

RIVERVIEW BANCORP INC  
Form 10-Q  
August 09, 2018  
UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2018

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: 000-22957

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 ☒ 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 ☒ No ☐

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

Large accelerated filer ☐

Accelerated filer ☒

Non-accelerated filer ☐

Edgar Filing: RIVERVIEW BANCORP INC - Form 10-Q

Smaller reporting company ☐

Emerging growth company ☐

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

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

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, 22,576,690 shares outstanding as of August 9, 2018.

---

Form 10-Q

RIVERVIEW BANCORP, INC. AND SUBSIDIARY  
INDEX

<b>Part I.</b>	<b><u>Financial Information</u></b>	<b><u>Page</u></b>
Item 1:	Financial Statements (Unaudited)	
	Consolidated Balance Sheets as of June 30, 2018 and March 31, 2018	2
	Consolidated Statements of Income for the Three Months Ended June 30, 2018 and 2017	3
	Consolidated Statements of Comprehensive Income for the Three Months Ended June 30, 2018 and 2017	4
	Consolidated Statements of Equity for the Three Months Ended June 30, 2018 and 2017	5
	Consolidated Statements of Cash Flows for the Three Months Ended June 30, 2018 and 2017	6
	Notes to Consolidated Financial Statements	7
Item 2:	Management's Discussion and Analysis of Financial Condition and Results of Operations	26
Item 3:	Quantitative and Qualitative Disclosures About Market Risk	40
Item 4:	Controls and Procedures	40
<b>Part II.</b>	<b><u>Other Information</u></b>	<b>41-42</b>

Edgar Filing: RIVERVIEW BANCORP INC - Form 10-Q

Item 1:	Legal Proceedings
Item 1A:	Risk Factors
Item 2:	Unregistered Sales of Equity Securities and Use of Proceeds
Item 3:	Defaults Upon Senior Securities
Item 4:	Mine Safety Disclosures
Item 5:	Other Information
Item 6:	Exhibits

SIGNATURES	43
------------	----

Certifications

[Exhibit 31.1](#)

[Exhibit 31.2](#)

[Exhibit 32](#)

### Forward-Looking Statements

As used in this Form 10-Q, the terms "we," "our," "us," "Riverview" and "Company" refer to Riverview Bancorp, Inc. and its 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," "probably," "projects," "outlook," or similar expressions or future or conditional verbs such as "may," "will," "should," "would," and "could," or similar 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; disruptions, security breaches, or other adverse events, failures or interruptions in, or attacks on, our information technology systems or on the third-party vendors who perform several of our critical processing functions; 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 standards; 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 and specifically disclaims any obligation to revise any forward-looking statements included in this report or the reasons why actual results could differ from those contained in such statements, whether as a result of new information or 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 2019 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.

1

---

## Part I. Financial Information

## Item 1. Financial Statements (Unaudited)

## RIVERVIEW BANCORP, INC. AND SUBSIDIARY

## CONSOLIDATED BALANCE SHEETS

AS OF JUNE 30, 2018 AND MARCH 31, 2018

(In thousands, except share and per share data) (Unaudited)	June 30, 2018	March 31, 2018
<b>ASSETS</b>		
Cash and cash equivalents (including interest-earning accounts of \$15,791 and \$30,052)	\$33,268	\$44,767
Certificates of deposit held for investment	4,971	5,967
Loans held for sale	-	210
Investment securities:		
Available for sale, at estimated fair value	200,100	213,221
Held to maturity, at amortized cost (estimated fair value of \$41 and \$43)	40	42
Loans receivable (net of allowance for loan losses of \$11,349 and \$10,766)	815,237	800,610
Real estate owned ("REO")	-	298
Prepaid expenses and other assets	3,759	3,870
Accrued interest receivable	3,578	3,477
Federal Home Loan Bank stock, at cost	1,353	1,353
Premises and equipment, net	15,674	15,783
Deferred income taxes, net	5,039	4,813
Mortgage servicing rights, net	380	388
Goodwill	27,076	27,076
Core deposit intangible ("CDI"), net	1,057	1,103
Bank owned life insurance ("BOLI")	28,736	28,557
<b>TOTAL ASSETS</b>	<b>\$1,140,268</b>	<b>\$1,151,535</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>LIABILITIES:</b>		
Deposits	\$982,350	\$995,691
Accrued expenses and other liabilities	8,579	9,391
Advanced payments by borrowers for taxes and insurance	580	637
Junior subordinated debentures	26,507	26,484
Capital lease obligation	2,424	2,431
Total liabilities	1,020,440	1,034,634
<b>COMMITMENTS AND CONTINGENCIES (See Note 14)</b>		
<b>SHAREHOLDERS' EQUITY:</b>		
Serial preferred stock, \$.01 par value; 250,000 authorized; issued and outstanding: none	-	-
Common stock, \$.01 par value; 50,000,000 authorized		
June 30, 2018 – 22,570,179 issued and outstanding	226	226
March 31, 2018 – 22,570,179 issued and outstanding		
Additional paid-in capital	64,882	64,871
Retained earnings	60,204	56,552
Accumulated other comprehensive loss	(5,484 )	(4,748 )
Total shareholders' equity	119,828	116,901
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$1,140,268</b>	<b>\$1,151,535</b>

See accompanying notes to consolidated financial statements.



RIVERVIEW  
BANCORP, INC.  
AND  
SUBSIDIARY  
CONSOLIDATED  
STATEMENTS  
OF INCOME  
FOR THE THREE  
MONTHS  
ENDED JUNE 30,  
2018 AND 2017

(In thousands, except share and per share data) (Unaudited)	2018	2017
<b>INTEREST AND DIVIDEND INCOME</b>		
Interest and fees on loans receivable	\$10,777	\$9,789
Interest on investment securities – taxable	1,198	1,133
Interest on investment securities – nontaxable	37	14
Other interest and dividends	93	87
Total interest and dividend income	12,105	11,023
<b>INTEREST EXPENSE:</b>		
Interest on deposits	260	322
Interest on borrowings	358	268
Total interest expense	618	590
Net interest income	11,487	10,433
Recapture of loan losses	(200)	-
Net interest income after recapture of loan losses	11,687	10,433
<b>NON-INTEREST INCOME:</b>		
Fees and service charges	1,755	1,407
Asset management fees	926	853
Net gains on sales of loans held for sale	152	225
BOLI	179	207
Other, net	40	46
Total non-interest income, net	3,052	2,738
<b>NON-INTEREST EXPENSE:</b>		
Salaries and employee benefits	5,578	5,422
Occupancy and depreciation	1,359	1,346
Data processing	631	616
Amortization of CDI	46	58
Advertising and marketing	192	234
FDIC insurance premium	76	145
State and local taxes	168	154
Telecommunications	93	104
Professional fees	284	415

Edgar Filing: RIVERVIEW BANCORP INC - Form 10-Q

Other	592	680
Total non-interest expense	9,019	9,174
INCOME BEFORE INCOME TAXES	5,720	3,997
PROVISION FOR INCOME TAXES	1,278	1,343
NET INCOME	\$4,442	\$2,654
Earnings per common share:		
Basic	\$0.20	\$0.12
Diluted	0.20	0.12
Weighted average number of common shares outstanding:		
Basic	22,570,179	22,504,852
Diluted	22,651,732	22,589,440

See accompanying notes to consolidated financial statements.

