RIVERVIEW BANCORP INC
Form 10-Q
August 08, 2016
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, 2016

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	91-1838969
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer I.D. Number)
900 Washington St., Ste. 900, Vancouver, Washington	98660
(Address of principal executive offices)	(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 [ ]

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 [ ]

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 [ ] Accelerated filer [X] Non-accelerated filer [ ] Smaller Reporting Company [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes [ ] 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, 22,507,890 shares outstanding as of August 8, 2016.

Form 10-Q

RIVERVIEW BANCORP, INC. AND SUBSIDIARY
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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 expressions 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 allowance 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; 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 consolidated 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 2017 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 consolidated financial condition and consolidated 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, 2016 AND MARCH 31, 2016

(In thousands, except share and per share data) (Unaudited)		June 30, 2016		March 31, 2016
ASSETS				
Cash and cash equivalents (including interest-earning accounts of $36,120 and $40,317)	$	50,377	$	55,400
Certificates of deposit held for investment		16,271		16,769
Loans held for sale		457		503
Investment securities:				
Available for sale, at estimated fair value		163,684		150,690
Held to maturity, at amortized cost (estimated fair value of $74 and $76)		72		75
Loans receivable (net of allowance for loan losses of $9,960 and $9,885)		619,854		614,934
Real estate owned		569		595
Prepaid expenses and other assets		3,286		3,405
Accrued interest receivable		2,451		2,384
Federal Home Loan Bank stock, at cost		1,060		1,060
Premises and equipment, net		14,403		14,595
Deferred income taxes, net		8,141		9,189
Mortgage servicing rights, net		381		380
Goodwill		25,572		25,572
Bank owned life insurance		25,869		25,678
TOTAL ASSETS	$	932,447	$	921,229
LIABILITIES AND SHAREHOLDERS' EQUITY				
LIABILITIES:				
Deposits	$	789,555	$	779,803
Accrued expenses and other liabilities		7,229		7,388
Advanced payments by borrowers for taxes and insurance		521		609
Junior subordinated debentures		22,681		22,681
Capital lease obligation		2,470		2,475
Total liabilities		822,456		812,956
COMMITMENTS AND CONTINGENCIES (See Note 12)				
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, 2016 – 22,507,890 issued and outstanding March 31, 2016 – 22,507,890 issued and outstanding		225		225

Additional paid-in capital		64,421		64,418
Retained earnings		43,976		42,728
Unearned shares issued to employee stock ownership plan (“ESOP”)		(155)		(181)
Accumulated other comprehensive income		1,524		1,083
Total shareholders’ equity		109,991		108,273
TOTAL LIABILITIES AND SHAREHOLDERS’ EQUITY	$	932,447	$	921,229

See accompanying notes to consolidated financial statements.

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RIVERVIEW BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME
FOR THE THREE MONTHS ENDED JUNE 30, 2016 AND 2015

(In thousands, except share and per share data) (Unaudited)	2016		2015	
INTEREST AND DIVIDEND INCOME:				
Interest and fees on loans receivable	$	7,440	$	6,860
Interest on investment securities		720		582
Other interest and dividends		102		119
Total interest and dividend income		8,262		7,561
INTEREST EXPENSE:				
Interest on deposits		281		303
Interest on borrowings		158		134
Total interest expense		439		437
Net interest income		7,823		7,124
Recapture of loan losses		-		(500)
Net interest income after recapture of loan losses		7,823		7,624
NON-INTEREST INCOME:				
Fees and service charges		1,323		1,296
Asset management fees		822		824
Net gains on sales of loans held for sale		139		221
Bank owned life insurance		191		197
Other, net		39		11
Total non-interest income, net		2,514		2,549
NON-INTEREST EXPENSE:				
Salaries and employee benefits		4,640		4,414
Occupancy and depreciation		1,137		1,169
Data processing		495		490
Advertising and marketing		193		176
FDIC insurance premium		122		126
State and local taxes		139		137
Telecommunications		73		73
Professional fees		258		233
Real estate owned		15		279
Other		743		648
Total non-interest expense		7,815		7,745
INCOME BEFORE INCOME TAXES		2,522		2,428
PROVISION FOR INCOME TAXES		825		833
NET INCOME	$	1,697	$	1,595
Earnings per common share:				
Basic	$	0.08	$	0.07
Diluted		0.08		0.07

Weighted average number of common shares outstanding:		
Basic	22,467,861	22,434,327
Diluted	22,514,235	22,477,006

See accompanying notes to consolidated financial statements.

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RIVERVIEW BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE THREE MONTHS ENDED JUNE 30, 2016 AND 2015

(In thousands) (Unaudited)	2016	2015
Net income	$ 1,697	$ 1,595
Other comprehensive income (loss):		
Net unrealized holding gain (loss) from available for sale investment securities arising during the period, net of tax of ($245) and $393, respectively	441	(764)
Noncontrolling interest	-	15
Total comprehensive income, net	$ 2,138	$ 846

See accompanying notes to consolidated financial statements.

RIVERVIEW BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF EQUITY
FOR THE THREE MONTHS ENDED JUNE 30, 2016 AND 2015

(In thousands, except share data) (Unaudited)	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Unearned Shares Issued to ESOP	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interest	Total
Balance April 1, 2015	22,489,890	$ 225	$ 65,268	$ 37,830	$ (284)	$ 762	$ 536	$ 104,337
Net income	-	-	-	1,595	-	-	-	1,595
Cash dividend ($0.0125 per share)	-	-	-	(281)	-	-	-	(281)
Exercise of stock options	18,000	-	62	-	-	-	-	62
Earned ESOP shares	-	-	1	-	26	-	-	27
Unrealized holding loss on investment securities available for sale	-	-	-	-	-	(764)	-	(764)
Noncontrolling interest	-	-	-	-	-	-	15	15
Balance June 30, 2015	22,507,890	$ 225	$ 65,331	$ 39,144	$ (258)	$ (2)	$ 551	$ 104,991
Balance April 1, 2016	22,507,890	$ 225	$ 64,418	$ 42,728	$ (181)	$ 1,083	$ -	$ 108,273
Net income	-	-	-	1,697	-	-	-	1,697
Cash dividend ($0.02 per share)	-	-	-	(449)	-	-	-	(449)
Earned ESOP shares	-	-	3	-	26	-	-	29
Unrealized holding gain on investment securities available for sale	-	-	-	-	-	441	-	441
Balance June 30, 2016	22,507,890	$ 225	$ 64,421	$ 43,976	$ (155)	$ 1,524	$ -	$ 109,991

See accompanying notes to consolidated financial statements.

