RIVERVIEW BANCORP INC
Form 10-Q
August 14, 2014
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2014

OR

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

For the transition period from _____ to _____

Commission File Number: 0-22957

RIVERVIEW BANCORP, INC.
(Exact name of registrant as specified in its charter)

Washington (State or other jurisdiction of incorporation or organization)	91-1838969 (I.R.S. Employer I.D. Number)
900 Washington St., Ste. 900, Vancouver, Washington (Address of principal executive offices)	98660 (Zip Code)
Registrant's telephone number, including area code:	(360) 693-6650

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

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

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

Large accelerated filer o Accelerated filer o Non-accelerated filer o Smaller Reporting Company x

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: Common Stock, $.01 par value per share, 22,471,890 shares outstanding as of August 14, 2014.

Form 10-Q

RIVERVIEW BANCORP, INC. AND SUBSIDIARY
INDEX

Part I.	Financial Information	Page
Item 1:	Financial Statements (Unaudited)	
	Consolidated Balance Sheets as of June 30, 2014 and March 31, 2014	2
	Consolidated Statements of Income Three Months Ended June 30, 2014 and 2013	3
	Consolidated Statements of Comprehensive Income Three Months Ended June 30, 2014 and 2013	4
	Consolidated Statements of Equity Three Months Ended June 30, 2014 and 2013	5
	Consolidated Statements of Cash Flows Three Months Ended June 30, 2014 and 2013	6
	Notes to Consolidated Financial Statements	7-22
Item 2:	Management's Discussion and Analysis of Financial Condition and Results of Operations	23-36
Item 3:	Quantitative and Qualitative Disclosures About Market Risk	36
Item 4:	Controls and Procedures	36
Part II.	Other Information	37-38
Item 1:	Legal Proceedings	
Item 1A:	Risk Factors	
Item 2:	Unregistered Sales of Equity Securities and Use of Proceeds	
Item 3:	Defaults Upon Senior Securities	
Item 4:	Mine Safety Disclosures	
Item 5:	Other Information	
Item 6:	Exhibits	

SIGNATURES 39
Certifications
Exhibit 31.1
Exhibit 31.2
Exhibit 32

Forward Looking Statements

As used in this Form 10-Q, the terms "we," "our" "us", "Riverview" and "Company" refer to Riverview Bancorp, Inc. and consolidated subsidiaries, including its wholly-owned subsidiary, Riverview Community Bank, unless the context indicates otherwise.

"Safe Harbor" statement under the Private Securities Litigation Reform Act of 1995: When used in this Form 10-Q, the words "believes," "expects," "anticipates," "estimates," "forecasts," "intends," "plans," "targets," "potentially," "probab "outlook," or similar expressions or future or conditional verbs such as "may," "will," "should," "would," and "could," or si expression are intended to identify "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include statements with respect to our beliefs, plans, objectives, goals, expectations, assumptions and statements about future performance. These forward-looking statements are subject to known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from the results anticipated, including, but not limited to: the credit risks of lending activities, including changes in the level and trend of loan delinquencies and write-offs and changes in the Company's allowance for loan losses and provision for loan losses that may be impacted by deterioration in the housing and commercial real estate markets; changes in general economic conditions, either nationally or in the Company's market areas; changes in the levels of general interest rates, and the relative differences between short and long term interest rates, deposit interest rates, the Company's net interest margin and funding sources; fluctuations in the demand for loans, the number of unsold homes, land and other properties and fluctuations in real estate values in the Company's market areas; secondary market conditions for loans and the Company's ability to sell loans in the secondary market; results of examinations of our bank subsidiary, Riverview Community Bank, by the Office of the Comptroller of the Currency and of the Company by the Board of Governors of the Federal Reserve System, or other regulatory authorities, including the possibility that any such regulatory authority may, among other things, require the Company to increase its reserve for loan losses, write-down assets, reclassify its assets, change Riverview Community Bank's regulatory capital position or affect the Company's ability to borrow funds or maintain or increase deposits, which could adversely affect its liquidity and earnings; the Company's compliance with regulatory enforcement actions entered into with its banking regulators and the possibility that noncompliance could result in the imposition of additional enforcement actions and additional requirements or restrictions on its operations; legislative or regulatory changes that adversely affect the Company's business including changes in regulatory policies and principles, or the interpretation of regulatory capital or other rules, including as a result of Basel III; the Company's ability to attract and retain deposits; increases in premiums for deposit insurance; the Company's ability to control operating costs and expenses; the use of estimates in determining fair value of certain of the Company's assets, which estimates may prove to be incorrect and result in significant declines in valuation; difficulties in reducing risks associated with the loans on the Company's balance sheet; staffing fluctuations in response to product demand or the implementation of corporate strategies that affect the Company's workforce and potential associated charges; computer systems on which the Company depends could fail or experience a security breach; the Company's ability to retain key members of its senior management team; costs and effects of litigation, including settlements and judgments; the Company's ability to implement its business strategies; the Company's ability to successfully integrate any assets, liabilities, customers, systems, and management personnel it may acquire into its operations and the Company's ability to realize related revenue synergies and cost savings within expected time frames and any goodwill charges related thereto; 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; the Company's ability to pay dividends on its common stock and interest or principal payments on its junior subordinated debentures; adverse changes in the securities markets; 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; other economic, competitive, governmental, regulatory, and technological factors affecting the Company's operations, pricing, products and services

and the other risks described from time to time in our filings with the Securities and Exchange Commission.

The Company cautions readers not to place undue reliance on any forward-looking statements. 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 Company. The Company does not undertake to revise any forward-looking statements to reflect the occurrence of anticipated or unanticipated events or circumstances after the date of such statements. These risks could cause our actual results for fiscal 2015 and beyond to differ materially from those expressed in any forward-looking statements by, or on behalf of, us, and could negatively affect the Company's financial condition and results of operations as well as its stock price performance.

Part I. Financial Information
Item 1. Financial Statements (Unaudited)

RIVERVIEW BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS
JUNE 30, 2014 AND MARCH 31, 2014

(In thousands, except share and per share data) (Unaudited)		June 30, 2014		March 31, 2014
ASSETS				
Cash (including interest-earning accounts of $23,815 and $51,715)	$	41,556	$	68,577
Certificates of deposit held for investment		34,435		36,925
Loans held for sale		795		1,024
Investment securities available for sale, at fair value (amortized cost of $21,869 and $23,866)		21,549		23,394
Mortgage-backed securities held to maturity, at amortized cost (fair value of $99 and $104)		98		101
Mortgage-backed securities available for sale, at fair value (amortized cost of $98,166 and $79,083)		98,413		78,575
Loans receivable (net of allowance for loan losses of $12,281 and $12,551)		534,712		520,937
Real estate and other personal property owned		5,926		7,703
Prepaid expenses and other assets		3,858		3,197
Accrued interest receivable		1,964		1,836
Federal Home Loan Bank stock, at cost		6,533		6,744
Premises and equipment, net		16,260		16,417
Deferred income taxes, net		14,748		15,433
Mortgage servicing rights, net		373		369
Goodwill		25,572		25,572
Core deposit intangible, net		20		26
Bank owned life insurance		17,830		17,691
TOTAL ASSETS	$	824,642	$	824,521
LIABILITIES AND EQUITY				
LIABILITIES:				
Deposit accounts	$	686,641	$	690,066
Accrued expenses and other liabilities		12,759		10,497
Advanced payments by borrowers for taxes and insurance		365		467
Junior subordinated debentures		22,681		22,681
Capital lease obligations		2,340		2,361
Total liabilities		724,786		726,072
COMMITMENTS AND CONTINGENCIES (See Note 14)				
EQUITY:				
Shareholders' equity				
Serial preferred stock, $.01 par value; 250,000 authorized, issued and outstanding: none		-		-