RIVERVIEW BANCORP, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
FOR THE THREE MONTHS ENDED JUNE 30, 2018 AND 2017

(In thousands) (Unaudited)	2018	2017
Net income	\$4,442	\$2,654
Other comprehensive income (loss):		
Net unrealized holding gain (loss) from available for sale investment securities arising during the period, net of tax of \$226 and (\$217), respectively	(736 )	393
Total comprehensive income, net	\$3,706	\$3,047

See accompanying notes to consolidated financial statements.

RIVERVIEW BANCORP, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF EQUITY  
FOR THE THREE MONTHS ENDED JUNE 30, 2018 AND 2017

(In thousands, except share data) (Unaudited)	Common Stock		Additional Paid-In Capital	Retained Earnings	Unearned Shares Issued to Employee Stock Ownership Plan ("ESOP")		Accumulated Other Comprehensive Loss		Total
	Shares	Amount							
Balance April 1, 2017	22,510,890	\$ 225	\$ 64,468	\$48,335	\$ (77 )		\$ (1,687 )		\$111,264
Net income	-	-	-	2,654	-		-		2,654
Cash dividends on common stock (\$0.0225 per share)	-	-	-	(507 )	-		-		(507 )
Exercise of stock options	16,511	-	70	-	-		-		70
Earned ESOP shares	-	-	18	-	25		-		43
Other comprehensive income, net	-	-	-	-	-		393		393
Balance June 30, 2017	22,527,401	\$ 225	\$ 64,556	\$50,482	\$ (52 )		\$ (1,294 )		\$113,917
Balance April 1, 2018	22,570,179	\$226	\$64,871	\$56,552	\$-		\$ (4,748 )		\$116,901
Net income	-	-	-	4,442	-		-		4,442
Cash dividends on common stock (\$0.035 per share)	-	-	-	(790 )	-		-		(790 )
Stock-based compensation expense	-	-	11	-	-		-		11
Other comprehensive loss, net	-	-	-	-	-		(736 )		(736 )
Balance June 30, 2018	22,570,179	\$226	\$64,882	\$60,204	\$-		\$ (5,484 )		\$119,828

See accompanying notes to consolidated financial statements.

## RIVERVIEW BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE THREE MONTHS ENDED JUNE 30, 2018 AND 2017

(In thousands) (Unaudited)	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$4,442	\$2,654
Adjustments to reconcile net income to net cash provided (used in) by operating activities:		
Depreciation and amortization	688	728
Purchased loans amortization (accretion), net	62	(29 )
Recapture of loan losses	(200 )	-
Provision for deferred income taxes	-	1,342
Expense related to ESOP	-	43
Stock-based compensation expense	11	-
Increase in deferred loan origination fees, net of amortization	184	129
Origination of loans held for sale	(4,705 )	(7,368 )
Proceeds from sales of loans held for sale	4,987	7,239
Net gains on loans held for sale, sales and transfer of REO, sales of investment securities and sales of premises and equipment	(152 )	(225 )
Income from BOLI	(179 )	(207 )
Changes in certain other assets and liabilities:		
Prepaid expenses and other assets	71	(137 )
Accrued interest receivable	(101 )	(145 )
Accrued expenses and other liabilities	(886 )	(4,794 )
Net cash provided by (used in) operating activities	4,222	(770 )
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Loan originations, net	(7,222 )	(2,856 )
Purchases of loans receivable	(7,403 )	(15,238 )
Principal repayments on investment securities available for sale	6,852	6,498
Purchases of investment securities available for sale	-	(11,030)
Proceeds from call of investment security available for sale	5,000	-
Principal repayments on investment securities held to maturity	2	10
Purchases of premises and equipment and capitalized software	(181 )	(107 )
Redemption of certificates of deposit held for investment, net	996	-
Proceeds from sales of REO and premises and equipment	298	-
Net cash used in investing activities	(1,658 )	(22,723)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net decrease in deposits	(13,322)	(6,530 )
Dividends paid	(677 )	(450 )
Proceeds from borrowings	56,160	17,925
Repayment of borrowings	(56,160)	(17,925)
Net decrease in advance payments by borrowers	(57 )	(97 )
Principal payments on capital lease obligation	(7 )	(5 )
Proceeds from exercise of stock options	-	70
Net cash used in financing activities	(14,063)	(7,012 )

NET DECREASE IN CASH AND CASH EQUIVALENTS	(11,499)	(30,505)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	44,767	64,613
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$33,268	\$34,108

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Cash paid during the period for:

Interest	\$573	\$553
Income taxes	805	1

NONCASH INVESTING AND FINANCING ACTIVITIES:

Dividends declared and accrued in other liabilities	\$790	\$507
Other comprehensive income (loss)	(962 )	610
Income tax effect related to other comprehensive income (loss)	226	(217 )

See accompanying notes to consolidated financial statements.

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

## 1. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements were prepared in accordance with instructions for Quarterly Reports on Form 10-Q and, therefore, do not include all disclosures necessary for a complete presentation of financial condition, results of operations and cash flows in conformity with accounting principles generally accepted in the United States of America ("GAAP"). However, all adjustments that are, in the opinion of management, necessary for a fair presentation of the interim unaudited 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, 2018 ("2018 Form 10-K"). The unaudited consolidated results of operations for the three months ended June 30, 2018 are not necessarily indicative of the results which may be expected for the entire fiscal year ending March 31, 2019.

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.

On February 17, 2017, Riverview Bancorp, Inc. and Riverview Community Bank (the "Bank") completed a purchase and assumption transaction in which the Bank purchased certain assets and assumed certain liabilities of MBank, the wholly-owned subsidiary of Merchants Bancorp (the "MBank transaction"). In addition, as part of the MBank transaction, Riverview Bancorp, Inc. assumed the obligations of Merchant Bancorp's trust preferred securities. The MBank transaction was accounted for as a business combination pursuant to GAAP. The results of operations of the acquired assets and assumed liabilities have been included in the Company's consolidated financial statements as of and for the periods since the acquisition date. See Note 3 for additional discussion.

Income taxes are accounted for using the asset and liability method. Under this method, a deferred tax asset or liability is determined based on the enacted tax rates which will be in effect when the differences between the financial statement carrying amounts and tax basis of existing assets and liabilities are expected to be reported in the Company's income tax returns. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date. The Tax Cuts and Jobs Act (the "Tax Act") was enacted on December 22, 2017, and – among other provisions – lowered the federal corporate income tax rate. As a result, the Company revalued its deferred tax assets and liabilities during the third quarter of the fiscal year ended March 31, 2018. In addition, the Company utilized a blended tax rate for its fiscal year ended March 31, 2018 given the Tax Act lowered the federal corporate tax rate effective January 1, 2018. For the three months ended June 30, 2018 and for the fiscal year ending March 31, 2019, the Company will utilize the enacted federal corporate income tax rate pursuant to the Tax Act.

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

## 2. PRINCIPLES OF CONSOLIDATION

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

As of June 30, 2018, the Trust Company had 2,500 Trust Company stock options outstanding which had been granted to the President and Chief Executive Officer of the Trust Company. During the three months ended June 30, 2018, the Trust Company incurred \$11,000 of stock-based compensation expense related to these options. During the year ended March 31, 2018, the Trust Company incurred \$88,000 of stock-based compensation expense related to these options. None of the Trust Company stock options were exercised as of June 30, 2018.



## 3. BUSINESS COMBINATIONS

On February 17, 2017, the Company acquired certain assets and assumed certain liabilities of Merchants Bancorp and its wholly-owned subsidiary, MBank. MBank provided community banking services to individuals and businesses from banking offices in the Portland, Oregon metropolitan area. As a result of the MBank transaction, the Company has increased its presence in the Portland, Oregon metropolitan area and further diversified its loan, customer and deposit base. Total consideration paid under the MBank transaction consisted of \$12.1 million in cash. There were no transfers of common stock or other equity instruments in connection with the MBank transaction, and the Company did not obtain any equity interests in Merchants Bancorp or MBank.