RIVERVIEW BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED JUNE 30, 2016 AND 2015

(In thousands) (Unaudited)	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 1,697	$ 1,595
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	911	782
Recapture of loan losses	-	(500)
Provision for deferred income taxes	803	833
Expense related to ESOP	29	26
Increase (decrease) in deferred loan origination fees, net of amortization	163	(36)
Origination of loans held for sale	(4,118)	(6,054)
Proceeds from sales of loans held for sale	4,253	6,780
Writedown of real estate owned	-	135
Net gains on loans held for sale, sales and transfer of real estate owned, sales of investment securities and sales of premises and equipment	(134)	(184)
Income from bank owned life insurance	(191)	(197)
Changes in certain other assets and liabilities:		
Prepaid expenses and other assets	69	(416)
Accrued interest receivable	(68)	70
Accrued expenses and other liabilities	(119)	(722)
Net cash provided by operating activities	3,295	2,112
CASH FLOWS FROM INVESTING ACTIVITIES:		
Loan repayments (originations), net	(5,265)	9,559
Principal repayments on investment securities available for sale	6,275	5,067
Purchases of investment securities available for sale	(21,464)	(33,968)
Proceeds from call, maturity, and sales of investment securities available for sale	2,500	-
Principal repayments on investment securities held to maturity	3	3
Purchases of premises and equipment and capitalized software	(96)	(123)
Redemption of certificates of deposit held for investment, net	498	498
Proceeds from redemption of Federal Home Loan Bank stock, net	-	4,936
Proceeds from sales of real estate owned and premises and equipment	21	88
Net cash used in investing activities	(17,528)	(13,940)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in deposits	9,752	1,611
Dividends paid	(449)	(253)
Principal payments under capital lease obligation	(5)	(22)
Net decrease in advance payments by borrowers	(88)	(80)

Proceeds from exercise of stock options	-	62
Net cash provided by financing activities	9,210	1,318
NET DECREASE IN CASH AND CASH EQUIVALENTS	(5,023)	(10,510)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	55,400	58,659
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 50,377	$ 48,149
SUPPLEMENTAL DISCLOSURES:		
Cash paid during the period for:		
Interest	$ 395	$ 395
Income taxes	20	15
NONCASH INVESTING AND FINANCING ACTIVITIES:		
Dividends declared and accrued in other liabilities	$ 450	$ 281
Unrealized holding gain (loss) from investment securities available for sale	686	(1,157)
Income tax effect related to unrealized holding gain (loss) from investment securities available for sale	(245)	393

See accompanying notes to consolidated financial statements.

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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 consolidated 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 consolidated financial statements included in the Riverview Bancorp, Inc. Annual Report on Form 10-K for the year ended March 31, 2016 ("2016 Form 10-K"). The unaudited consolidated results of operations for the three months ended June 30, 2016 are not necessarily indicative of the results which may be expected for the entire fiscal year ending March 31, 2017.

The preparation of consolidated 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 consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Certain prior period amounts have been reclassified to conform to the June 30, 2016 presentation; such reclassifications had no effect on net income or total equity previously reported.

2. PRINCIPLES OF CONSOLIDATION

The accompanying unaudited consolidated financial statements include the accounts of: Riverview Bancorp, Inc.; its wholly-owned subsidiary, Riverview Community Bank (the "Bank"); and the Bank's wholly-owned subsidiaries, Riverview Services, Inc. and Riverview Trust Company (the "Trust Company") (collectively referred to as the "Company"). On May 24, 2016, Riverview Asset Management Corp. changed its name to Riverview Trust Company. All inter-company transactions and balances have been eliminated in consolidation. During December 2015, the Trust Company repurchased all the remaining shares held by its noncontrolling interest owner. Upon repurchase these shares were retired. This transaction resulted in the Bank's ownership increasing from 90% to 100%.

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 in 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 activity related to stock options outstanding for the periods shown:

	Three Months Ended June 30, 2016		Three Months Ended June 30, 2015	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Balance, beginning of period	223,654	$ 4.73	424,654	$ 8.00
Options exercised	-	-	(18,000)	3.49
Forfeited	-	-	(8,000)	12.98
Expired	-	-	(4,000)	10.60
Balance, end of period	223,654	$ 4.73	394,654	$ 8.08

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

	Three Months Ended June 30,	
	2016	2015
Stock options fully vested and expected to vest:		
Number	223,654	394,654
Weighted average exercise price	$ 4.73	$ 8.08
Aggregate intrinsic value (1)	$235,000	$169,000
Weighted average contractual term of options (years)	4.09	3.31
Stock options fully vested and currently exercisable:		
Number	223,654	394,654
Weighted average exercise price	$ 4.73	$ 8.08
Aggregate intrinsic value (1)	$235,000	$169,000
Weighted average contractual term of options (years)	4.09	3.31

(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.

There was no stock-based compensation expense related to stock options for the three months ended June 30, 2016 and 2015. As of June 30, 2016, all outstanding stock options were fully vested, and there was no remaining unrecognized compensation expense. There were no stock options exercised during the three months ended June 30, 2016. The total intrinsic value of stock options exercised was $16,000 for the three months ended June 30, 2015.

The fair value of each stock option granted is estimated on the date of grant using the Black-Scholes stock option valuation model. There were no stock options granted during the three months ended June 30, 2016 and 2015.

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 the assumed exercise of outstanding stock options. Shares owned by the Company's ESOP that have not been allocated are not considered to be outstanding for the purpose of computing basic and diluted EPS. As of June 30, 2016 and 2015, there were approximately 49,000 and 99,000 shares, respectively, which had not been allocated under the Company's ESOP. For the three months ended June 30, 2016 and 2015, stock options for 59,000 and 227,000 shares, respectively, of common stock were excluded in computing diluted EPS because they were antidilutive.

The following table presents a reconciliation of the components used to compute basic and diluted EPS for the periods indicated:

	Three Months Ended June 30,	
	2016	2015
Basic EPS computation:		
Numerator-net income	$ 1,697,000	$ 1,595,000
Denominator-weighted average common shares outstanding	22,467,861	22,434,327
Basic EPS	$ 0.08	$ 0.07
Diluted EPS computation:		
Numerator-net income	$ 1,697,000	$ 1,595,000
Denominator-weighted average common shares outstanding	22,467,861	22,434,327
Effect of dilutive stock options	46,374	42,679
Weighted average common shares and common stock equivalents	22,514,235	22,477,006
Diluted EPS	$ 0.08	$ 0.07

5. INVESTMENT SECURITIES

The amortized cost and approximate fair value of investment securities consisted of the following at the dates indicated (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
June 30, 2016				
Available for sale:				
Trust preferred	$ 1,919	$ -	$ (142)	$ 1,777
Agency securities	17,008	75	-	17,083
Real estate mortgage investment conduits (1)	44,357	908	-	45,265
Mortgage-backed securities (1)	80,517	1,281	(15)	81,783
Other mortgage-backed securities (2)	17,519	287	(30)	17,776
Total available for sale	$ 161,320	$ 2,551	$ (187)	$ 163,684
Held to maturity:				
Mortgage-backed securities (3)	$ 72	$ 2	$ -	$ 74
March 31, 2016				
Available for sale:				
Trust preferred	$ 1,919	$ -	$ (111)	$ 1,808
Agency securities	19,520	63	(14)	19,569
Real estate mortgage investment conduits (1)	43,293	632	(1)	43,924
Mortgage-backed securities (1)	75,404	980	(31)	76,353
Other mortgage-backed securities (2)	8,875	185	(24)	9,036
Total available for sale	$ 149,011	$ 1,860	$ (181)	$ 150,690
Held to maturity:				
Mortgage-backed securities (3)	$ 75	$ 1	$ -	$ 76

(1) Comprised of Federal Home Loan Mortgage Corporation (“FHLMC”), Federal National Mortgage Association (“FNMA”) and Ginnie Mae (“GNMA”) issued securities.
(2) Comprised of U.S. Small Business Administration (“SBA”) issued securities and commercial real estate (“CRE”) secured securities issued by FNMA.
(3) Comprised of FHLMC and FNMA issued securities.