Common stock, $.01 par value; 50,000,000 authorized				
June 30, 2014 – 22,471,890 issued and outstanding		225		225
March 31, 2014 – 22,471,890 issued and outstanding				
Additional paid-in capital		65,218		65,195
Retained earnings		34,332		33,592
Unearned shares issued to employee stock ownership trust		(361)		(387)
Accumulated other comprehensive loss		(48)		(647)
Total shareholders' equity		99,366		97,978
Noncontrolling interest		490		471
Total equity		99,856		98,449
TOTAL LIABILITIES AND EQUITY	$	824,642	$	824,521

See notes to consolidated financial statements.

2

RIVERVIEW BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except share and per share data) (Unaudited)

	Three Months Ended June 30	
	2014	2013
INTEREST INCOME		
Interest and fees on loans receivable	$6,171	$6,605
Interest on investment securities – taxable	84	39
Interest on mortgage-backed securities	480	16
Other interest and dividends	131	171
Total interest and dividend income	6,866	6,831
INTEREST EXPENSE:		
Interest on deposits	360	527
Interest on borrowings	147	150
Total interest expense	507	677
Net interest income	6,359	6,154
Less recapture of loan losses	(300)	(2,500)
Net interest income after recapture of loan losses	6,659	8,654
NON-INTEREST INCOME:		
Fees and service charges	1,070	1,030
Asset management fees	820	736
Net gain on sale of loans held for sale	126	317
Bank owned life insurance	138	142
Other	56	21
Total non-interest income	2,210	2,246
NON-INTEREST EXPENSE:		
Salaries and employee benefits	4,174	3,870
Occupancy and depreciation	1,087	1,244
Data processing	470	688
Amortization of core deposit intangible	6	17
Advertising and marketing expense	150	204
FDIC insurance premium	175	411
State and local taxes	137	126
Telecommunications	76	68
Professional fees	289	338
Real estate owned expenses	616	1,612
Other	555	665
Total non-interest expense	7,735	9,243
INCOME BEFORE INCOME TAXES	1,134	1,657
PROVISION FOR INCOME TAXES	394	17
NET INCOME	$740	$1,640
Earnings per common share:		
Basic	$0.03	$0.07

Diluted	0.03	0.07
Weighted average number of shares outstanding:		
Basic	22,382,595	22,357,962
Diluted	22,408,775	22,358,633

See notes to consolidated financial statements.

RIVERVIEW BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE THREE MONTHS ENDED JUNE 30, 2014 AND 2013

(In thousands) (Unaudited)	2014	2013
Net income	$ 740	$ 1,640
Other comprehensive income: (1)		
Unrealized holding gain on securities, net	907	70
Income tax expense related to securities unrealized holding gain	(308)	(24)
Noncontrolling interest	19	32
Total comprehensive income	$ 1,358	$ 1,718

(1) There were no reclassifications out of other comprehensive income for the three months ended June 30, 2014 and 2013.

See notes to consolidated financial statements.

RIVERVIEW BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF EQUITY
FOR THE THREE MONTHS ENDED JUNE 30, 2014 AND 2013

(In thousands, except share data) (Unaudited)	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Unearned Shares Issued to Employee Stock Ownership Trust	Accumulated Other Comprehensive Loss	Noncontrolling Interest	Total
Balance April 1, 2013	22,471,890	$ 225	$ 65,551	$ 14,169	$ (490)	$ (1,013)	$ 603	$ 79,045
Net income	-	-	-	1,640	-	-	-	1,640
Earned ESOP shares	-	-	(10)	-	26	-	-	16
Unrealized holding gain on securities available for sale	-	-	-	-	-	46	-	46
Noncontrolling interest	-	-	-	-	-	-	32	32
Balance June 30, 2013	22,471,890	$ 225	$ 65,541	$ 15,809	$ (464)	$ (967)	$ 635	$ 80,779
Balance April 1, 2014	22,471,890	$ 225	$ 65,195	$ 33,592	$ (387)	$ (647)	$ 471	$ 98,449
Net income	-	-	-	740	-	-	-	740
Stock option expense	-	-	26	-	-	-	-	26
Earned ESOP shares	-	-	(3)	-	26	-	-	23
Unrealized holding gain on securities available for sale	-	-	-	-	-	599	-	599
Noncontrolling interest	-	-	-	-	-	-	19	19
Balance June 30, 2014	22,471,890	$ 225	$ 65,218	$ 34,332	$ (361)	$ (48)	$ 490	$ 99,856

See notes to consolidated financial statements.

RIVERVIEW BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED JUNE 30, 2014 AND 2013

(In thousands) (Unaudited)	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 740	$ 1,640
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	746	424
Recapture of loan losses	(300)	(2,500)
Provision for deferred income taxes	377	-
Noncash expense related to ESOP	23	16
Increase (decrease) in deferred loan origination fees, net of amortization	(39)	82
Origination of loans held for sale	(3,640)	(12,490)
Proceeds from sales of loans held for sale	3,945	12,326
Stock based compensation expense	26	-
Writedown of real estate owned	513	1,292
Net gain on loans held for sale, sale of real estate owned, mortgage-backed securities, investment securities and premises and equipment	(130)	(289)
Income from bank owned life insurance	(138)	(142)
Changes in assets and liabilities:		
Prepaid expenses and other assets	(703)	205
Accrued interest receivable	(128)	(4)
Accrued expenses and other liabilities	2,318	1,029
Net cash provided by operating activities	3,610	1,589
CASH FLOWS FROM INVESTING ACTIVITIES:		
Loan repayments (originations), net	(4,849)	9,285
Purchases of loans receivable	(8,726)	-
Proceeds from call, maturity, or sale of investment securities available for sale	4,000	-
Principal repayments on investment securities available for sale	-	29
Purchase of investment securities available for sale	(2,000)	(8,000)
Principal repayments on mortgage-backed securities available for sale	3,444	120
Principal repayments on mortgage-backed securities held to maturity	3	3
Purchase of mortgage-backed securities available for sale	(22,780)	(6,094)
Purchase of premises and equipment and capitalized software	(202)	(366)
Redemption of certificates of deposits held for investment, net	2,490	1,983
Proceeds from redemption of Federal Home Loan Bank stock	211	65
Proceeds from sale of real estate owned and premises and equipment	1,326	2,968
Net cash used in investing activities	(27,083)	(7)
CASH FLOWS FROM FINANCING ACTIVITIES		

Decrease in deposit accounts	(3,425)	(4,311)
Principal payments under capital lease obligation	(21)	(20)
Net decrease in advance payments by borrowers	(102)	(788)
Net cash used in financing activities	(3,548)	(5,119)
NET DECREASE IN CASH	(27,021)	(3,537)
CASH, BEGINNING OF PERIOD	68,577	115,415
CASH, END OF PERIOD	$ 41,556	$ 111,878
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$ 381	$ 530
Income taxes	15	13
NONCASH INVESTING AND FINANCING ACTIVITIES:		
Transfer of loans to real estate owned	$ 52	$ 1,812
Fair value adjustment to securities available for sale	907	70
Income tax effect related to fair value adjustment	(308)	(24)

See notes to consolidated financial statements.