The acquired assets and assumed liabilities were recorded in the Company's consolidated balance sheets at their estimated fair values as of the February 17, 2017 transaction date, and the related results of operations have been included in the Company's consolidated statements of income since the transaction date. The excess of the consideration transferred over the fair value of the identifiable net assets acquired was recorded as goodwill. The goodwill arising from the transaction consists largely of the synergies and economies of scale expected from combining the operations of the Company and the acquired business.

In most instances, determining the estimated fair values of the acquired assets and assumed liabilities required the Company to estimate cash flows expected to result from those assets and liabilities and to discount those cash flows at the appropriate rate of interest. Differences may arise between contractually required payments and the expected cash flows at the acquisition date due to items such as estimated credit losses, prepayments or early withdrawals, and other factors. The most significant of those determinations related to the valuation of acquired loans. For such loans, the excess of cash flows expected at acquisition over the estimated fair value is recognized as interest income over the remaining lives of the loans. In accordance with GAAP, there was no carry-over of MBank's previously established allowance for loan losses. Goodwill is expected to be fully deductible for income tax purposes as, under the terms of the MBank transaction, the Company purchased certain assets and assumed certain liabilities of MBank but did not acquire any equity or other ownership interests.

The following table summarizes the fair value of consideration transferred, the estimated fair values of assets acquired and liabilities assumed as of the acquisition date, and the resulting goodwill relating to the transaction (in thousands):

	At February 17, 2017		
	Book Value	Fair Value Adjustment	Estimated Fair Value
Cash consideration transferred			\$ 12,080
Recognized amounts of identifiable assets acquired and liabilities assumed			
Identifiable assets acquired			
Cash and cash equivalents	\$27,196	\$ -	27,196
Loans receivable	115,283	(3,258 )	112,025
CDI	-	1,363	1,363
Premises and equipment	1,769	399	2,168
BOLI	2,113	-	2,113
Accrued interest receivable and other assets	431	90	521
Total identifiable assets acquired	146,792	(1,406 )	145,386
Liabilities assumed			
Deposits	130,572	235	130,807
Junior subordinated debentures	5,155	(1,468 )	3,687

Edgar Filing: RIVERVIEW BANCORP INC - Form 10-Q

Accrued expenses and other liabilities	293	23	316
Total liabilities assumed	136,020	(1,210 )	134,810
Total identifiable net assets acquired	\$10,772	\$ (196 )	10,576
Goodwill recognized			\$1,504

The acquired loan portfolio was valued using Level 3 inputs (see Note 11) and included the use of present value techniques (including cash flow estimates) and incorporated assumptions that the Company believes marketplace participants would use in estimating fair values. Credit discounts were included in the determination of the fair value of the loans acquired; therefore, an allowance for loan losses was not recorded at the acquisition date. Acquired loans are evaluated upon acquisition and classified as either purchased credit-impaired ("PCI") or purchased non-credit-impaired. PCI loans reflect credit deterioration since origination such that it is probable at acquisition that the Company will be unable to collect all contractually required payments. The Company determined there were no PCI loans acquired in connection with the MBank transaction.

For purchased non-credit-impaired loans, the difference between the fair value and unpaid principal balance of the loan at the acquisition date is amortized or accreted to interest income over the life of the loans. Any subsequent deterioration in credit quality is recognized by recording an allowance for loan losses.

CDI represents the value assigned to demand, interest checking, money market and savings accounts acquired as part of an acquisition. CDI represents the future economic benefit of the potential cost savings from acquiring core deposits as part of an acquisition compared to the cost of alternative funding sources. CDI is amortized to non-interest expense using an accelerated method based on an estimated runoff of related deposits over a period of ten years. CDI is evaluated for impairment and recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable, with any changes in estimated useful life accounted for prospectively over the revised remaining life.

#### 4. 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. In addition, 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 1998 Plan or the 2003 Plan; however, any awards granted prior to their respective expiration dates remain outstanding subject to their terms. Each option granted under the 1998 Plan or 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.

In July 2017, the shareholders of the Company approved the 2017 Equity Incentive Plan ("2017 Plan"). The 2017 Plan provides for the grant of incentive stock options, non-qualified stock options, restricted stock and restricted stock units. The Company reserved 1,800,000 shares of its common stock for issuance under the 2017 Plan, none of which have been awarded.

The 1998 Plan, the 2003 Plan and the 2017 Plan are collectively referred to as "the Stock Option Plans".

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 under the Stock Option Plans during the three months ended June 30, 2018 and 2017.

As of June 30, 2018, all outstanding stock options were fully vested and there was no remaining unrecognized compensation expense under the Stock Option Plans. There was no stock-based compensation expense related to stock options for the three months ended June 30, 2018 and 2017 under the Stock Option Plans.

The following table presents the activity related to stock options under the Stock Option Plans for the periods shown:

	Three Months Ended June 30, 2018		Three Months Ended June 30, 2017	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Balance, beginning of period	141,365	\$ 3.77	220,654	\$ 4.74
Options exercised	-	-	(16,511 )	4.19
Expired	(2,500 )	8.12	(5,000 )	14.52
Balance, end of period	138,865	\$ 3.69	199,143	\$ 4.54

The following table presents information on stock options outstanding under the Stock Option Plans as of June 30, 2018 and 2017, less estimated forfeitures:

	2018	2017
Stock options fully vested and expected to vest:		
Number	138,865	199,143
Weighted average exercise price	\$3.69	\$4.54
Aggregate intrinsic value <sup>(1)</sup>	\$660,000	\$518,000
Weighted average contractual term of options (years)	2.57	3.25
Stock options fully vested and currently exercisable:		
Number	138,865	199,143
Weighted average exercise price	\$3.69	\$4.54
Aggregate intrinsic value <sup>(1)</sup>	\$660,000	\$518,000
Weighted average contractual term of options (years)	2.57	3.25

<sup>(1)</sup> 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 were no stock options exercised during the three months ended June 30, 2018 under the Stock Option Plans. The total intrinsic value of stock options exercised was \$47,000 for the three months ended June 30, 2017 under the Stock Option Plans.

## 5. 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, 2018, all shares under the Company's ESOP were allocated. As of June 30, 2017, there were 24,633 shares which had not been allocated under the Company's ESOP. For the three months ended June 30, 2018, there were no stock options excluded in computing diluted EPS. For the three months ended June 30, 2017, stock options to purchase 19,000 shares of common stock were excluded in computing diluted EPS because their effect would be 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,	
	2018	2017
Basic EPS computation:		
Numerator-net income	\$4,442,000	\$2,654,000
Denominator-weighted average common shares outstanding	22,570,179	22,504,852
Basic EPS	\$0.20	\$0.12
Diluted EPS computation:		
Numerator-net income	\$4,442,000	\$2,654,000
Denominator-weighted average common shares outstanding	22,570,179	22,504,852
Effect of dilutive stock options	81,553	84,588
Weighted average common shares and common stock equivalents	22,651,732	22,589,440
Diluted EPS	\$0.20	\$0.12

## 6. 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
<u>June 30, 2018</u>				
Available for sale:				
Municipal securities	\$ 9,003	\$ -	\$ (308)	) \$ 8,695
Agency securities	17,416	3	(312)	) 17,107
Real estate mortgage investment conduits <sup>(1)</sup>	46,265	2	(1,594)	) 44,673
Residential mortgage-backed securities <sup>(1)</sup>	87,782	4	(3,120)	) 84,666
Other mortgage-backed securities <sup>(2)</sup>	46,802	-	(1,843)	) 44,959
Total available for sale	\$ 207,268	\$ 9	\$ (7,177)	) \$ 200,100