The contractual maturities of investment securities as of June 30, 2016 are as follows (in thousands):

	Available for Sale		Held to Maturity	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due after one year through five years	$ 16,483	$ 16,631	$ -	$ -
Due after five years through ten years	16,787	17,082	64	65

Due after ten years		128,050		129,971		8		9
Total	$	161,320	$	163,684	$	72	$	74

Expected maturities of investment securities may differ from contractual maturities because borrowers may have the right to prepay obligations with or without prepayment penalties.

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

	Less than 12 months		12 months or longer		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
June 30, 2016						
Available for sale:						
Trust preferred	$ -	$ -	$ 1,777	$ (142)	$ 1,777	$ (142)
Mortgage-backed securities (1)	3,125	(4)	772	(11)	3,897	(15)
Other mortgage-backed securities (2)	1,868	(11)	1,164	(19)	3,032	(30)
Total available for sale	$ 4,993	$ (15)	$ 3,713	$ (172)	$ 8,706	$ (187)

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

	Less than 12 months		12 months or longer		Total	
March 31, 2016	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
Available for sale:						
Trust preferred	$ -	$ -	$ 1,808	$ (111)	$ 1,808	$ (111)
Agency securities	5,508	(6)	4,991	(8)	10,499	(14)
Real estate mortgage investment conduits (1)	1,636	(1)	-	-	1,636	(1)
Mortgage-backed securities (2)	831	(10)	3,051	(21)	3,882	(31)
Other mortgage-backed securities (3)	1,891	(6)	1,229	(18)	3,120	(24)
Total available for sale	$ 9,866	$ (23)	$ 11,079	$ (158)	$ 20,945	$ (181)

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

At June 30, 2016, the Company had a single collateralized debt obligation which is secured by a pool of trust preferred securities issued by 15 other bank holding companies. The Company holds the mezzanine tranche of this security. All tranches senior to the mezzanine tranche have been repaid by the issuer. Four of the issuers of trust preferred securities in this pool have defaulted (representing 51% of the remaining collateral, including excess collateral), and one other issuer is currently deferring interest payments (representing 2% of the remaining collateral). The Company has estimated an expected default rate of 44% 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 74% 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, 2016, the Company determined that there was no additional OTTI charge on this 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 collectability of principal and interest on the underlying collateral.

The unrealized losses on the Company’s investment securities were primarily attributable to increases in market interest rates subsequent to their purchase by the Company. The Company expects the fair value of these securities to

recover as the securities approach their maturity dates or sooner if market yields for such securities decline. The Company does not believe that these 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 investment securities in the above tables are considered temporary.

The Company had no sales and realized no gains or losses on sales of investment securities for the three months ended June 30, 2016 and 2015. Investment securities available for sale with an amortized cost of $12.7 million and $10.2 million and a fair value of $12.9 million and $10.3 million at June 30, 2016 and March 31, 2016, respectively, were pledged as collateral for government public funds held by the Bank. Investment securities held to maturity with an amortized cost of $22,000 and $23,000 and a fair value of $23,000 and $24,000 at June 30, 2016 and March 31, 2016, respectively, were pledged as collateral for government public funds held by the Bank.

6. LOANS RECEIVABLE

Loans receivable as of June 30, 2016 and March 31, 2016 are reported net of deferred loan fees totaling $2.9 million and $2.7 million, respectively. Loans receivable, excluding loans held for sale, consisted of the following at the dates indicated (in thousands):

	June 30, 2016	March 31, 2016
Commercial and construction		
Commercial business	$ 61,696	$ 69,397
Commercial real estate	369,961	353,749
Land	11,137	12,045
Multi-family	30,441	33,733
Real estate construction	34,558	26,731
Total commercial and construction	507,793	495,655
Consumer		
Real estate one-to-four family	86,515	88,780
Other installment (1)	35,506	40,384
Total consumer	122,021	129,164
Total loans	629,814	624,819
Less: Allowance for loan losses	9,960	9,885
Loans receivable, net	$ 619,854	$ 614,934

(1) Consists primarily of purchased automobile loans totaling $33.5 million and $37.4 million at June 30, 2016 and March 31, 2016, respectively.

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, 2016, loans carried at $441.2 million were pledged as collateral to the Federal Home Loan Bank of Des Moines (“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 income. As of June 30, 2016 and March 31, 2016, the Bank had no loans to any one borrower in excess of the regulatory limit.

7. ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses is maintained at a level sufficient to provide for estimated 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 a 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 (less estimated selling costs, if applicable) 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 consolidated financial statements.

When available information confirms that specific loans or portions of these loans are uncollectible, identified amounts are charged against the allowance for loan losses. The existence of some or all of the following criteria will generally confirm that a loss has been incurred: the loan is significantly delinquent and the borrower has not demonstrated the ability or intent to bring the loan current; the Company has no recourse to the borrower, or if it does, the borrower has insufficient assets to pay the debt; and/or the estimated fair value of the loan collateral is significantly below the current loan balance, and there is little or no near-term prospect for improvement.

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 the 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. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Company’s allowance for loan losses, and may require the Company to make additions to the allowance based on their judgment about information available to them at the time of their examinations.

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

Three months ended June 30, 2016	Commercial Business	Commercial Real Estate	Land	Multi-Family	Real Estate Construction	Consumer	Unallocated	Total
Beginning balance	$ 1,048	$ 4,273	$ 325	$ 712	$ 416	$ 2,403	$ 708	$ 9,885
Provision for (recapture of) loan losses	(150)	198	(95)	(41)	149	(63)	2	-
Charge-offs	-	-	-	-	-	(44)	-	(44)
Recoveries	4	2	82	-	-	31	-	119
Ending balance	$ 902	$ 4,473	$ 312	$ 671	$ 565	$ 2,327	$ 710	$ 9,960
Three months ended June 30, 2015								
Beginning balance	$ 1,263	$ 4,268	$ 539	$ 348	$ 769	$ 2,548	$ 1,027	$ 10,762
Provision for (recapture of) loan losses	195	(22)	(99)	(129)	(147)	(196)	(102)	(500)
Charge-offs	-	-	-	-	-	(14)	-	(14)
Recoveries	11	-	62	-	-	16	-	89
Ending balance	$ 1,469	$ 4,246	$ 502	$ 219	$ 622	$ 2,354	$ 925	$ 10,337

The following tables present an analysis of loans receivable and the allowance for loan losses, based on impairment methodology at the dates indicated (in thousands):

Allowance for Loan Losses | Recorded Investment in Loans

June 30, 2016	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
Commercial business	$ -	$ 902	$ 902	$ 191	$ 61,505	$ 61,696
Commercial real estate	-	4,473	4,473	9,497	360,464	369,961
Land	-	312	312	801	10,336	11,137
Multi-family	-	671	671	1,720	28,721	30,441
Real estate construction	-	565	565	-	34,558	34,558
Consumer	107	2,220	2,327	1,509	120,512	122,021
Unallocated	-	710	710	-	-	-
Total	$ 107	$ 9,853	$ 9,960	$ 13,718	$ 616,096	$629,814

