANNUAL MEETING

The annual meeting of shareholders will be held virtually by means of remote communication on Tuesday, November 29, 2022 at 11:00 a.m. (Pacific). A formal notice of the meeting, together with a proxy statement and proxy form, will be mailed to shareholders.

## CORPORATE OFFICE

Provident Financial Holdings, Inc.
3756 Central Avenue
Riverside, CA 92506
(951) 686-6060

## INTERNET ADDRESS

www.myprovident.com

## SPECIAL COUNSEL

Breyer & Associates PC
8180 Greensboro Drive, Suite 785
McLean, VA 22102
(703) 883-1100

## INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Deloitte & Touche LLP
695 Town Center Drive, Suite 1000
Costa Mesa, CA 92626-7188
(714) 436-7100

## TRANSFER AGENT

Computershare, Inc.
P.O. Box 43078
Providence, RI 02940
(800) 942-5909

## MARKET INFORMATION

Provident Financial Holdings, Inc. is traded on the NASDAQ Global Select Market under the symbol PROV.

## FINANCIAL INFORMATION

Requests for copies of the Form 10-K and Forms 10-Q filed with the Securities and Exchange Commission should be directed in writing to:

Donavon P. Ternes
President, COO and CFO
Provident Financial Holdings, Inc.
3756 Central Avenue
Riverside, CA 92506

## CORPORATE PROFILE

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. The Corporation does not engage in any significant activity other than holding the stock of the Bank. The Bank serves the banking needs of select communities in Riverside and San Bernardino Counties and has mortgage lending operations in California.

# Board of Directors **and Senior Officers**

## Board of Directors

Joseph P. Barr, CPA
Retired Partner
Ernst & Young, LLP

Bruce W. Bennett
Retired Health Care Executive
Private Investor

Craig G. Blunden
Chairman and Chief Executive Officer
Provident Financial Holdings, Inc.
Provident Bank

Judy A. Carpenter
Former President and Chief Operating Officer
Riverside Medical Clinic

Debbi H. Guthrie
Retired Executive
Raincross Hospitality Corporation

Kathy M. Michalak
Former Executive Director
Habitat for Humanity Riverside

Roy H. Taylor
Retired Executive
Hub International of California, Inc.

William E. Thomas, Esq.
Executive Vice President and General Counsel
The KPC Group

## Senior Officers

**Provident Financial Holdings, Inc.**

Craig G. Blunden
Chairman and Chief Executive Officer

Donavon P. Ternes
President, Chief Operating Officer,
Chief Financial Officer, and
Corporate Secretary

**Provident Bank**

Craig G. Blunden
Chairman and Chief Executive Officer

Deborah L. Hill
Senior Vice President
Chief Human Resources and
Administrative Officer

Robert "Scott" Ritter
Senior Vice President
Single-Family Division

Lilian Salter
Senior Vice President
Chief Information Officer

Donavon P. Ternes
President, Chief Operating Officer,
Chief Financial Officer, and
Corporate Secretary

David S. Weiant
Senior Vice President
Chief Lending Officer

Gwendolyn L. Wertz
Senior Vice President
Retail Banking Division

# Provident **Locations**

PROVIDENT Bank

## RETAIL BANKING CENTERS

**Blythe**
350 E. Hobson Way
Blythe, CA 92225
(760) 922-6105

**Canyon Crest**
5225 Canyon Crest Drive, Suite 86
Riverside, CA 92507
(951) 781-8080

**Corona**
487 Magnolia Avenue, Suite 101
Corona, CA 92879
(951) 270-2926

**Downtown Business Center**
4001 Main Street
Riverside, CA 92501
(951) 682-3272

**Hemet**
1690 E. Florida Avenue
Hemet, CA 92544
(951) 658-7224

**Home Office**
6570 Magnolia Avenue
Riverside, CA 92506
(951) 782-6177

**La Sierra**
3312 La Sierra Avenue, Suite 105
Riverside, CA 92503
(951) 353-9897

**Moreno Valley**
12460 Heacock Street
Moreno Valley, CA 92553
(951) 242-3149

**Orangecrest**
19348 Van Buren Boulevard, Suite 119
Riverside, CA 92508
(951) 780-7170

**Rancho Mirage**
71991 Highway 111
Ranch Mirage, CA 92270
(760) 340-5644

**Redlands**
125 E. Citrus Avenue
Redlands, CA 92373
(909) 793-2992

**Sun City**
27010 Sun City Boulevard
Sun City, CA 92586
(951) 679-2301

**Temecula**
40705 Winchester Road, Suite 6
Temecula, CA 92591
(951) 296-2429




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3756 Central Avenue, Riverside, California 92506
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**NASDAQ Global Select Market - PROV**