Held to maturity:

Edgar Filing: RIVERVIEW BANCORP INC - Form 10-Q

Residential mortgage-backed securities <sup>(3)</sup>	\$ 40	\$ 1	\$ -	\$ 41
---	-------	------	------	-------

March 31, 2018

Available for sale:

Municipal securities	\$ 9,041	\$ -	\$ (309 )	\$ 8,732
Agency securities	22,412	1	(311 )	22,102
Real estate mortgage investment conduits <sup>(1)</sup>	48,310	-	(1,355 )	46,955
Residential mortgage-backed securities <sup>(1)</sup>	91,786	3	(2,715 )	89,074
Other mortgage-backed securities <sup>(2)</sup>	47,878	1	(1,521 )	46,358
Total available for sale	\$ 219,427	\$ 5	\$ (6,211 )	\$ 213,221

Held to maturity:

Residential mortgage-backed securities <sup>(3)</sup>	\$ 42	\$ 1	\$ -	\$ 43
---	-------	------	------	-------

<sup>(1)</sup> Comprised of Federal Home Loan Mortgage Corporation ("FHLMC"), Federal National Mortgage Association ("FNMA") and Ginnie Mae ("GNMA") issued securities.

<sup>(2)</sup> Comprised of U.S. Small Business Administration ("SBA") issued securities and commercial real estate ("CRE") secured securities issued by FNMA.

<sup>(3)</sup> Comprised of FHLMC and FNMA issued securities.

The contractual maturities of investment securities as of June 30, 2018 are as follows (in thousands):

	Available for Sale		Held to Maturity	
	Estimated		Estimated	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$8,000	\$7,953	\$-	\$-
Due after one year through five years	8,424	8,327	6	6
Due after five years through ten years	41,657	40,113	30	31
Due after ten years	149,187	143,707	4	4
Total	\$207,268	\$200,100	\$40	\$41

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		Estimated		Estimated	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses

#### June 30, 2018

Available for sale:						
Municipal securities	\$6,595	\$ (243 )	\$2,100	\$ (65 )	\$8,695	\$ (308 )
Agency securities	4,282	(123 )	10,808	(189 )	15,090	(312 )
Real estate mortgage investment conduits <sup>(2)</sup>	28,220	(876 )	16,407	(718 )	44,627	(1,594 )
Residential mortgage-backed securities <sup>(2)</sup>	48,120	(1,415 )	36,251	(1,705 )	84,371	(3,120 )
Other mortgage-backed securities <sup>(3)</sup>	13,665	(364 )	31,294	(1,479 )	44,959	(1,843 )
Total available for sale	\$100,882	\$ (3,021 )	\$96,860	\$ (4,156 )	\$197,742	\$ (7,177 )

#### March 31, 2018

Available for sale:						
Municipal securities	\$6,626	\$ (236 )	\$2,106	\$ (73 )	\$8,732	\$ (309 )
Agency securities	5,301	(112 )	15,797	(199 )	21,098	(311 )
Real estate mortgage investment conduits <sup>(1)</sup>	31,922	(774 )	14,983	(581 )	46,905	(1,355 )
Residential mortgage-backed securities <sup>(2)</sup>	50,941	(1,192 )	37,823	(1,523 )	88,764	(2,715 )
Other mortgage-backed securities <sup>(3)</sup>	16,355	(382 )	29,351	(1,139 )	45,706	(1,521 )
Total available for sale	\$111,145	\$ (2,696 )	\$100,060	\$ (3,515 )	\$211,205	\$ (6,211 )

<sup>(1)</sup> Comprised of FHLMC and FNMA issued securities.

<sup>(2)</sup> Comprised of FHLMC, FNMA and GNMA issued securities.

<sup>(3)</sup> Comprised of SBA issued and CRE secured securities issued by FNMA.

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, 2018 and 2017. Investment securities available for sale with an amortized cost of \$3.5 million and \$3.7 million and an estimated fair value of \$3.4 million and \$3.6 million at June 30, 2018 and March 31, 2018, respectively, were pledged as collateral for government public funds held by the Bank.



## 7. LOANS RECEIVABLE

Loans receivable as of June 30, 2018 and March 31, 2018 are reported net of deferred loan fees totaling \$3.8 million and \$3.6 million, respectively. Loans receivable are also reported net of discounts and premiums totaling \$2.1 million and \$1.9 million, respectively, as of June 30, 2018, compared to \$2.2 million and \$2.0 million, respectively, as of March 31, 2018. Loans receivable, excluding loans held for sale, consisted of the following at the dates indicated (in thousands):

	June 30, 2018	March 31, 2018
Commercial and construction		
Commercial business	\$148,257	\$137,672
Commercial real estate	448,019	450,597
Land	17,304	15,337
Multi-family	58,794	63,080
Real estate construction	53,156	39,584
Total commercial and construction	725,530	706,270
Consumer		
Real estate one-to-four family	88,212	90,109
Other installment <sup>(1)</sup>	12,844	14,997
Total consumer	101,056	105,106
Total loans	826,586	811,376
Less: Allowance for loan losses	11,349	10,766
Loans receivable, net	\$815,237	\$800,610

<sup>(1)</sup> Consists primarily of purchased automobile loans totaling \$10.8 million and \$12.9 million at June 30, 2018 and March 31, 2018, 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, 2018, loans carried at \$517.4 million were pledged as collateral to the Federal Home Loan Bank of Des Moines ("FHLB") and Federal Reserve Bank of San Francisco ("FRB") pursuant to 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 (loss). As of June 30, 2018 and March 31, 2018, the Bank had no loans to any one borrower in excess of the regulatory limit.

## 8. 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 management's ongoing quarterly assessment of the pertinent factors underlying the quality of the loan portfolio. These factors include changes in the size and composition of the loan portfolio, delinquency levels, actual loan loss experience, current economic conditions and detailed analysis of individual loans for which full collectability may not be assured. The detailed analysis includes techniques to estimate the fair value of loan collateral and the existence of potential

alternative sources of repayment. The allowance consists of specific, general and unallocated components.

The specific component relates to loans that are considered impaired. For loans that are classified as impaired, an allowance is established when the discounted cash flows or collateral value (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 loan 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, uncertainties 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.