RIVERVIEW BANCORP, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
(Unaudited)

1. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements were prepared in accordance with instructions for Quarterly Reports on Form 10-Q and, therefore, do not include all disclosures necessary for a complete presentation of financial condition, results of operations and cash flows in conformity with accounting principles generally accepted in the United States of America ("GAAP"). However, all adjustments that are, in the opinion of management, necessary for a fair presentation of the interim unaudited financial statements have been included. All such adjustments are of a normal recurring nature.

The unaudited consolidated financial statements should be read in conjunction with the audited financial statements included in the Riverview Bancorp, Inc. Annual Report on Form 10-K for the year ended March 31, 2014 ("2014 Form 10-K"). The results of operations for the three months ended June 30, 2014 are not necessarily indicative of the results, which may be expected for the fiscal year ending March 31, 2015. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

2. PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements include the accounts of: Riverview Bancorp, Inc.; its wholly-owned subsidiary, Riverview Community Bank (the "Bank"); the Bank's wholly-owned subsidiary, Riverview Services, Inc.; and the Bank's majority owned subsidiary, Riverview Asset Management Corp. ("RAMCorp") (collectively referred to as the "Company"). All inter-company transactions and balances have been eliminated in consolidation.

3. STOCK PLANS AND STOCK-BASED COMPENSATION

In July 1998, shareholders of the Company approved the adoption of the 1998 Stock Option Plan ("1998 Plan"). The 1998 Plan was effective October 1998 and expired in October 2008. Accordingly, no further option awards may be granted under the 1998 Plan; however, any awards granted prior to its expiration remain outstanding subject to their terms. Each option granted under the 1998 Plan has an exercise price equal to the fair market value of the Company's common stock on the date of the grant, a maximum term of ten years and a vesting period from zero to five years.

In July 2003, shareholders of the Company approved the adoption of the 2003 Stock Option Plan ("2003 Plan"). The 2003 Plan was effective July 2003 and expired in July 2013. Accordingly, no further option awards may be granted under the 2003 Plan; however, any awards granted prior to its expiration remain outstanding subject to their terms. Each option granted under the 2003 Plan has an exercise price equal to the fair market value of the Company's common stock on the date of the grant, a maximum term of ten years and a vesting period from zero to five years.

The following table presents information on stock options outstanding for the periods shown.

	Three Months Ended June 30, 2014		Three Months Ended June 30, 2013	
	Number of	Weighted	Number of	Weighted

	Shares	Average Exercise Price	Shares	Average Exercise Price
Balance, beginning of period	474,654	7.91	407,500	9.05
Grants	-	-	-	-
Forfeited	-	-	-	-
Expired	(28,000)	9.06	(10,000)	8.44
Balance, end of period	446,654	7.83	397,500	9.07

7

The following table presents information on stock options outstanding for the periods shown, less estimated forfeitures.

	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013
Stock options fully vested and expected to vest:		
Number	441,896	397,100
Weighted average exercise price	$ 7.89	$ 9.08
Aggregate intrinsic value (1)	$ 122,000	$ 3,000
Weighted average contractual term of options (years)	4.39	4.20
Stock options fully vested and currently exercisable:		
Number	357,900	394,300
Weighted average exercise price	$ 9.09	$ 9.12
Aggregate intrinsic value (1)	$ 29,000	$ 2,000
Weighted average contractual term of options (years)	3.30	4.17

(1) The aggregate intrinsic value of a stock option in the table above represents the total pre-tax intrinsic value (the amount by which the current market value of the underlying stock exceeds the exercise price) that would have been received by the option holders had all option holders exercised. This amount changes based on changes in the market value of the Company's stock.

Stock-based compensation expense related to stock options for the three months ended June 30, 2014 and 2013 was $26,000 and $0, respectively. As of June 30, 2014, there was no unrecognized compensation expense related to unvested stock options.

The fair value of each stock option granted is estimated on the date of grant using the Black-Scholes based stock option valuation model. There were no stock options granted during the three months ended June 30, 2014 and 2013.

4. EARNINGS PER SHARE

Basic earnings per share ("EPS") is computed by dividing net income or loss applicable to common stock by the weighted average number of common shares outstanding during the period, without considering any dilutive items. Diluted EPS is computed by dividing net income or loss applicable to common stock by the weighted average number of common shares and common stock equivalents for items that are dilutive, net of shares assumed to be repurchased using the treasury stock method at the average share price for the Company's common stock during the period. Common stock equivalents arise from assumed exercise of outstanding stock options. Shares owned by the Company's Employee Stock Ownership Plan ("ESOP") that have not been allocated are not considered to be outstanding for the purpose of computing earnings per share. For the three months ended June 30, 2014 and 2013, stock options for 342,000 and 397,000 shares, respectively, of common stock were excluded in computing diluted EPS because they were antidilutive.

	Three Months Ended June 30,	
	2014	2013

Basic EPS computation:				
Numerator-net income	$	740,000	$	1,640,000
Denominator-weighted average common shares outstanding		22,382,595		22,357,962
Basic EPS	$	0.03	$	0.07
Diluted EPS computation:				
Numerator-net income	$	740,000	$	1,640,000
Denominator-weighted average common shares outstanding		22,382,595		22,357,962
Effect of dilutive stock options		26,180		671
Weighted average common shares and common stock equivalents		22,408,775		22,358,633
Diluted EPS	$	0.03	$	0.07

5. INVESTMENT SECURITIES

The amortized cost and approximate fair value of investment securities available for sale consisted of the following (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
June 30, 2014				
Trust preferred	$ 1,919	$ -	$ (44)	$ 1,875
Agency securities	19,950	65	(341)	19,674
Total	$ 21,869	$ 65	$ (385)	$ 21,549
March 31, 2014				
Trust preferred	$ 1,919	$ -	$ (16)	$ 1,903
Agency securities	21,947	6	(462)	21,491
Total	$ 23,866	$ 6	$ (478)	$ 23,394

The contractual maturities of investment securities available for sale are as follows (in thousands):

June 30, 2014	Amortized Cost	Estimated Fair Value
Due in one year or less	$ -	$ -
Due after one year through five years	18,941	18,653
Due after five years through ten years	1,009	1,021
Due after ten years	1,919	1,875
Total	$ 21,869	$ 21,549

The fair value of temporarily impaired securities, the amount of unrealized losses and the length of time these unrealized losses existed are as follows (in thousands):