March 31, 2016						
Commercial business	$ -	$ 1,048	$ 1,048	$ 192	$ 69,205	$ 69,397
Commercial real estate	-	4,273	4,273	9,802	343,947	353,749
Land	-	325	325	801	11,244	12,045
Multi-family	-	712	712	1,731	32,002	33,733
Real estate construction	-	416	416	-	26,731	26,731
Consumer	110	2,293	2,403	1,678	127,486	129,164
Unallocated	-	708	708	-	-	-
Total	$ 110	$ 9,775	$ 9,885	$ 14,204	$ 610,615	$624,819

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 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. As a general practice, payments received on non-accrual loans are applied to reduce the outstanding principal balance on a cost recovery method. Also 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. A history of repayment performance generally would be a minimum of six months. Interest income foregone on non-accrual loans was $17,000 and $27,000 during the three months ended June 30, 2016 and 2015, respectively.

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

June 30, 2016	30-89 Days Past Due	90 Days and Greater Past Due	Non-accrual	Total Past Due and Non-accrual	Current	Total Loans Receivable
Commercial business	$-	$-	$ -	$-	$61,696	$61,696
Commercial real estate	-	-	1,289	1,289	368,672	369,961
Land	-	-	801	801	10,336	11,137
Multi-family	-	-	-	-	30,441	30,441
Real estate construction	-	-	-	-	34,558	34,558
Consumer	246	-	266	512	121,509	122,021
Total	$246	$-	$ 2,356	$2,602	$627,212	$629,814
March 31, 2016						
Commercial business	$-	$-	$-	$-	$69,397	$69,397
Commercial real estate	-	-	1,559	1,559	352,190	353,749
Land	-	-	801	801	11,244	12,045
Multi-family	-	-	-	-	33,733	33,733
Real estate construction	-	-	-	-	26,731	26,731
Consumer	611	20	334	965	128,199	129,164
Total	$611	$20	$2,694	$3,325	$621,494	$624,819

Credit quality indicators: The Company monitors credit risk in its loan portfolio using a risk rating system (on a scale of one to nine) 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 future financial characteristics. The Company assigns a risk rating to each commercial loan at origination and subsequently updates these ratings, as necessary, so that the risk rating continues to reflect the appropriate risk characteristics of the loan. Application of appropriate risk ratings is key to management of loan portfolio risk. In determining the appropriate risk rating, the Company considers the following factors: delinquency, payment history, quality of management, liquidity, leverage, earnings 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 losses.

Pass – These loans have a 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, these loans are secured by the operating assets of the borrower and/or real estate. The borrower's 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 are included in the "pass" rating. However, there would typically be some reason for additional management oversight, such as the borrower's recent financial setbacks and/or deteriorating financial position, industry concerns and failure to perform on other borrowing obligations. Loans with this rating are 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 loan or in the credit position at some future date. These loans 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. Repayment of such loans is likely 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 repayment may be dependent upon collateral which has 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 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 loans by credit quality indicators at the dates indicated (in thousands):

June 30, 2016	Pass	Special Mention	Substandard	Doubtful	Loss	Total Loans Receivable
Commercial business	$ 61,096	$ 253	$ 347	$ -	$ -	$ 61,696
Commercial real estate	362,182	6,016	1,763	-	-	369,961
Land	8,891	1,445	801	-	-	11,137
Multi-family	30,429	-	12	-	-	30,441
Real estate construction	34,558	-	-	-	-	34,558
Consumer	121,755	-	266	-	-	122,021
Total	$ 618,911	$ 7,714	$ 3,189	$ -	$ -	$ 629,814

March 31, 2016						
Commercial business	$ 68,221	$ 813	$ 363	$ -	$ -	$ 69,397
Commercial real estate	343,306	7,659	2,784	-	-	353,749
Land	9,760	1,484	801	-	-	12,045
Multi-family	33,721	-	12	-	-	33,733
Real estate construction	26,731	-	-	-	-	26,731

Consumer	128,830	-	334	-	-	129,164
Total	$ 610,569	$ 9,956	$ 4,294	$ -	$ -	$ 624,819

Impaired loans and troubled debt restructurings (“TDRs”): A loan is considered impaired when it is probable that the Company will be unable to collect all amounts due (principal and interest) according to the contractual terms of the 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 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 estimated 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 has not had an appraisal of the collateral performed in the last six months, the Company obtains an updated market valuation. Subsequently, the Company generally obtains an updated market valuation of the collateral on an annual basis. The collateral 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 the total and average recorded investment in impaired loans at the dates and for the periods indicated (in thousands):

June 30, 2016	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	$ 191	$ -	$ 191	$ 191	$ -
Commercial real estate	9,497	-	9,497	10,564	-
Land	801	-	801	807	-
Multi-family	1,720	-	1,720	1,859	-
Consumer	316	1,193	1,509	1,651	107
Total	$ 12,525	$ 1,193	$ 13,718	$ 15,072	$ 107
March 31, 2016					
Commercial business	$ 192	$ -	$ 192	$ 192	$ -
Commercial real estate	9,802	-	9,802	10,758	-
Land	801	-	801	807	-
Multi-family	1,731	-	1,731	1,871	-
Consumer	477	1,201	1,678	1,845	110
Total	$ 13,003	$ 1,201	$ 14,204	$ 15,473	$ 110

	Three Months ended June 30, 2016		Three Months ended June 30, 2015	
	Average Recorded Investment	Interest Recognized on Impaired Loans	Average Recorded Investment	Interest Recognized on Impaired Loans
Commercial business	$ 191	$ 2	$ 855	$ 6
Commercial real estate	9,649	97	15,307	133
Land	801	-	801	-
Multi-family	1,726	23	1,917	26
Consumer	1,594	16	2,250	17
Total	$ 13,961	$ 138	$ 21,130	$ 182

The cash basis interest income on impaired loans was not materially different than the interest recognized on impaired loans as shown in the above table.

TDRs are loans for which 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, and/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, impairment is measured as described for impaired loans above.

The following table presents TDRs by interest accrual status at the dates indicated (in thousands):

	June 30, 2016			March 31, 2016		
	Accrual	Nonaccrual	Total	Accrual	Nonaccrual	Total
Commercial business	$ 191	$ -	$ 191	$ 192	$ -	$ 192
Commercial real estate	8,208	1,289	9,497	8,244	1,289	9,533
Land	-	801	801	-	801	801
Multi-family	1,720	-	1,720	1,731	-	1,731
Consumer	1,509	-	1,509	1,678	-	1,678
Total	$ 11,628	$ 2,090	$ 13,718	$ 11,845	$ 2,090	$ 13,935

At June 30, 2016, the Company had no commitments to lend additional funds on these loans. At June 30, 2016, all of the Company’s TDRs are paying as agreed except for one of the Company’s TDRs that defaulted after the loan was modified

There were no new TDRs for the three months ended June 30, 2016 and 2015. There were no loans modified as a TDR within the previous twelve months that subsequently defaulted during the three months ended June 30, 2016.