Edgar Filing: RIVERVIEW BANCORP INC - Form 10-Q

When available information confirms that specific loans or portions thereof 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 <u>June 30, 2018</u>	Commercial			Real			Unallocated	Total
	Commercial Business	Real Estate	Land	Multi- Family	Construction	Consumer		
Beginning balance	\$ 1,668	\$ 4,914	\$220	\$ 822	\$ 618	\$ 1,809	\$ 715	\$10,766
Provision for (recapture of) loan losses	131	(598 )	38	(41 )	237	19	14	(200 )
Charge-offs	-	-	-	-	-	(92 )	-	(92 )
Recoveries	-	823	-	-	-	52	-	875
Ending balance	\$ 1,799	\$ 5,139	\$258	\$ 781	\$ 855	\$ 1,788	\$ 729	\$11,349

Three months ended  
June 30, 2017

Beginning balance	\$1,418	\$5,084	\$228	\$297	\$714	\$2,099	\$688	\$10,528
Provision for (recapture of) loan losses	(30 )	92	(146)	205	(46 )	(96 )	21	-
Charge-offs	-	-	-	-	-	(82 )	-	(82 )
Recoveries	3	-	137	-	-	11	-	151
Ending balance	\$1,391	\$5,176	\$219	\$502	\$668	\$1,932	\$709	\$10,597

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		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
<u>June 30, 2018</u>						
Commercial business	\$-	\$ 1,799	\$1,799	\$173	\$ 148,084	\$148,257
Commercial real estate	-	5,139	5,139	2,596	445,423	448,019

Edgar Filing: RIVERVIEW BANCORP INC - Form 10-Q

Land	-	258	258	751	16,553	17,304
Multi-family	-	781	781	1,632	57,162	58,794
Real estate construction	-	855	855	-	53,156	53,156
Consumer	64	1,724	1,788	1,414	99,642	101,056
Unallocated	-	729	729	-	-	-
Total	\$64	\$ 11,285	\$11,349	\$6,566	\$ 820,020	\$826,586

March 31, 2018

Commercial business	\$-	\$1,668	\$1,668	\$1,004	\$136,668	\$137,672
Commercial real estate	-	4,914	4,914	2,883	447,714	450,597
Land	-	220	220	763	14,574	15,337
Multi-family	-	822	822	1,644	61,436	63,080
Real estate construction	-	618	618	-	39,584	39,584
Consumer	69	1,740	1,809	1,428	103,678	105,106
Unallocated	-	715	715	-	-	-
Total	\$69	\$10,697	\$10,766	\$7,722	\$803,654	\$811,376

Edgar Filing: RIVERVIEW BANCORP INC - Form 10-Q

**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 \$24,000 for each of the three months ended June 30, 2018 and 2017.

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

	30-89 Days Past Due	90 Days and Greater Past Due	Non-accrual	Total Past Due and Non- accrual	Current	Total Loans Receivable
<b><u>June 30, 2018</u></b>						
Commercial business	\$ -	\$ -	\$ 173	\$ 173	\$ 148,084	\$ 148,257
Commercial real estate	370	-	1,167	1,537	446,482	448,019
Land	-	-	751	751	16,553	17,304
Multi-family	-	-	-	-	58,794	58,794
Real estate construction	-	-	-	-	53,156	53,156
Consumer	229	-	253	482	100,574	101,056
Total	\$ 599	\$ -	\$ 2,344	\$ 2,943	\$ 823,643	\$ 826,586

**March 31, 2018**

Commercial business	\$7	\$-	\$178	\$185	\$137,487	\$137,672
Commercial real estate	-	-	1,200	1,200	449,397	450,597
Land	-	-	763	763	14,574	15,337
Multi-family	-	-	-	-	63,080	63,080
Real estate construction	-	-	-	-	39,584	39,584
Consumer	513	-	277	790	104,316	105,106
Total	\$520	\$-	\$2,418	\$2,938	\$808,438	\$811,376

**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 strengths 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):

<u>June 30, 2018</u>	Pass	Special Mention	Substandard	Doubtful	Loss	Total Loans Receivable
Commercial business	\$143,073	\$1,971	\$ 3,213	\$ -	\$ -	\$ 148,257
Commercial real estate	437,383	7,699	2,937	-	-	448,019
Land	16,553	-	751	-	-	17,304
Multi-family	56,609	2,164	21	-	-	58,794
Real estate construction	53,156	-	-	-	-	53,156
Consumer	100,803	-	253	-	-	101,056
Total	\$807,577	\$11,834	\$ 7,175	\$ -	\$ -	\$ 826,586

#### March 31, 2018

Commercial business	\$132,309	\$1,976	\$3,387	\$-	\$-	\$137,672
Commercial real estate	440,123	7,489	2,985	-	-	450,597
Land	14,574	-	763	-	-	15,337
Multi-family	60,879	2,190	11	-	-	63,080
Real estate construction	39,584	-	-	-	-	39,584
Consumer	104,829	-	277	-	-	105,106
Total	\$792,298	\$11,655	\$7,423	\$-	\$-	\$811,376

**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 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.



Edgar Filing: RIVERVIEW BANCORP INC - Form 10-Q

The following tables present the total and average recorded investment in impaired loans at the dates and for the periods indicated (in thousands):

	Recorded Investment with No Specific Valuation Allowance	Recorded Investment with Specific Valuation Allowance	Total Recorded Investment	Unpaid Principal Balance	Related Specific Valuation Allowance
<u>June 30, 2018</u>					
Commercial business	\$ 173	\$ -	\$ 173	\$ 188	\$ -
Commercial real estate	2,596	-	2,596	3,496	-
Land	751	-	751	784	-
Multi-family	1,632	-	1,632	1,740	-
Consumer	290	1,124	1,414	1,526	64
Total	\$ 5,442	\$ 1,124	\$ 6,566	\$ 7,734	\$ 64

March 31, 2018

Commercial business	\$ 1,004	\$ -	\$ 1,004	\$ 1,062	\$ -
Commercial real estate	2,883	-	2,883	3,816	-
Land	763	-	763	790	-
Multi-family	1,644	-	1,644	1,765	-
Consumer	294	1,134	1,428	1,544	69
Total	\$ 6,588	\$ 1,134	\$ 7,722	\$ 8,977	\$ 69

	Three Months ended June 30, 2018		Three Months ended June 30, 2017	
	Interest Recognized		Interest Recognized	
	Average on Recorded Impaired Investments		Average on Recorded Impaired Investment Loans	
Commercial business	\$588	\$ -	\$704	\$ 20
Commercial real estate	2,740	16	5,674	30
Land	757	-	796	-
Multi-family	1,638	22	1,686	23
Consumer	1,421	16	1,470	15
Total	\$7,144	\$ 54	\$10,330	\$ 88

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

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.

Edgar Filing: RIVERVIEW BANCORP INC - Form 10-Q

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

	June 30, 2018			March 31, 2018		
	Accrual	Nonaccrual	Total	Accrual	Nonaccrual	Total
Commercial business	\$-	\$ 173	\$173	\$826	\$ 178	\$1,004
Commercial real estate	1,429	1,167	2,596	1,683	1,200	2,883
Land	-	751	751	-	763	763
Multi-family	1,632	-	1,632	1,644	-	1,644
Consumer	1,414	-	1,414	1,428	-	1,428
Total	\$4,475	\$ 2,091	\$6,566	\$5,581	\$ 2,141	\$7,722

At June 30, 2018, the Company had no commitments to lend additional funds on these loans. At June 30, 2018, all of the Company's TDRs were paying as agreed except for one commercial business TDR loan totaling \$173,000 and two commercial real estate TDR loans totaling \$1.2 million that defaulted since the loans were modified.

There were no new TDRs for the three months ended June 30, 2018 and 2017. There were no loans modified as a TDR within the previous twelve months that subsequently defaulted during the three months ended June 30, 2018.

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 are 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.

## 9. GOODWILL

Goodwill and certain other intangibles generally arise from business combinations accounted for under the purchase method of accounting. 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. All of the Company's goodwill has been allocated to the Bank reporting unit.

The Company performed an impairment assessment as of October 31, 2017 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 in 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, 2018 due to 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.

## 10. JUNIOR SUBORDINATED DEBENTURES

The Company has 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 \$26.5 million at both June 30, 2018 and March 31, 2018, 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 \$836,000 at both June 30, 2018 and March 31, 2018, 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, 2018 (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 <sup>(1)</sup>	5.88 %	3.70 %	3/2036
Riverview Bancorp Statutory Trust II	06/2007	15,464	Variable <sup>(2)</sup>	7.03 %	3.69 %	9/2037
Merchants Bancorp Statutory Trust I <sup>(4)</sup>	06/2003	5,155	Variable <sup>(3)</sup>	4.16 %	5.44 %	6/2033
		27,836				
Fair value adjustment <sup>(4)</sup>		(1,329 )				
Total Debentures		\$ 26,507				

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

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

<sup>(3)</sup> The trust preferred securities reprice quarterly based on the three-month LIBOR plus 3.10%

<sup>(4)</sup> Amount, net of accretion, attributable to the MBank transaction. See Note 3.