	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
June 30, 2014						
Trust preferred	$ 1,875	$ (44)	$ -	$ -	$ 1,875	$ (44)
Agency securities	-	-	12,659	(341)	12,659	(341)
Total	$ 1,875	$ (44)	$ 12,659	$ (341)	$ 14,534	$ (385)
March 31, 2014						
Trust preferred	$ 1,903	$ (16)	$ -	$ -	$ 1,903	$ (16)
Agency securities	17,985	(462)	-	-	17,985	(462)
Total	$ 19,888	$ (478)	$ -	$ -	$ 19,888	$ (478)

At June 30, 2014, the Company had a single collateralized debt obligation which is secured by a pool of trust preferred securities issued by 15 other holding companies. The Company holds the mezzanine tranche of this security. All tranches senior to the mezzanine tranche have been repaid by the issuers. Four of the issuers of trust preferred securities in this pool have defaulted (representing 51% of the remaining collateral, including excess collateral), and

two other issuers are currently deferring interest payments (6% of the remaining collateral). The Company has estimated an expected default rate of 43% for its portion of this security. The expected default rate was estimated based primarily on an analysis of the financial condition of the underlying issuers. The Company estimates that a default rate of 65% would trigger additional other than temporary impairment ("OTTI") of this security. The Company utilized a discount rate of 10% to estimate the fair value of this security. There was no excess subordination on this security.

During the three months ended June 30, 2014, the Company determined that there was no additional OTTI charge on the above collateralized debt obligation. The Company does not intend to sell this security and it is not more likely than not that the Company will be required to sell the security before the anticipated recovery of the remaining amortized cost basis.

To determine the component of gross OTTI related to credit losses, the Company compared the amortized cost basis of the collateralized debt obligation to the present value of the revised expected cash flows, discounted using the current pre-impairment yield. The revised expected cash flow estimates are based primarily on an analysis of default rates, prepayment speeds and third-party analytical reports. Significant judgment of management is required in this analysis that includes, but is not limited to, assumptions regarding the ultimate collectibility of principal and interest on the underlying collateral.

The unrealized losses on the above agency securities were primarily attributable to increases in market interest rates subsequent to their purchase by the Company. The Company expects the fair value of the agency securities to recover as the agency securities approach their maturity dates or sooner if market yields for such securities decline. The Company does not believe that the agency securities are other than temporarily impaired because of their credit quality or related to any issuer or industry specific event. Based on management's evaluation and intent, the unrealized losses related to the agency securities in this table are considered temporary.

The Company realized no gains or losses on sales of investment securities for the three months ended June 30, 2014 and 2013. Investment securities with an amortized cost of $1.0 million at June 30, 2014 and March 31, 2014 and a fair value of $979,000 and $975,000 at June 30, 2014 and March 31, 2014, respectively, were pledged as collateral for governmental public funds held by the Bank.

6. MORTGAGE-BACKED SECURITIES

Mortgage-backed securities held to maturity consisted of the following (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
June 30, 2014				
Mortgage-backed securities (1)	$ 98	$ 1	$ -	$ 99
March 31, 2014				
Mortgage-backed securities (1)	$ 101	$ 3	$ -	$ 104

(1) Comprised of Federal National Mortgage Association ("FNMA") and Federal Home Loan Mortgage Corporation (" FHLMC") issued securities.

The contractual maturities of mortgage-backed securities classified as held to maturity are as follows (in thousands):

June 30, 2014	Amortized Cost	Estimated Fair Value
Due in one year or less	$ -	$ -
Due after one year through five years	-	-
Due after five years through ten years	79	80
Due after ten years	19	19
Total	$ 98	$ 99

Mortgage-backed securities held to maturity with an amortized cost of $34,000 and $36,000 and a fair value of $35,000 and $37,000 at June 30, 2014 and March 31, 2014, respectively, were pledged as collateral for governmental public funds.

Mortgage-backed securities available for sale consisted of the following (in thousands):

June 30, 2014	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value

Real estate mortgage investment conduits (1)	$ 19,638	$ 23	$ (54)	$ 19,607
Mortgage-backed securities (2)	72,637	494	(211)	72,920
Other mortgage-backed securities (3)	5,891	24	(29)	5,886
Total	$ 98,166	$ 541	$ (294)	$ 98,413
March 31, 2014				
Real estate mortgage investment conduits	$ 7,218	$ 9	$ (77)	$ 7,150
Mortgage-backed securities	65,858	102	(547)	65,413
Other mortgage-backed securities	6,007	18	(13)	6,012
Total	$ 79,083	$ 129	$ (637)	$ 78,575

(1) Comprised of FHLMC and FNMA issued securities.
(2) Comprised of FHLMC, FNMA and Ginnie Mae ("GNMA") issued securities.
(3) Comprised of U.S. Small Business Administration ("SBA") issued securities and Commercial Real Estate ("CRE") secured securities issued by private issuers.

The contractual maturities of mortgage-backed securities available for sale are as follows (in thousands):

June 30, 2014	Amortized Cost	Estimated Fair Value
Due in one year or less	$ -	$ -
Due after one year through five years	20	21
Due after five years through ten years	12,995	13,095
Due after ten years	85,151	85,297
Total	$ 98,166	$ 98,413

The fair value of temporarily impaired securities, the amount of unrealized losses and the length of time these unrealized losses existed are as follows (in thousands):

	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
June 30, 2014						
Real estate mortgage investment conduits	$ 9,946	$ (54)	$ -	$ -	$ 9,946	$ (54)
Mortgage-backed securities (1)	4,465	(17)	5,358	(194)	9,823	(211)
Other mortgage-backed securities (2)	3,514	(29)	-	-	3,514	(29)
Total	$ 17,925	$ (100)	$ 5,358	$ (194)	$ 23,283	$ (294)
March 31, 2014						
Real estate mortgage investment conduits	$ 4,996	$ (77)	$ -	$ -	$ 4,996	$ (77)
Mortgage-backed securities	49,177	(547)	-	-	49,177	(547)
Other mortgage-backed securities	1,526	(13)	-	-	1,526	(13)
Total	$ 55,699	$ (637)	$ -	$ -	$ 55,699	$ (637)

(1) Comprised of FHLMC and FNMA issued securities.
(2) Comprised of SBA issued securities.

The unrealized losses on the above mortgage-backed securities were primarily attributable to increases in market interest rates subsequent to their purchase by the Company. The Company expects the fair value of the mortgage-backed securities to recover as the mortgage-backed securities approach their maturity dates or sooner if market yields for such securities decline. The Company does not believe that the mortgage-backed securities are impaired because of their credit quality or related to any issuer or industry specific event. Based on management's evaluation and intent, the unrealized losses related to the mortgage-backed securities in this table are considered temporary.

Expected maturities of mortgage-backed securities held to maturity and available for sale will differ from contractual maturities because borrowers may have the right to prepay obligations with or without prepayment penalties.

Mortgage-backed securities available for sale with an amortized cost of $1.6 million and $1.7 million and a fair value of $1.6 million and $1.7 million at June 30, 2014 and March 31, 2014, respectively, were pledged as collateral for governmental public funds held by the Bank.