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 of the underlying collateral would result in full repayment of the outstanding loan balance. Once any other potential sources of repayment are exhausted, the impaired portion of the loan is charged-off. 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.

8. GOODWILL

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

The Company performed an impairment assessment as of October 31, 2015 and determined that no impairment of goodwill 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. GAAP with respect to goodwill requires that the Company compare the implied fair value of goodwill to the carrying amount of goodwill on the Company's consolidated 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 greater than its carrying value, and, therefore, a step two analysis was not required; 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, 2016 due to there not being a significant change in the reporting unit's assets and liabilities, the amount by which 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 estimated fair value determination would be less than the current carrying amount of the reporting unit is remote.

9. JUNIOR SUBORDINATED DEBENTURES

At June 30, 2016, 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 the Company's 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 both June 30, 2016 and March 31, 2016, 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 and the amounts outstanding of the Debentures at June 30, 2016 (dollars in thousands):

Issuance Trust	Issuance Date		Amount Outstanding	Rate Type	Initial Rate	Current Rate	Maturity Date
Riverview Bancorp Statutory Trust I	12/2005	$	7,217	Variable (1)	5.88%	2.01%	3/2036
Riverview Bancorp Statutory Trust II	06/2007		15,464	Variable (2)	7.03%	2.00%	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 %.

10. FAIR VALUE MEASUREMENTS

GAAP defines fair value, establishes a framework for measuring fair value, and requires certain disclosures about fair value measurements. The categories of fair value measurement prescribed by GAAP and used in the tables presented under fair value measurements are as follows:

Quoted prices in active markets for identical assets (Level 1): Inputs that are quoted unadjusted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date. An active market 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 or liabilities in active markets, quoted prices for identical or similar assets or liabilities 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 an 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 consolidated 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 consolidated financial statements at some time during the reporting period.

The following tables present assets that are measured at estimated fair value on a recurring basis at the dates indicated (in thousands):

		Estimated Fair Value Measurements Using		
June 30, 2016	Total Estimated Fair Value	Level 1	Level 2	Level 3

Investment securities available for sale:				
Trust preferred	$1,777	$-	$-	$1,777
Agency securities	17,083	-	17,083	-
Real estate mortgage investment conduits	45,265	-	45,265	-
Mortgage-backed securities	81,783	-	81,783	-
Other mortgage-backed securities	17,776	-	17,776	-
Total assets measured at fair value on a recurring basis	$163,684	$-	$161,907	$1,777
March 31, 2016				
Investment securities available for sale:				
Trust preferred	$1,808	$-	$-	$1,808
Agency securities	19,569	-	19,569	-
Real estate mortgage investment conduits	43,924	-	43,924	-
Mortgage-backed securities	76,353	-	76,353	-
Other mortgage-backed securities	9,036	-	9,036	-
Total assets measured at fair value on a recurring basis	$150,690	$-	$148,882	$1,808

There were no transfers of assets into or out of Levels 1, 2 or 3 for the three months ended June 30, 2016 and 2015.

The following table presents a reconciliation of assets that are measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the periods indicated (in thousands):

	For the Three Months Ended	
	June 30, 2016 Available for sale securities	June 30, 2015 Available for sale securities
Beginning balance	$ 1,808	$ 1,812
Transfers into Level 3	-	-
Included in earnings	-	-
Included in other comprehensive income	(31)	(32)
Ending balance	$ 1,777	$ 1,780

The following methods were used to estimate the fair value of financial instruments above:

Investment securities – Investment securities 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 independent pricing 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. The Company's third-party pricing service has established processes for the Company to submit inquiries regarding the estimated fair value. In such cases, the Company's third-party pricing service will review the inputs to the evaluation in light of any new market data presented by the Company. The Company's third-party pricing service may then affirm the original estimated fair value or may update the evaluation on a go-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 by 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 securities is inactive. This determination was made by the Company after considering the last known trade dates for this specific security, the low number of transactions for similar types of securities, the low number of new issuances for similar securities, the bid-ask spread in the brokered markets in which these securities trade, the 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 collateralized debt obligation was classified as Level 3 in the fair value hierarchy. The Company utilized observable inputs where available and 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 estimate of assumptions that a market participant would use to price the security. Significant unobservable inputs included the discount rate, the 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 condition and historical repayment information, as well as the Company's future expectations of the capital markets.

For the three months ended June 30, 2016, there were no real estate owned ("REO") properties measured for fair value on a nonrecurring basis. The following tables present assets that are measured at estimated fair value on a nonrecurring basis at the dates indicated (in thousands):

		Estimated Fair Value Measurements Using		
June 30, 2016	Total Estimated Fair Value	Level 1	Level 2	Level 3
Impaired loans	$937	$-	$-	$937

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June 30, 2015	Total Estimated Fair Value	Estimated Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Impaired loans	$949	$-	$-	$949
REO	970	-	-	970
Total assets measured at fair value on a nonrecurring basis	$1,919	$-	$-	$1,919

The following table presents quantitative information about Level 3 inputs for financial instruments measured at fair value on a nonrecurring basis at June 30, 2016 and 2015:

	Valuation Technique	Significant Unobservable Inputs	June 30, 2016 Range	June 30, 2015 Range
Impaired loans	Appraised value	Adjustment for market conditions	N/A (1)	N/A (1)
REO	Appraised value	Adjustment for market conditions	N/A (1)	0% - 10.6%

(1) There were no adjustments to these categories for the three month periods noted.

The following methods were used to estimate the fair value of each class of financial instrument above:

Impaired loans – For information regarding the Company's method for estimating the fair value of impaired loans, see Note 7 – Allowance For Loan Losses.

In determining the estimated net realizable value of the underlying collateral, the Company primarily uses third-party appraisals which may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available and include consideration of variations in location, size, and income production capacity of the property. Additionally, the appraisals are periodically further adjusted by the Company in consideration of charges that may be incurred in the event of foreclosure and are based on management's historical knowledge, changes in business factors and changes in market conditions.

Impaired loans are reviewed and evaluated quarterly for additional impairment and adjusted accordingly based on the same factors identified above. Because of the high degree of judgment required in estimating the fair value of collateral underlying impaired loans and because of the relationship between fair value and general economic conditions, the Company considers the fair value of impaired loans to be highly sensitive to changes in market conditions.

REO – REO is real property that the Bank has taken ownership of in partial or full satisfaction of a loan or loans. REO is recorded at the estimated fair value less estimated costs to sell. This amount becomes the property's new basis. Any write downs based on the property's estimated fair value less estimated costs to sell at the date of acquisition are charged to the allowance for loan losses. At acquisition date, any write ups (whereby the fair value less estimated costs to sell exceeds the loan basis) are first recovered through the allowance for loan losses if there was a prior charge-off and then applied to any outstanding accrued interest. If no prior charge-off or accrued interest is present, the amount is recorded as a gain on transfer of REO.

The Company considers third-party appraisals in determining the fair value of particular properties. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available and include consideration of variations in location, size, and income production capacity of the property. Additionally, the appraisals are periodically further adjusted by the Company in consideration of charges that may be incurred in the event of foreclosure and are based on management's historical knowledge, changes in business factors and changes in market conditions.