## 11. 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.

Edgar Filing: RIVERVIEW BANCORP INC - Form 10-Q

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		
	Total			
<u>June 30, 2018</u>	Estimated	Level	Level	Level
	Fair Value	1	Level 2	3
Investment securities available for sale:				
Municipal securities	\$ 8,695	\$-	\$ 8,695	\$ -
Agency securities	17,107	-	17,107	-
Real estate mortgage investment conduits	44,673	-	44,673	-
Residential mortgage-backed securities	84,666	-	84,666	-
Other mortgage-backed securities	44,959	-	44,959	-
Total assets measured at fair value on a recurring basis	\$ 200,100	\$-	\$ 200,100	\$ -

March 31, 2018

Investment securities available for sale:				
Municipal securities	\$ 8,732	\$-	\$ 8,732	\$-
Agency securities	22,102	-	22,102	-
Real estate mortgage investment conduits	46,955	-	46,955	-
Residential mortgage-backed securities	89,074	-	89,074	-
Other mortgage-backed securities	46,358	-	46,358	-
Total assets measured at fair value on a recurring basis	\$ 213,221	\$-	\$ 213,221	\$-

There were no transfers of assets into or out of Levels 1, 2 or 3 for the three months ended June 30, 2018 and 2017.

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. Investment securities are included within Level 3 of the hierarchy when there are significant unobservable inputs.

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, management 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 help ensure prices represent a reasonable estimate of fair value.

## Edgar Filing: RIVERVIEW BANCORP INC - Form 10-Q

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			
	Total	Level 1	Level 2	Level 3
<u>June 30, 2018</u>	Fair Value			

Impaired loans \$ 1,060 \$ - \$ - \$ 1,060

### March 31, 2018

Impaired loans \$ 2,143 \$ - \$ - \$ 2,143

The following table presents quantitative information about Level 3 inputs for financial instruments measured at fair value on a nonrecurring basis at June 30, 2018 and March 31, 2018:

	Valuation Technique	Significant Unobservable Inputs	Range
Impaired loans	Appraised value	Adjustment for market conditions	N/A <sup>(1)</sup>

<sup>(1)</sup> There were no adjustments to appraised values of impaired loans as of June 30, 2018 and March 31, 2018.

For information regarding the Company's method for estimating the fair value of impaired loans, which reflects the exit price notion, see Note 8 – 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.

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.



Edgar Filing: RIVERVIEW BANCORP INC - Form 10-Q

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

<u>June 30, 2018</u>	Carrying Amount	Level 1	Level 2	Level 3	Estimated Fair Value
Assets:					
Cash and cash equivalents	\$33,268	\$33,268	\$-	\$-	\$33,268
Certificates of deposit held for investment	4,971	-	4,962	-	4,962
Investment securities available for sale	200,100	-	200,100	-	200,100
Investment securities held to maturity	40	-	41	-	41
Loans receivable, net	815,237	-	-	807,410	807,410
FHLB stock	1,353	-	1,353	-	1,353
Liabilities:					
Time deposits	113,466	-	111,181	-	111,181
Junior subordinated debentures	26,507	-	-	15,496	15,496
Capital lease obligation	2,424	-	2,424	-	2,424

20

	Carrying Amount	Level 1	Level 2	Level 3	Estimated Fair Value
<u>March 31, 2018</u>					
Assets:					
Cash and cash equivalents	\$44,767	\$44,767	\$-	\$-	\$44,767
Certificates of deposit held for investment	5,967	-	5,959	-	5,959
Loans held for sale	210	-	210	-	210
Investment securities available for sale	213,221	-	213,221	-	213,221
Investment securities held to maturity	42	-	43	-	43
Loans receivable, net	800,610	-	-	792,916	792,916
FHLB stock	1,353	-	1,353	-	1,353
Liabilities:					
Time deposits	123,144	-	120,940	-	120,940
Junior subordinated debentures	26,484	-	-	15,274	15,274
Capital lease obligation	2,431	-	2,431	-	2,431

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.

## 12. 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"), which created FASB Accounting Standards Codification (ASC) Topic 606 ("ASC 606"). ASC 606 implements a common revenue standard that clarifies the principles for recognizing revenue. The core principle of ASC 606 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. ASC 606 was effective for annual periods, and interim reporting periods within those annual periods, beginning after December 15, 2017. The Company adopted ASC 606 on April 1, 2018 using the modified retrospective approach. Therefore, the comparative information has not been adjusted and continues to be reported under superseded ASC 605. There was no cumulative effect adjustment as of April 1, 2018, and there were no material changes to the timing or amount of revenue recognized for the three months ended June 30, 2018; however, additional disclosures were incorporated in the footnotes upon adoption. The majority of the Company's revenue is comprised of interest income from financial assets, which is explicitly excluded from the scope of ASC 606. The Company elected to apply the practical expedient pursuant to ASC 606 and therefore does not disclose information about remaining performance obligations that have an original expected term of one year or less and allows the Company to expense costs related to obtaining a contract as incurred when the amortization period would have been one year or less. See Note 13 for additional discussion.

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 also eliminates certain disclosures related to the fair value of financial instruments and requires entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes. ASU 2016-01 was effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company adopted this ASU on April 1, 2018. As required by ASU 2016-01, the fair value disclosure for loans receivable was computed using an exit price notion and deposits with no stated maturity are no longer included in the fair value disclosures in Note 11.

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 ASU 2016-02 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 generally on a 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 is 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 effect of adoption will depend on leases at the time of adoption. Once adopted, the Company expects to report higher assets and liabilities as a result of including right-of-use assets and lease liabilities related to certain banking offices and certain equipment under non-cancelable operating lease agreements; however, based on current leases, the adoption of ASU 2016-02 is not expected to have a material impact 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 with respect 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. In addition, ASU 2016-13 requires credit losses relating to available for sale debt securities to be recorded through an allowance for credit losses rather than as a reduction of carrying amount. ASU 2016-13 also changes the accounting for PCI debt securities and loans. ASU 2016-13 retains many of the current disclosure requirements in GAAP and expands certain disclosure requirements. ASU 2016-13 is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Upon adoption, the Company expects a change in the processes and procedures to calculate the allowance for loan losses, including changes in assumptions and estimates to consider expected credit losses over the life of the loan versus the current accounting practice that utilizes the incurred loss model. In addition, the current accounting policy and procedures for other-than-temporary impairment on investment securities available for sale will be replaced with an allowance approach. The Company is reviewing the requirements of ASU 2016-13 and expects to begin developing and implementing processes and procedures to ensure it is fully compliant with the amendments at the adoption date. At this time, management anticipates the allowance for loan losses will increase as a result of the implementation of ASU 2016-13; however, until its evaluation is complete, the magnitude of the increase will not be known.