7. LOANS RECEIVABLE

Loans receivable, excluding loans held for sale, consisted of the following (in thousands):

	June 30, 2014	March 31, 2014

Commercial and construction		
Commercial business	$ 75,702	$ 71,632
Other real estate mortgage	327,287	324,881
Real estate construction	18,347	19,482
Total commercial and construction	421,336	415,995
Consumer		
Real estate one-to-four family	93,550	93,007
Other installment	32,107	24,486
Total consumer	125,657	117,493
Total loans	546,993	533,488
Less: Allowance for loan losses	12,281	12,551
Loans receivable, net	$ 534,712	$ 520,937

The Company considers its loan portfolio to have very little exposure to sub-prime mortgage loans since the Company has not historically engaged in this type of lending. At June 30, 2014, loans carried at $329.0 million were pledged as collateral to the Federal Home Loan Bank of Seattle (“FHLB”) and Federal Reserve Bank of San Francisco (“FRB”) for borrowing agreements.

Most of the Bank’s business activity is with customers located in the states of Washington and Oregon. Loans and extensions of credit outstanding at one time to one borrower are generally limited by federal regulation to 15% of the Bank’s shareholders’ equity, excluding accumulated other comprehensive loss. As of June 30, 2014 and March 31, 2014, the Bank had no loans to any one borrower in excess of the regulatory limit.

8. ALLOWANCE FOR LOAN LOSSES

Allowance for loan loss: The allowance for loan losses is maintained at a level sufficient to provide for probable loan losses based on evaluating known and inherent risks in the loan portfolio. The allowance is provided based upon the Company's ongoing quarterly assessment of the pertinent factors underlying the quality of the loan portfolio. These factors include changes in the size and composition of the loan portfolio, delinquency levels, actual loan loss experience, current economic conditions and detailed analysis of individual loans for which full collectability may not be assured. The detailed analysis includes techniques to estimate the fair value of loan collateral and the existence of potential alternative sources of repayment. The allowance consists of specific, general and unallocated components. The specific component relates to loans that are considered impaired. For loans that are classified as impaired, an allowance is established when the discounted cash flows or collateral value of the impaired loan is lower than the carrying value of that loan. The general component covers non-impaired loans based on the Company's risk rating system and historical loss experience adjusted for qualitative factors. The Company calculates its historical loss rates using the average of the last four quarterly 24-month periods. The Company calculates and applies its historical loss rates by individual loan types in its portfolio. These historical loss rates are adjusted for qualitative and environmental factors. An unallocated component is maintained to cover uncertainties that the Company believes have resulted in incurred losses that have not yet been allocated to specific elements of the general and specific components of the allowance for loan losses. Such factors include uncertainties in economic conditions and in identifying triggering events that directly correlate to subsequent loss rates, changes in appraised value of underlying collateral, risk factors that have not yet manifested themselves in loss allocation factors and historical loss experience data that may not precisely correspond to the current portfolio or economic conditions. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio. The appropriate allowance level is estimated based upon factors and trends identified by the Company as of the date of the filing of the financial statements.

Management's evaluation of the allowance for loan losses is based on ongoing, quarterly assessments of the known and inherent risks in the loan portfolio. Loss factors are based on the Company's historical loss experience with additional consideration and adjustments made for changes in economic conditions, changes in the amount and composition of the loan portfolio, delinquency rates, changes in collateral values, seasoning of the loan portfolio, duration of current business cycle, a detailed analysis of impaired loans and other factors as deemed appropriate. These factors are evaluated on a quarterly basis. Loss rates used by the Company are affected as changes in these factors increase or decrease from quarter to quarter. The Company also considers bank regulatory examination results and findings of credit examiners in its quarterly evaluation of the allowance for loan losses.

The following tables present a reconciliation of the allowance for loan losses (in thousands):

Three months ended June 30, 2014	Commercial Business	Commercial Real Estate	Land	Multi-Family	Real Estate Construction	Consumer	Unallocated	Total
Beginning balance	$ 2,409	$ 5,269	$ 340	$ 203	$ 387	$ 2,653	$ 1,290	$ 12,551
Provision for (recapture of) loan losses	(805)	149	(105)	57	(33)	218	219	(300)
Charge-offs	-	(25)	-	-	-	(30)	-	(55)
Recoveries	2	-	62	-	-	21	-	85
Ending balance	$ 1,606	$ 5,393	$ 297	$ 260	$ 354	$ 2,862	$ 1,509	$ 12,281

Three months ended June 30, 2013								
Beginning balance	$ 2,128	$ 5,979	$ 2,019	$ 541	$ 221	$ 2,949	$ 1,806	$ 15,643
Provision for (recapture of) loan losses	(563)	(352)	(1,200)	(209)	21	(328)	131	(2,500)
Charge-offs	(55)	(74)	(8)	-	(7)	(138)	-	(282)
Recoveries	184	15	483	-	4	150	-	836
Ending balance	$ 1,694	$ 5,568	$ 1,294	$ 332	$ 239	$ 2,633	$ 1,937	$ 13,697

The following tables present an analysis of loans receivable and allowance for loan losses, which were evaluated individually and collectively for impairment at the dates indicated (in thousands):

	Allowance for loan losses			Recorded investment in loans		
June 30, 2014	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
Commercial business	$ -	$ 1,606	$ 1,606	$ 930	$ 74,772	$ 75,702
Commercial real estate	-	5,393	5,393	17,448	272,087	289,535
Land	-	297	297	825	14,426	15,251
Multi-family	-	260	260	2,345	20,156	22,501
Real estate construction	-	354	354	-	18,347	18,347
Consumer	137	2,725	2,862	3,982	121,675	125,657
Unallocated	-	1,509	1,509	-	-	-
Total	$ 137	$ 12,144	$ 12,281	$ 25,530	$ 521,463	$ 546,993
March 31, 2014						
Commercial business	$ -	$ 2,409	$ 2,409	$ 947	$ 70,685	$ 71,632
Commercial real estate	137	5,132	5,269	18,122	269,386	287,508
Land	-	340	340	858	15,387	16,245
Multi-family	-	203	203	2,014	19,114	21,128
Real estate construction	-	387	387	-	19,482	19,482
Consumer	142	2,511	2,653	4,009	113,484	117,493
Unallocated	-	1,290	1,290	-	-	-
Total	$ 279	$ 12,272	$ 12,551	$ 25,950	$ 507,538	$ 533,488

Non-accrual loans: Loans are reviewed regularly and it is the Company’s general policy that a loan is past due when it is 30 days to 89 days delinquent. In general, when a loan is 90 days delinquent or when collection of principal or interest appears doubtful, it is placed on non-accrual status, at which time the accrual of interest ceases and a reserve for unrecoverable accrued interest is established and charged against operations. Payments received on non-accrual loans are applied to reduce the outstanding principal balance on a cost recovery method. As a general practice, a loan is not removed from non-accrual status until all delinquent principal, interest and late fees have been brought current and the borrower has demonstrated a history of performance based upon the contractual terms of the note. Interest income foregone on non-accrual loans was $144,000 and $401,000 during the three months ended June 30, 2014 and 2013, respectively.