Management periodically reviews REO to help ensure that the property is carried at the lower of its new basis or fair value, net of estimated costs to sell. Any additional write-downs based on a re-evaluation of the property's fair value are charged to non-interest expense. Because of the high degree of judgment required in estimating the fair value of REO and because of the relationship between fair value and general economic conditions, the Company considers the fair value of REO to be highly sensitive to changes in market conditions.

The following disclosure of the estimated fair value of financial instruments is made in accordance with GAAP. The Company, using available market information and appropriate valuation methodologies, has determined the estimated fair value amounts. However, considerable judgment is necessary to interpret market data in the development of the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize in the future. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

The carrying amount and estimated fair value of financial instruments is as follows at the dates indicated (in thousands):

June 30, 2016	Carrying Amount	Level 1	Level 2	Level 3	Estimated Fair Value
Assets:					
Cash and cash equivalents	$ 50,377	$ 50,377	$ -	$ -	$ 50,377
Certificates of deposit held for investment	16,271	-	16,451	-	16,451
Loans held for sale	457	-	457	-	457
Investment securities available for sale	163,684	-	161,907	1,777	163,684
Investment securities held to maturity	72	-	74	-	74
Loans receivable, net	619,854	-	-	586,700	586,700
FHLB stock	1,060	-	1,060	-	1,060
Liabilities:					
Demand and savings deposits	674,534	674,534	-	-	674,534
Time deposits	115,021	-	114,989	-	114,989
Junior subordinated debentures	22,681	-	-	8,003	8,003
Capital lease obligation	2,470	-	2,470	-	2,470
March 31, 2016					
Assets:					
Cash and cash equivalents	$ 55,400	$ 55,400	$ -	$ -	$ 55,400
Certificates of deposit held for investment	16,769	-	16,959	-	16,959
Loans held for sale	503	-	503	-	503
Investment securities available for sale	150,690	-	148,882	1,808	150,690
Investment securities held to maturity	75	-	76	-	76
Loans receivable, net	614,934	-	-	571,068	571,068
FHLB stock	1,060	-	1,060	-	1,060
Liabilities:					
Demand and savings deposits	660,421	660,421	-	-	660,421
Time deposits	119,382	-	119,143	-	119,143
Junior subordinated debentures	22,681	-	-	7,705	7,705
Capital lease obligation	2,475	-	2,475	-	2,475

Fair value estimates were based on existing financial instruments without attempting to estimate the value of anticipated future business. The fair value was not estimated for assets and liabilities that were not considered financial instruments.

Fair value estimates, methods and assumptions are set forth below:

Cash and cash equivalents – Fair value approximates the carrying amount.

Certificates of deposit held for investment – The fair value of certificates of deposit with stated maturities was based on the discounted value of contractual cash flows. The discount rate was estimated using rates currently available in the local market.

Loans receivable and loans held for sale – Loans receivable were priced using a discounted cash flow analysis. The fair value of loans held for sale was based on the loans' carrying values, as the agreements to sell these loans are short-term fixed rate commitments, and no material difference between the carrying value and expected sales price is deemed likely.

Investment securities – See descriptions above.

FHLB stock – Fair value approximates the carrying amount.

Deposits – The fair value of deposits with no stated maturities such as non-interest-bearing demand deposits, interest checking, money market and savings accounts was equal to the amount payable on demand. The fair value of time deposits with stated maturities was based on the discounted value of contractual cash flows. The discount rate was estimated using rates currently available in the local market.

Junior subordinated debentures – The fair value of the Debentures was based on the discounted cash flow method. Management believes that the discount rate utilized is indicative of those that would be used by market participants for similar types of debentures.

Capital lease obligation – The fair value of the Company's capital lease obligation is estimated by discounting the cash flows through maturity based on current rates available to the Company for borrowings with similar maturities.

Off-balance sheet financial instruments – The estimated fair value of loan commitments approximates fees recorded associated with such commitments. Since the majority of the Company’s off-balance-sheet financial instruments consist of non-fee producing, variable rate commitments, the Company has determined that they do not have a distinguishable fair value.

11. NEW ACCOUNTING PRONOUNCEMENTS

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, “Revenue from Contracts with Customers" (“ASU 2014-09”). ASU 2014-09 implements a common revenue standard that clarifies the principles for recognizing revenue. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: (1) identify the contract(s) with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract and (5) recognize revenue when (or as) the entity satisfies a performance obligation. ASU 2014-09 is effective for annual periods, and interim reporting periods within those annual periods, beginning after December 15, 2017. The adoption of ASU 2014-09 is not expected to have a significant impact on the Company's consolidated future financial statements.

In January 2016, the FASB issued ASU 2016-01, “Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities” (“ASU 2016-01”). ASU 2016-01 generally requires equity investments – except those accounted for under the equity method of accounting or those that result in consolidation of the investee – to be measured at fair value with changes in fair value recognized in net income. However, an entity may choose to measure equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. ASU 2016-01 is intended to simplify the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment. ASU 2016-01 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company is currently evaluating the impact that the adoption of ASU 2016-01 will have on the Company’s future consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, “Leases” (“ASU 2016-02”). ASU 2016-02 is intended to increase transparency and comparability among organizations by requiring the recognition of lease assets and lease liabilities in the balance sheet and disclosure of key information about leasing arrangements. The principal change required by this ASU relates to lessee accounting, and is that for operating leases, a lessee is required to (1) recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, in the statement of financial position, (2) recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term on a generally straight-line basis, and (3) classify all cash payments within operating activities in the statement of cash flows. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. If a lessee makes this election, it should recognize lease expense for such leases generally on a straight-line basis over the lease term. ASU 2016-02 also changes disclosure requirements related to leasing activities, and requires certain qualitative disclosures along with specific quantitative disclosures. ASU 2016-02 will be effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2018. Early application of ASU 2016-02 is permitted. The Company is currently evaluating the impact that the adoption of ASU 2016-02 will have on the Company’s future consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, "Compensation – Stock Compensation: Improvements to Employee Share-Based Payment Accounting" ("ASU 2016-09"). ASU 2016-09 includes provisions intended to simplify various aspects related to how share-based payments are accounted for and presented in the financial statements. ASU 2016-09 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2016. The Company is currently evaluating the impact that the adoption of ASU 2016-09 will have on the Company's future consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments" ("ASU 2016-13"). ASU 2016-13 replaces the existing incurred losses methodology for estimating allowances with a current expected credit losses methodology. ASU 2016-13 will apply to most financial assets measured at amortized cost and certain other instruments, including trade and other receivables, loans, held to maturity investment securities and off-balance sheet commitments. ASU 2016-13 is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company is currently evaluating the impact that the adoption of ASU 2016-13 will have on the Company's future consolidated financial statements.