In January 2017, the FASB issued ASU 2017-04, "Intangibles – Goodwill and Other: Simplifying the Test for Goodwill Impairment" ("ASU 2017-04"). ASU 2017-04 simplifies the subsequent measurement of goodwill and eliminates Step 2 from the goodwill impairment test. In computing the implied fair value of goodwill under Step 2, an entity had to perform procedures to determine the fair value at the impairment testing date of its assets and liabilities (including unrecognized assets and liabilities) following the procedure that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination. Under ASU 2017-04, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. Additionally, an entity should consider income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. ASU 2017-04 is effective for annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early application of ASU 2017-04 is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The adoption of ASU 2017-04 is not expected to have a material impact on the Company's future consolidated financial statements.

In March 2017, the FASB issued ASU 2017-08, "Receivables – Nonrefundable Fees and Other Costs: Premium Amortization on Purchased Callable Debt Securities" ("ASU 2017-08"). ASU 2017-08 shortens the amortization

period for certain callable debt securities held at a premium to the earliest call date. ASU 2017-08 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The adoption of ASU 2017-08 is not expected to have a material impact on the Company's future consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, "Compensation – Stock Compensation: Scope of Modification Accounting" ("ASU 2017-09"). ASU 2017-09 was issued to provide clarity as to when to apply modification accounting when there is a change in the terms or conditions of a share-based payment award. According to ASU 2017-09, an entity should account for the effects of a modification unless the fair value, vesting conditions, and balance sheet classification of the award is the same after the modification as compared to the original award prior to the modification. ASU 2017-09 was effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company adopted this ASU on April 1, 2018. The adoption of ASU 2017-09 did not have a material impact on the Company's consolidated financial statements.

22

---

In February 2018, the FASB issued ASU 2018-02, "Income Statement – Reporting Comprehensive Income: Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income" ("ASU 2018-02"). ASU 2018-02 allows a reclassification from accumulated other comprehensive income ("AOCI") to retained earnings for stranded tax effects resulting from the Tax Act. The amount of the reclassification would be calculated on the basis of the difference between the historical and newly enacted tax rates for deferred tax liabilities and assets related to items within AOCI. ASU 2018-02 is effective for fiscal years beginning after December 15, 2018, and early adoption is permitted. ASU 2018-02 should be applied either in the period of adoption or retrospectively to each period in which the effect of the change in the federal corporate tax rate is recognized. The Company elected to early adopt ASU 2018-02 and, as a result, reclassified \$342,000 of stranded tax effects from AOCI to retained earnings in the fourth quarter of the fiscal year ended March 31, 2018.

### 13. REVENUE FROM CONTRACTS WITH CUSTOMERS

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

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

#### Disaggregation of Revenue

The following table includes the Company's non-interest income disaggregated by type of service for the three months ended June 30, 2018 and 2017 (in thousands):

	June 30, 2018	June 30, 2017
Asset management fees	\$926	\$853
Debit card and ATM fees	805	739
Deposit related fees	443	419
Loan related fees	344	125
BOLI <sup>(1)</sup>	179	207
Net gains on sales of loans held for sale <sup>(1)</sup>	152	225
FHLMC loan servicing fees <sup>(1)</sup>	27	28
Other, net	176	142
Total non-interest income	\$3,052	\$2,738

<sup>(1)</sup> Not in scope of ASC 606

For the three months ended June 30, 2018 and 2017, substantially all of the Company's revenues within the scope of ASC 606 are for performance obligations satisfied at a specified date.

Revenues recognized in scope of ASC 606

Asset management fees: Asset management fees are variable, since they are based on the underlying portfolio value, which is subject to market conditions and amounts invested by clients through the Trust Company. Asset management fees are recognized over the period that services are provided, and when the portfolio values are known or can be estimated at the end of each quarter.

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

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

Loan related fees: Non-interest loan fee income is earned on loans that the Bank services, excluding loans serviced for the FHLMC which are not within the scope of ASC 606. Loan related fees include prepayment fees, late charges, brokered loan fees, maintenance fees and others. These fees are recognized on a daily, monthly, quarterly or annual basis, depending on the type of service.

Other: Fees earned on other services, such as merchant services or occasional non-recurring type services, are recognized at the time of the event or the applicable billing cycle.

#### Contract Balances

As of June 30, 2018, the Company had no significant contract liabilities where the Company had an obligation to transfer goods or services for which the Company had already received consideration. In addition, the Company had no material unsatisfied performance obligations as of this date.

#### 14.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, 2018 are listed below (in thousands):

Contract  
or  
Notional  
Amount



Edgar Filing: RIVERVIEW BANCORP INC - Form 10-Q

Commitments to originate loans:

Adjustable-rate	\$29,287
Fixed-rate	25,456
Standby letters of credit	2,432
Undisbursed loan funds and unused lines of credit	151,784
Total	\$208,959

At June 30, 2018, the Company had firm commitments to sell \$619,000 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, 2018, loans under warranty totaled \$117.3 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. At June 30, 2018, the Company had an allowance for FHLMC loans of \$26,000.

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 for the three months ended June 30, 2018 and 2017.

The Company is periodically a 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 future 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. 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 2018 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 2018 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, Washington and Marion counties of Oregon as its primary market area. 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 loans receivable, net, totaled \$815.2 million at June 30, 2018 compared to \$800.6 million at March 31, 2018.

The Bank's subsidiary, Riverview Trust Company (the "Trust Company"), is a trust and financial services company located in downtown Vancouver, Washington, and provides full-service brokerage activities, trust and asset management services. In April 2017, the Trust Company opened a second office in Lake Oswego, Oregon. The Bank's Business and Professional Banking Division, with two lending offices in Vancouver and one in Portland, offers commercial and business banking services.

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 business and commercial real estate loans in its loan portfolio. Significant portions of our new loan originations – which are mainly concentrated in commercial business and commercial real estate 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.

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 19 branches, including, among others, ten in Clark County, four in the Portland metropolitan area and three lending centers.

On February 17, 2017, the Company completed the purchase and assumption transaction in which the Company purchased certain assets and assumed certain liabilities of MBank, the wholly-owned subsidiary of Merchants Bancorp, including \$115.3 million in loans and \$130.6 million of deposits (the "MBank transaction"). In addition, as part of the MBank transaction, Riverview Bancorp, Inc. assumed the obligations of Merchant Bancorp's trust preferred securities. See Note 3 in the Notes to Consolidated Financial Statements in this Form 10-Q for additional discussion.

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, WaferTech, Nautilus, Barrett Business Services, PeaceHealth, Fisher Investments and Banfield Pet Hospitals, 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.

Economic conditions in the Company's market areas have generally been positive compared to the past recessionary downturn. According to the Washington State Employment Security Department, unemployment in Clark County decreased to 4.8% at May 31, 2018 compared to 5.3% at March 31, 2018 and 5.0% at June 30, 2017. According to the Oregon Employment Department, unemployment in Portland, Oregon decreased to 3.5% at May 31, 2018 compared to 3.7% at March 31, 2018 and 3.6% at June 30, 2017. According to the Regional Multiple Listing Services ("RMLS"), residential home inventory levels in Portland, Oregon have increased to 2.1 months at June 30, 2018 compared to 1.6 months at both March 31, 2018 and June 30, 2017. Residential home inventory levels in Clark County have increased to 2.1 months at June 30, 2018 compared to 1.6 months at both March 31, 2018 and June 30, 2017. According to the RMLS, closed home sales in Clark County decreased 7.6% in June 2018 compared to June 2017. Closed home sales during June 2018 in Portland, Oregon decreased 8.4% compared to June 2017. The local area has also experienced 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

Fiscal year 2018 marked the 95<sup>th</sup> anniversary since the Bank began operations in 1923. The primary business strategy of the Company is to provide comprehensive banking and related financial services within its primary market area. The historical emphasis had been on residential real estate lending. Since 1998, however, the Company has been diversifying its loan portfolio through the expansion of its commercial and construction loan portfolios. At June 30, 2018 commercial and construction loans represented 87.8% of total loans compared to 87.1% at March 31, 2018. Commercial lending, including commercial real estate loans, typically has higher credit risk, greater interest margins and shorter terms than residential lending which can increase the loan portfolio's profitability.