The following tables present an analysis of past due loans at the dates indicated (in thousands):

June 30, 2014	30-89 Days Past Due	90 Days and Greater (Non-	Total Past Due	Current	Total Loans Receivable	Recorded Investment >

		Accrual)				90 Days and Accruing
Commercial business	$88	$187	$275	$75,427	$75,702	$-
Commercial real estate	1,921	7,038	8,959	280,576	289,535	-
Land	-	800	800	14,451	15,251	-
Multi-family	-	2,345	2,345	20,156	22,501	-
Real estate construction	-	-	-	18,347	18,347	-
Consumer	388	2,682	3,070	122,587	125,657	-
Total	$2,397	$13,052	$15,449	$531,544	$546,993	$-
March 31, 2014						
Commercial business	$120	$452	$572	$71,060	$71,632	$-
Commercial real estate	188	8,067	8,255	279,253	287,508	-
Land	-	800	800	15,445	16,245	-
Multi-family	359	2,014	2,373	18,755	21,128	-
Real estate construction	-	-	-	19,482	19,482	-
Consumer	1,580	2,729	4,309	113,184	117,493	-
Total	$2,247	$14,062	$16,309	$517,179	$533,488	$-

Credit quality indicators: The Company monitors credit risk in its loan portfolio using a risk rating system for all commercial (non-consumer) loans. The risk rating system is a measure of the credit risk of the borrower based on their historical, current and anticipated financial characteristics. The Company assigns a risk rating to each commercial loan at origination and subsequently updates these ratings, as necessary, so the risk rating continues to reflect the appropriate risk characteristics of the loan. Application of appropriate risk ratings is key to management of the loan portfolio risk. In arriving at the rating, the Company considers the following factors: delinquency, payment history, quality of management, liquidity, leverage, earning trends, alternative funding sources, geographic risk, industry risk, cash flow adequacy, account practices, asset protection and extraordinary risks. Consumer loans, including custom construction loans, are not assigned a risk rating but rather are grouped into homogeneous pools with similar risk characteristics. When a consumer loan is delinquent 90 days, it is placed on non-accrual status and assigned a substandard risk rating. Loss factors are assigned to each risk rating and homogeneous pool based on historical loss experience for similar loans. This historical loss experience is adjusted for qualitative factors that are likely to cause the estimated credit losses to differ from the Company's historical loss experience. The Company uses these loss factors to estimate the general component of its allowance for loan loss.

Pass - These loans have risk rating between 1 and 4 and are to borrowers that meet normal credit standards. Any deficiencies in satisfactory asset quality, liquidity, debt servicing capacity and coverage are offset by strengths in other areas. The borrower currently has the capacity to perform according to the loan terms. Any concerns about risk factors such as stability of margins, stability of cash flows, liquidity, dependence on a single product/supplier/customer, depth of management, etc., are offset by strength in other areas. Typically, the operating assets of the company and/or real estate will secure these loans. Management is considered competent. The borrower has the ability to repay the debt in the normal course of business.

Watch – These loans have a risk rating of 5 and would typically have many of the attributes of loans in the pass rating. However, there would typically be some reason for additional management oversight, such as recent financial setbacks, deteriorating financial position, industry concerns and failure to perform on other borrowing obligations. Loans with this rating are to be monitored closely in an effort to correct deficiencies.

Special mention – These loans have a risk rating of 6 and are rated in accordance with regulatory guidelines. These loans have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the credit position at some future date. These assets pose elevated risk, but their weakness does not yet justify a "Substandard" classification.

Substandard – These loans have a risk rating of 7 and are rated in accordance with regulatory guidelines, for which the accrual of interest may or may not be discontinued. By definition under regulatory guidelines, a "Substandard" loan has defined weaknesses which make payment default or principal exposure likely, but not yet certain. Such loans are apt to be dependent upon collateral liquidation, a secondary source of repayment, or an event outside of the normal course of business.

Doubtful - These loans have a risk rating of 8 and are rated in accordance with regulatory guidelines. Such loans are placed on non-accrual status and may be dependent upon collateral having a value that is difficult to determine or upon some near-term event which lacks certainty.

Loss - These loans have a risk rating of 9 and are rated in accordance with regulatory guidelines. Such loans are to be charged-off or charged-down when payment is acknowledged to be uncertain or when the timing or value of payments cannot be determined. "Loss" is not intended to imply that the loan or some portion of it will never be paid, nor does it in any way imply that there has been a forgiveness of debt.

The following tables present an analysis of credit quality indicators at the dates indicated (dollars in thousands):

	June 30, 2014		March 31, 2014	
	Weighted-Average Risk Grade	Classified Loans (2)	Weighted-Average Risk Grade	Classified Loans (2)
Commercial business	3.44	$ 1,182	3.54	$ 8,419
Commercial real estate	3.84	18,810	3.87	19,838
Land	3.86	800	3.88	800
Multi-family	3.81	2,358	3.81	2,028
Real estate construction	3.23	-	3.08	-
Consumer (1)	7.00	2,682	7.00	2,729
Total	3.76	$ 25,832	3.82	$ 33,814
Total loans risk rated	$ 423,966		$ 418,503	

(1) Consumer loans are primarily evaluated on a homogenous pool level and generally not individually risk rated unless certain factors are met.
(2) Classified loans consist of substandard, doubtful and loss.

Impaired loans: A loan is considered impaired when it is probable that the Company will be unable to collect all amounts (principal and interest) due according to the contractual terms of the original loan agreement. Typically, factors used in determining if a loan is impaired include, but are not limited to, whether the loan is 90 days or more delinquent, internally designated as substandard or worse, on non-accrual status or represents a troubled debt restructuring ("TDR"). The majority of the Company's impaired loans are considered collateral dependent. When a loan is considered collateral dependent, impairment is measured using the estimated value of the underlying collateral, less any prior liens, and when applicable, less estimated selling costs. For impaired loans that are not collateral dependent, impairment is measured using the present value of expected future cash flows, discounted at the loan's original effective interest rate. When the net realizable value of the impaired loan is less than the recorded investment in the loan (including accrued interest, net deferred loan fees or costs, and unamortized premium or discount), an impairment is recognized by adjusting an allocation of the allowance for loan losses. Subsequent to the initial allocation of allowance to the individual loan, the Company may conclude that it is appropriate to record a charge-off of the impaired portion of the loan. When a charge-off is recorded the loan balance is reduced and the specific allowance is eliminated. Generally, when a collateral dependent loan is initially measured for impairment and does not have an appraisal performed in the last three months, the Company obtains an updated market valuation. Subsequently, the Company generally obtains an updated market valuation on an annual basis. The valuation may occur more frequently if the Company determines that there is an indication that the market value may have declined.