12. COMMITMENTS AND CONTINGENCIES

Off-balance sheet arrangements. In the normal course of business, the Company is a party to financial instruments with off-balance sheet risk in order to meet the financing needs of its customers. These financial instruments generally include commitments to originate mortgage, commercial and consumer loans. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the consolidated balance sheets. The Company's maximum exposure to credit loss in the event of nonperformance by the borrower is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments as it does for on-balance sheet instruments. Commitments to originate loans are conditional and are honored for up to 45 days subject to the Company's usual terms and conditions. Collateral is not required to support commitments.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third-party. These guarantees are primarily used to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Collateral held varies and is required in instances where the Company deems it necessary.

Significant off-balance sheet commitments at June 30, 2016 are listed below (in thousands):

	Contract or Notional Amount	
Commitments to originate loans:		
Adjustable-rate	$	24,349
Fixed-rate		26,965
Standby letters of credit		1,439
Undisbursed loan funds and unused lines of credit		109,458
Total	$	162,211

At June 30, 2016, the Company had firm commitments to sell $2.9 million of residential loans to the FHLMC. Typically, these agreements are short-term fixed rate commitments and no material gain or loss is likely.

Other Contractual Obligations. In connection with certain asset sales, the Company typically makes representations and warranties about the underlying assets conforming to specified guidelines. If the underlying assets do not conform to the specifications, the Company may have an obligation to repurchase the assets or indemnify the purchaser against loss. At June 30, 2016, loans under warranty totaled $117.5 million, which substantially represents the unpaid principal balance of the Company's loans serviced for the FHLMC. The Company believes that the potential for loss under these arrangements is remote. Accordingly, no related contingent liability has been recorded in the consolidated financial statements.

The Bank is a public depository and, accordingly, accepts deposit and other public funds belonging to, or held for the benefit of, Washington and Oregon states, political subdivisions thereof, and municipal corporations. In accordance with applicable state law, in the event of default of a participating bank, all other participating banks in the state collectively assure that no loss of funds are suffered by any public depositor. Generally, in the event of default by a public depository, the assessment attributable to all public depositories is allocated on a pro rata basis in proportion to the maximum liability of each depository as it existed on the date of loss. The Company has not incurred any losses related to public depository funds held by other institutions for the three months ended June 30, 2016 and 2015.

The Company is party to litigation arising in the ordinary course of business. In the opinion of management, these actions will not have a material effect, if any, on the Company's consolidated financial position, results of operations and cash flows.

The Bank has entered into employment contracts with certain key employees, which provide for contingent payments subject to future events.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This report contains certain financial information determined by methods other than in accordance with GAAP. These measures include net interest income on a fully tax equivalent basis and net interest margin on a fully tax equivalent basis. Management uses these non-GAAP measures in its analysis of the Company's performance. The tax equivalent adjustment to net interest income recognizes the income tax savings when comparing taxable and tax-exempt assets and assumes a 34% tax rate. Management believes that it is a standard practice in the banking industry to present net interest income and net interest margin on a fully tax equivalent basis, and accordingly believes that providing these measures may be useful for peer comparison purposes. These disclosures should not be viewed as substitutes for the results determined to be in accordance with GAAP, nor are they necessarily comparable to non-GAAP performance measures that may be presented by other companies.

Critical Accounting Policies

Critical accounting policies and estimates are discussed in our 2016 Form 10-K under Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies." That discussion highlights estimates that the Company makes that involve uncertainty or potential for substantial change. There have not been any material changes in the Company's critical accounting policies and estimates as compared to the disclosures contained in the Company's 2016 Form 10-K.

Executive Overview

As a progressive, community-oriented financial services company, the Company emphasizes local, personal service to residents of its primary market area. The Company considers Clark, Cowlitz, Klickitat and Skamania counties of Washington and Multnomah and Marion counties of Oregon as its primary market area. The counties of Multnomah, Clark and Skamania are part of the Portland metropolitan area as defined by the U.S. Census Bureau. The Company is engaged predominantly in the business of attracting deposits from the general public and using such funds in its primary market area to originate commercial business, commercial real estate, multi-family real estate, land, real estate construction, residential real estate and other consumer loans. The Company's loan portfolio totaled $619.9 million at June 30, 2016 compared to $614.9 million at March 31, 2016.

The Company's primary focus is to increase commercial real estate and commercial business loans. Beginning in 2014, the Company periodically began purchasing pools of automobile loans from another financial institution as a way to further diversify its loan portfolio and to earn a higher yield than earned on its cash or short-term investments. These automobile loans are originated through a single dealership group located outside the Company's primary market area. The collateral for these loans is comprised of a mix of used automobiles. These loans are purchased with servicing retained by the seller. At June 30, 2016, the Company's purchased automobile loan portfolio was $33.5 million. The Company may purchase additional automobile loans during fiscal year 2017, subject to these loans meeting our investment criteria, underwriting standards and internal loan concentration limits. At June 30, 2016, five of the purchased automobile loans totaling $63,000 were on non-accrual status.

The Bank's subsidiary, the Trust Company, a trust and financial services company located in downtown Vancouver, Washington, provides full-service brokerage activities, trust and asset management services. The Bank's Business and Professional Banking Division, with two lending offices in Vancouver and one in Portland, offers commercial and business banking services.

Vancouver is located in Clark County, Washington, which is just north of Portland, Oregon. Many businesses are located in the Vancouver area because of the favorable tax structure and lower energy costs in Washington as compared to Oregon. Companies located in the Vancouver area include Sharp Microelectronics, Hewlett Packard, Georgia Pacific, Underwriters Laboratory, Wafer Tech, Nautilus, Barrett Business Services, PeaceHealth and Fisher

Investments, as well as several support industries. In addition to this industry base, the Columbia River Gorge Scenic Area and the Portland metropolitan area are sources of tourism, which has helped to transform the area from its past dependence on the timber industry.

The Company's strategic plan includes targeting the commercial banking customer base in its primary market area for loan originations and deposit growth, specifically small and medium size businesses, professionals and wealth building individuals. In pursuit of these goals, the Company will seek to increase the loan portfolio consistent with its strategic plan and asset/liability and regulatory capital objectives, which includes maintaining a significant amount of commercial and commercial real estate loans in its loan portfolio. Significant portions of our new loan originations – which are mainly concentrated in commercial business, commercial real estate and multi-family loans – carry adjustable rates, higher yields or shorter terms and higher credit risk than traditional fixed-rate consumer real estate one-to-four family mortgages.

At June 30, 2016, checking accounts totaled $337.8 million, or 42.8% of our total deposit mix compared to $282.5 million or 39.1% a year ago. Our strategic plan also stresses increased emphasis on non-interest income, including increased fees for asset management through the Trust Company and deposit service charges. The strategic plan is designed to enhance earnings, reduce interest rate risk and provide a more complete range of financial services to customers and the local communities the Company serves. We believe we are well positioned to attract new customers and to increase our market share through our 17 branches, including ten in Clark County, two in the Portland metropolitan area and three lending centers.