The following tables present an analysis of impaired loans at the dates indicated (in thousands):

June 30, 2014	Recorded Investment with No Specific Valuation Allowance	Recorded Investment with Specific Valuation Allowance	Total Recorded Investment	Unpaid Principal Balance	Related Specific Valuation Allowance
Commercial business	$ 930	$ -	$ 930	$ 1,059	$ -
Commercial real estate	17,448	-	17,448	19,538	-
Land	825	-	825	828	-
Multi-family	2,345	-	2,345	2,475	-
Consumer	2,578	1,404	3,982	4,661	137
Total	$ 24,126	$ 1,404	$ 25,530	$ 28,561	$ 137
March 31, 2014					
Commercial business	$ 947	$ -	$ 947	$ 1,067	$ -
Commercial real estate	17,956	166	18,122	20,601	137
Land	858	-	858	861	-
Multi-family	2,014	-	2,014	2,103	-
Consumer	2,596	1,413	4,009	4,639	142
Total	$ 24,371	$ 1,579	$ 25,950	$ 29,271	$ 279

	Three Months ended June 30, 2014		Three Months ended June 30, 2013	
	Average	Interest	Average	Interest

	Recorded Investment	Recognized on Impaired Loans	Recorded Investment	Recognized on Impaired Loans
Commercial business	$ 938	$ 11	$ 793	$ 4
Commercial real estate	17,785	112	22,114	134
Land	842	-	2,566	3
Multi-family	2,179	-	3,589	15
Real estate construction	-	-	172	-
Consumer	3,996	19	4,091	11
Total	$ 25,740	$ 142	$ 33,325	$ 167

TDRs are loans where the Company, for economic or legal reasons related to the borrower's financial condition, has granted a concession to the borrower that it would otherwise not consider. A TDR typically involves a modification of terms such as a reduction of the stated interest rate or face amount of the loan, a reduction of accrued interest, or an extension of the maturity date(s) at a stated interest rate lower than the current market rate for a new loan with similar risk.

TDRs are considered impaired loans and as such, when a loan is deemed to be impaired, the amount of the impairment is measured using discounted cash flows using the original note rate, except when the loan is collateral dependent. In these cases, the estimated fair value of the collateral, less selling costs (when applicable) is used. Impairment is recognized as a specific component within the allowance for loan losses if the value of the impaired loan is less than the recorded investment in the loan. When the amount of the impairment represents a confirmed loss, it is charged off against the allowance for loan losses.

The following table presents newly restructured loans that occurred during the three months ended June 30, 2014 and 2013:

	June 30, 2014			June 30, 2013		
(Dollars in Thousands)	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial real estate	1	$ 344	$ 346	-	$ -	$ -
Consumer	-	-	-	1	43	42
Total	1	$ 344	$ 346	1	$ 43	$ 42

There were no loans modified as a TDR within the previous twelve months that subsequently defaulted during the three months ended June 30, 2014.

In accordance with the Company's policy guidelines, unsecured loans are generally charged-off when no payments have been received for three consecutive months unless an alternative action plan is in effect. Consumer installment loans delinquent six months or more that have not received at least 75% of their required monthly payment in the last 90 days are charged-off. In addition, loans discharged in bankruptcy proceedings are charged-off. Loans under bankruptcy protection with no payments received for four consecutive months will be charged-off. The outstanding balance of a secured loan that is in excess of the net realizable value is generally charged-off if no payments are received for four to five consecutive months. However, charge-offs are postponed if alternative proposals to restructure, obtain additional guarantors, obtain additional assets as collateral or a potential sale would result in full repayment of the outstanding loan balance. Once any of these or other potential sources of repayment are exhausted, the impaired portion of the loan is charged-off, unless an updated valuation of the collateral reveals no impairment. Regardless of whether a loan is unsecured or collateralized, once an amount is determined to be a confirmed loan loss it is promptly charged off.

9. GOODWILL

Goodwill and intangibles generally arise from business combinations accounted for under the purchase method. Goodwill and other intangibles deemed to have indefinite lives generated from purchase business combinations are not subject to amortization and are instead tested for impairment not less than annually. The Company has one reporting unit, the Bank, for purposes of computing goodwill.

The Company performed an impairment assessment as of October 31, 2013 and determined that no impairment of goodwill asset exists. The goodwill impairment test involves a two-step process. The first step is a comparison of the reporting unit's fair value to its carrying value. If the reporting unit's fair value is less than its carrying value, the Company would be required to progress to the second step. In the second step, the Company calculates the implied fair value of goodwill. The GAAP standards with respect to goodwill require that the Company compare the implied fair value of goodwill to the carrying amount of goodwill on the Company's balance sheet. If the carrying amount of the goodwill is greater than the implied fair value of that goodwill, an impairment loss must be recognized in an amount equal to that excess. The implied fair value of goodwill is determined in the same manner as goodwill recognized in a business combination. The estimated fair value of the Company is allocated to all of the Company's individual assets and liabilities, including any unrecognized identifiable intangible assets, as if the Company had been acquired in a business combination and the estimated fair value of the Company is the price paid to acquire it. The allocation process is performed only for purposes of determining the amount of goodwill impairment, as no assets or liabilities are written up or down, nor are any additional unrecognized identifiable intangible assets recorded as a part

of this process. The results of the Company's step one test indicated that the reporting unit's fair value was less than its carrying value and therefore the Company performed a step two analysis. After the step two analysis was completed, the Company determined the implied fair value of goodwill was greater than the carrying value on the Company's balance sheet and no goodwill impairment existed; however, no assurance can be given that the Company's goodwill will not be written down in future periods.

An interim impairment test was not deemed necessary as of June 30, 2014, due to there not being a significant change in the reporting unit's assets and liabilities, the amount that the fair value of the reporting unit exceeded the carrying value as of the most recent valuation, and because the Company determined that, based on an analysis of events that have occurred and circumstances that have changed since the most recent valuation date, the likelihood that a current fair value determination would be less than the current carrying amount of the reporting unit is remote.

10. JUNIOR SUBORDINATED DEBENTURES

At June 30, 2014, the Company had two wholly-owned subsidiary grantor trusts that were established for the purpose of issuing trust preferred securities and common securities. The trust preferred securities accrue and pay distributions periodically at specified annual rates as provided in each trust agreement. The trusts used the net proceeds from each of the offerings to purchase a like amount of junior subordinated debentures (the "Debentures") of the Company. The Debentures are the sole assets of the trusts. The Company's obligations under the Debentures and related documents, taken together, constitute a full and unconditional guarantee by the Company of the obligations of the trusts. The trust preferred securities are mandatorily redeemable upon maturity of the Debentures, or upon earlier redemption as provided in the indentures. The Company has the right to redeem the Debentures in whole or in part on or after specific dates, at a redemption price specified in the indentures governing the Debentures plus any accrued but unpaid interest to the redemption date. The Company also has the right to defer the payment of interest on each of the Debentures for a period not to exceed 20 consecutive quarters, provided that the deferral period does not extend beyond the stated maturity. During such deferral period, distributions on the corresponding trust preferred securities will also be deferred and the Company may not pay cash dividends to the holders of shares of our common stock. Beginning in the first quarter of fiscal 2011, the Company elected to defer regularly scheduled interest payments on its outstanding $22.7 million aggregate principal amount of the Debentures. The Company continued with the interest deferral through June 30, 2014. As of June 30, 2014 and March 31, 2014, the Company has deferred a total of $3.8 million and $3.7 million, respectively, of interest payments. The accrual for these payments is included in accrued expenses and other liabilities on the Consolidated Balance Sheets and interest expense on the Consolidated Statements of Income. During the deferral period, the Company is restricted from paying dividends on its common stock.

The Debentures issued by the Company to the grantor trusts, totaling $22.7 million, are reflected in the consolidated balance sheets in the liabilities section, under the caption "junior subordinated debentures." The common securities issued by the grantor trusts were purchased by the Company, and the Company's investment in the common securities of $681,000 at June 30, 2014 and March 31, 2014, is included in prepaid expenses and other assets in the consolidated balance sheets. The Company records interest expense on the Debentures in the consolidated statements of income.

The following table is a summary of the terms of the Debentures at June 30, 2014 (in thousands):

Issuance Trust	Issuance Date		Amount Outstanding	Rate Type	Initial Rate	Rate	Maturing Date
Riverview Bancorp Statutory Trust I	12/2005	$	7,217	Variable (1)	5.88%	1.59%	3/2036
Riverview Bancorp Statutory Trust II	06/2007		15,464	Variable (2)	7.03%	1.58%	9/2037
		$	22,681				

(1) The trust preferred securities reprice quarterly based on the three-month LIBOR plus 1.36%

(2) The trust preferred securities reprice quarterly based on the three-month LIBOR plus 1.35%

11. FAIR VALUE MEASUREMENT

Accounting guidance regarding fair value measurements defines fair value and establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. The following definitions describe the categories used in the tables presented under fair value measurement.

Quoted prices in active markets for identical assets (Level 1): Inputs that are quoted unadjusted prices in active markets for identical assets that the Company has the ability to access at the measurement date. An active market for the asset is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Other observable inputs (Level 2): Inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity including quoted prices for similar assets, quoted prices for securities in inactive markets and inputs derived principally from or corroborated by observable market data by correlation or other means.

Significant unobservable inputs (Level 3): Inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

Financial instruments are presented in the tables that follow by recurring or nonrecurring measurement status. Recurring assets are initially measured at fair value and are required to be remeasured at fair value in the financial statements at each reporting date. Assets measured on a nonrecurring basis are assets that, as a result of an event or circumstance, were required to be remeasured at fair value after initial recognition in the financial statements at some time during the reporting period.

The following table presents assets that are measured at fair value on a recurring basis (in thousands).

		Fair value measurements using		
June 30, 2014	Fair value	Quoted prices in active markets for identical assets (Level 1)	Other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Investment securities available for sale				
Trust preferred	$1,875	$ -	$ -	$ 1,875
Agency securities	19,674	-	19,674	-
Mortgage-backed securities available for sale				
Real estate mortgage investment conduits	19,607	-	19,607	-
Mortgage-backed securities	72,920	-	72,920	-
Other mortgage-backed securities	5,886	-	5,886	-
Total recurring assets measured at fair value	$119,962	$ -	$ 118,087	$ 1,875
March 31, 2014				
Investment securities available for sale				
Trust preferred	$1,903	$-	$-	$1,903
Agency securities	21,491	-	21,491	-
Mortgage-backed securities available for sale				
Real estate mortgage investment conduits	7,150	-	7,150	-
Mortgage-backed securities	65,413	-	65,413	-
Other mortgage-backed securities	6,012	-	6,012	-
Total recurring assets measured at fair value	$101,969	$-	$100,066	$1,903

The following table presents a reconciliation of assets that are measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the three months ended June 30, 2014 and 2013 (in thousands). There were no transfers of assets in to or out of Level 1, 2 or 3 for the three months ended June 30, 2014 and 2013.

	For the Three Months Ended June 30, 2014 Available for sale securities	For the Three Months Ended June 30, 2013 Available for sale securities
Beginning balance	$ 1,903	$ 1,238
Transfers in to Level 3	-	-
Included in earnings (1)	-	-
Included in other comprehensive income	(28)	829

Ending balance	$ 1,875	$ 2,067

(1) Included in other non-interest income

The following method was used to estimate the fair value of each class of financial instrument above:

Investments and Mortgage-Backed Securities – Investments and mortgage-backed securities available-for-sale are included within Level 1 of the hierarchy when quoted prices in an active market for identical assets are available. The Company uses a third party pricing service to assist the Company in determining the fair value of its Level 2 securities, which incorporates pricing models and/or quoted prices of investment securities with similar characteristics. The Company's Level 3 assets consist of a single pooled trust preferred security.

For Level 2 securities, the Company uses an independent pricing service to assist management in determining fair values of investment securities available-for-sale. This service provides pricing information by utilizing evaluated pricing models supported with market data information. Standard inputs include benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data from market research publications. Investments securities that are deemed to have been trading in illiquid or inactive markets may require the use of significant unobservable inputs. The Company's third-party pricing service has established processes for us to submit inquiries regarding quoted prices. The Company's third-party pricing service will review the inputs to the evaluation in light of any new market data presented by us. The Company's third-party pricing service may then affirm the original quoted price or may update the evaluation on a going forward basis.

Management reviews the pricing information received from the third party-pricing service through a combination of procedures that include an evaluation of methodologies used by the pricing service, analytical reviews and performance analysis of the prices against statistics and trends. Based on this review, management determines whether the current placement of the security in the fair value hierarchy is appropriate or whether transfers may be warranted. As necessary, the Company compares prices received from the pricing service to discounted cash flow models or through performing independent valuations of inputs and assumptions similar to those used by the pricing service in order to ensure prices represent a reasonable estimate of fair value.

The Company has determined that the market for its collateralized debt obligation secured by a pool of trust preferred pooled securities was inactive. This determination was made by the Company after considering the last known trade date for this specific security, the low number of transactions for similar types of securities, the low number of new issuances for similar securities, the increased implied liquidity risk premium for similar securities, the lack of information that is released publicly and discussions with third-party industry analysts. Due to the inactivity in the market, observable market data was not readily available for all significant inputs for this security. Accordingly, the trust preferred pooled security was classified as Level 3 in the fair value hierarchy. The Company utilized observable inputs where available, unobservable data and modeled the cash flows adjusted by an appropriate liquidity and credit risk adjusted discount rate using an income approach valuation technique in order to measure the fair value of the security. Significant unobservable inputs were used that reflect the Company’s assumptions of what a market participant would use to price the security. Significant unobservable inputs included selecting an appropriate discount rate, default rate and repayment assumptions. The Company estimated the discount rate by comparing rates for similarly rated corporate bonds, with additional consideration given to market liquidity. The default rates and repayment assumptions were estimated based on the individual issuer’s financial conditions, historical repayment information, as well as the Company’s future expectations of the capital markets.

The following table represents certain loans and real estate owned (“REO”) which were marked down to their fair value using fair value measures during the three months ended June 30, 2014. The following are assets that are measured at fair value on a nonrecurring basis (in thousands).

		Fair value measurements using		
June 30, 2014	Fair value	Quoted prices in active markets for identical assets (Level 1)	Other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Impaired loans	$1,000	$-	$-	$1,000
Real estate owned	3,984	-	-	3,984
Total nonrecurring assets measured at fair value	$4,984	$-		