Economic conditions in the Company's market areas have continued to improve from the recent recessionary downturn. According to the Washington State Employment Security Department, unemployment in Clark County decreased to 6.0% at May 31, 2016 compared to 6.3% at March 31, 2016 and 6.2% at June 30, 2015. According to the Oregon Employment Department, unemployment in Portland decreased to 3.9% at May 31, 2016 compared to 4.0% at March 31, 2016 and 5.1% at June 30, 2015. According to the Regional Multiple Listing Services ("RMLS"), residential home inventory levels in Portland have slightly increased to 1.5 months at June 30, 2016 compared to 1.3 months at March 31, 2016 and slightly decreased compared to 1.6 months at June 30, 2015. Residential home inventory levels in Clark County have slightly increased to 1.8 months at June 30, 2016 compared to 1.7 months at March 31, 2016 and decreased compared to 2.1 months at June 30, 2015. According to the RMLS, closed home sales in Clark County decreased 4.6% in June 2016 compared to June 2015. Closed home sales during June 2016 in Portland decreased 4.4% compared to June 2015. The Company has also seen an increase in sales activity for building lots during the past twelve months. Commercial real estate leasing activity and the residential real estate market in the Portland/Vancouver area have been thriving and the vacancy rates in the Portland/Vancouver area have been relatively low.

Operating Strategy

The Company's goal is to deliver returns to shareholders by managing problem assets, increasing higher-yielding assets (in particular commercial real estate and commercial business loans), increasing core deposit balances, reducing expenses, hiring experienced employees with a commercial lending focus and exploring expansion opportunities. The Company seeks to achieve these results by focusing on the following objectives:

Focusing on Asset Quality. The Company is focused on monitoring existing performing loans, resolving nonperforming loans and selling foreclosed assets. The Company has aggressively sought to reduce its level of nonperforming assets through write-downs, collections, modifications and sales of nonperforming loans and REO. The Company has taken proactive steps to resolve its nonperforming loans, including negotiating repayment plans, forbearances, loan modifications and loan extensions with borrowers when appropriate, and accepting short payoffs on delinquent loans, particularly when such payoffs result in a smaller loss than foreclosure. Nonperforming assets decreased $384,000 to $2.9 million at June 30, 2016 compared to $3.3 million at March 31, 2016. However, there can be no assurance that deterioration in economic conditions will not result in future increases in nonperforming and classified loans.

Improving Earnings by Expanding Product Offerings. The Company intends to prudently increase the percentage of its assets consisting of higher-yielding commercial real estate and commercial loans, which offer higher risk-adjusted returns, shorter maturities and more sensitivity to interest rate fluctuations, while maintaining compliance with heightened regulatory capital requirements. The Company also intends to selectively add additional products to further diversify revenue sources and to capture more of each customer's banking relationship by cross selling loan and deposit products and additional services to Bank customers, including services provided through the Trust Company to increase its fee income. Assets under management by the Trust Company totaled $396.0 million and $389.1 million at June 30, 2016 and March 31, 2016, respectively.

The Company continuously reviews new products and services to provide its customers more financial options. All new technology and services are generally reviewed for business development and cost saving purposes. The Bank has implemented remote check capture at all of its branches and for selected customers of the Bank. The Company continues to experience growth in customer use of its online banking services, which allows customers to conduct a full range of services on a real-time basis, including balance inquiries, transfers and electronic bill paying. The Company also upgraded its online banking product for consumer customers, including the introduction of mobile deposit capture, providing consumer customers greater flexibility and convenience in conducting their online banking. The Company's online service has also enhanced the delivery of cash management services to business customers. The Company also participates in an internet deposit listing service which allows the Company to post time deposit rates on an internet site where institutional investors have the ability to deposit funds with the Company. Although the Company has currently chosen not to utilize these internet based deposits, the Company will continue to have access to these funds in the future. Furthermore, the Company may utilize the internet deposit listing service to purchase certificates of deposit at other financial institutions. The Company also offers Insured Cash Sweep (ICS™), a reciprocal money market product, to its customers along with the Certificate of Deposit Account Registry Service (CDARS™) program which allows customers access to Federal Deposit Insurance Corporation ("FDIC") insurance on deposits exceeding the $250,000 FDIC insurance limit.

Attracting Core Deposits and Other Deposit Products. The Company's strategic focus is to emphasize total relationship banking with its customers to internally fund its loan growth. The Company has reduced its reliance on other wholesale funding sources, including FHLB and FRB advances, by focusing on the continued growth of core customer deposits. The Company believes that a continued focus on customer relationships will help to increase the level of core deposits and locally-based retail certificates of deposit. In addition to its retail branches, the Company maintains technology-based products, such as personal financial management, business cash management, and business remote deposit products, that enable it to compete effectively with banks of all sizes. Core branch deposits (comprised of all demand, savings, interest checking accounts and all time deposits excluding wholesale-brokered deposits, trust account deposits, Interest on Lawyer Trust Accounts ("IOLTA"), public funds and Internet based deposits) increased $4.6 million during the quarter ended June 30, 2016 compared to the prior quarter.

Continued Expense Control. Management has undertaken several initiatives to reduce non-interest expense and continues to make it a priority to identify cost savings opportunities throughout all aspects of the Company's operations, including forming a cost saving committee whose mission is to find additional cost saving opportunities at the Company. The Company has instituted expense control measures such as cancelling certain projects and capital purchases, and reducing travel and entertainment and other noninterest expenditures. In this regard, we have reduced our efficiency ratio over the last serval years from 98.0% at March 31, 2014 to 75.6% at June 30, 2016.

Recruiting and Retaining Highly Competent Personnel With a Focus on Commercial Lending. The Company's ability to continue to attract and retain banking professionals with strong community relationships and significant knowledge of its markets will be a key to its success. The Company believes that it enhances its market position and adds profitable growth opportunities by focusing on hiring and retaining experienced bankers focused on owner occupied commercial real estate and commercial lending, and the deposit balances that accompany these relationships. The Company emphasizes to its employees the importance of delivering exemplary customer service and seeking opportunities to build further relationships with its customers. The goal is to compete with other financial service providers by relying on the strength of the Company's customer service and relationship banking approach. The Company believes that one of its strengths is that its employees are also significant shareholders through the Company's employee stock ownership ("ESOP") and 401(k) plans.

Disciplined Franchise Expansion. The Company believes opportunities currently exist within its market area to grow its franchise. The Company anticipates organic growth as the local economy and loan demand strengthens through its marketing efforts and as a result of the opportunities being created due to the consolidation of financial institutions within its market area. The Company may also seek to expand its franchise through the selective acquisition of individual branches, loan or asset purchases and whole bank transactions that meet its investment and market objectives. The Company expects to gradually expand its operations further in the Portland, Oregon metropolitan area which has a population of approximately two million people. The Company will continue to be disciplined as it pertains to future expansion focusing on the Pacific Northwest markets it knows and understands.

Loan Composition

The following tables sets forth the composition of the Company's commercial and construction loan portfolios based on loan purpose at the dates indicated (in thousands).

June 30, 2016	Commercial Business	Other Real Estate Mortgage	Real Estate Construction	Commercial & Construction Total
Commercial business	$ 61,696	$-	$ -	$ 61,696

Commercial construction	-	-	20,327	20,327
Office buildings	-	107,126	-	107,126
Warehouse/industrial	-	57,978	-	57,978
Retail/shopping centers/strip malls	-	62,432	-	62,432
Assisted living facilities	-	1,800	-	1,800
Single purpose facilities	-	140,625	-	140,625
Land	-	11,137	-	11,137
Multi-family	-			