The Company's goal is to deliver returns to shareholders by increasing higher-yielding assets (in particular, commercial real estate and commercial business loans), increasing core deposit balances, managing problem assets, 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:

Execution of our Business Plan. The Company is focused on increasing its loan portfolio, especially higher yielding commercial and construction loans, and its core deposits by expanding its customer base throughout its primary market areas. By emphasizing total relationship banking, the Company intends to deepen the relationships with its customers and increase individual customer profitability through cross-marketing programs, which allows the Company to better identify lending opportunities and services for customers. To build its core deposit base, the Company will continue to utilize additional product offerings, technology and a focus on customer service in working toward this goal. The Company will also continue to seek to expand its franchise through the selective acquisition of individual branches, loan purchases and whole bank transactions that meet its investment and market objectives, such as the February 2017 MBank transaction.

Maintaining Strong Asset Quality. The Company believes that strong asset quality is a key to long-term financial success. The Company has actively managed the delinquent loans and nonperforming assets by aggressively pursuing the collection of consumer debts, marketing saleable properties upon foreclosure or repossession, and through work-outs of classified assets and loan charge-offs. Although the Company intends to prudently increase the percentage of its assets consisting of higher-yielding commercial real estate, real estate construction and commercial business loans, which offer higher risk-adjusted returns, shorter maturities and more sensitivity to interest rate fluctuations, the Company intends to manage credit exposure through the use of experienced bankers in these areas and a conservative approach to its lending.

Implementation of a Profit Improvement Plan ("PIP"). The Company has formed a committee comprised of several members of management and the board of directors to undertake several initiatives to reduce non-interest expense and continue its on-going efforts to identify cost saving opportunities throughout all aspects of the Company's operations.

The PIP committee's mission is not only to find additional cost saving opportunities but also to search for and implement revenue enhancements and additional areas for improvement. The Company has instituted expense control measures such as cancelling certain projects and capital purchases, and reducing travel and entertainment and other non-interest expenditures. As a result, the Company has improved its efficiency ratio over the last several years from 98.0% at March 31, 2014 to 62.0% at June 30, 2018.

Introduction of New Products and Services. 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 Company continues to experience growth in customer use of its online banking services, whereby the Bank provides a full array of traditional cash management products as well as online banking products including mobile banking, mobile deposit, bill pay, e-statements, text banking and mobile payments. The products are tailored to meet the needs of small to medium size businesses and households in the markets we serve. The Bank has implemented remote check capture at all of its branches and for selected customers of the Bank. The Company also intends to selectively add other 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 \$575.2 million and \$484.3 million at June 30, 2018 and March 31, 2018, respectively. Beginning in November 2017, the Company began offering a third-party identity theft product to its customers. The identity theft product assists our customers in monitoring their credit and includes an identity theft restoration service.

Attracting Core Deposits and Other Deposit Products. The Company offers personal checking, savings and money-market accounts, which generally are lower-cost sources of funds than certificates of deposit and are less likely to be withdrawn when interest rates fluctuate. To build its core deposit base, the Company has sought to reduce its dependence on traditional higher cost deposits in favor of stable lower cost core deposits to fund loan growth and decrease its reliance on other wholesale funding sources, including FHLB and FRB advances. The Company believes that its continued focus on building customer relationships will help to increase the level of core deposits and locally-based retail certificates of deposit. In addition, the Company intends to increase demand deposits by growing business banking relationships through expanded product lines tailored to meet its target business customers' needs. The Company maintains technology-based products to encourage the growth of lower cost deposits, such as personal financial management, business cash management, and business remote deposit products, that enable it to meet its customers' cash management needs and compete effectively with banks of all sizes.

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 shareholders through the Company's employee stock ownership ("ESOP") and 401(k) plans.

#### Commercial and Construction Loan Composition

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

	Commercial Business	Other Real Estate Mortgage	Real Estate Construction	Commercial & Construction Total
<u>June 30, 2018</u>				
Commercial business	\$ 148,257	\$ -	\$ -	\$ 148,257
Commercial construction	-	-	37,365	37,365
Office buildings	-	121,758	-	121,758
Warehouse/industrial	-	88,488	-	88,488
Retail/shopping centers/strip malls	-	67,972	-	67,972
Assisted living facilities	-	2,887	-	2,887
Single purpose facilities	-	166,914	-	166,914
Land	-	17,304	-	17,304
Multi-family	-	58,794	-	58,794
One-to-four family construction	-	-	15,791	15,791
Total	\$ 148,257	\$ 524,117	\$ 53,156	\$ 725,530

March 31, 2018

Commercial business	\$ 137,672	\$-	\$-	\$ 137,672
Commercial construction	-	-	23,158	23,158
Office buildings	-	124,000	-	124,000
Warehouse/industrial	-	89,442	-	89,442
Retail/shopping centers/strip malls	-	68,932	-	68,932
Assisted living facilities	-	2,934	-	2,934
Single purpose facilities	-	165,289	-	165,289
Land	-	15,337	-	15,337
Multi-family	-	63,080	-	63,080
One-to-four family construction	-	-	16,426	16,426
Total	\$ 137,672	\$ 529,014	\$ 39,584	\$ 706,270

28

---



## Comparison of Financial Condition at June 30, 2018 and March 31, 2018

Cash and cash equivalents, including interest-earning accounts, totaled \$33.3 million at June 30, 2018 compared to \$44.8 million at March 31, 2018. The decrease in cash and cash equivalents is primarily attributable to funding our loan growth and the decrease in deposit balances. The Company deploys a portion of its excess cash balances into investment securities to earn higher yields than the nominal yield earned on cash held in interest-earning accounts based on its asset/liability program and liquidity objectives in order to maximize earnings. As a part of this strategy, the Company also invests a portion of its excess cash in short-term certificates of deposit held for investment. All of the certificates of deposit held for investment are fully insured by the FDIC. At June 30, 2018, certificates of deposits held for investment totaled \$5.0 million compared to \$6.0 million at March 31, 2018.

Investment securities totaled \$200.1 million and \$213.3 million at June 30, 2018 and March 31, 2018, respectively. The cash flow received from repayments of our investment securities during the quarter ended June 30, 2018 supplemented the cash needed to fund our loan growth and decrease in deposits. Our investment securities are primarily comprised of a combination of securities backed by government agencies (FHLMC, FNMA, SBA or GNMA). For the quarter ended June 30, 2018, the Company determined that none of its investment securities required an other than temporary impairment ("OTTI") charge. For additional information, see Note 6 of the Notes to Consolidated Financial Statements contained in Item 1 of this Form 10-Q.

Loans receivable, net, totaled \$815.2 million at June 30, 2018 compared to \$800.6 million at March 31, 2018. The increase was primarily due to net organic loan growth of \$10.6 million and a net increase in the purchase of the guaranteed portion of SBA loans totaling \$4.6 million. The Company has had steady loan demand in its market areas and anticipates continuing organic loan growth. A substantial portion of the loan portfolio is secured by real estate, either as primary or secondary collateral, located in the Company's primary market areas. Risks associated with loans secured by real estate include decreases in land and property values, increases in interest rates, deterioration in local economic conditions, tightening credit or refinancing markets, and a geographic concentration of loans. The Company has no option adjustable-rate mortgage (ARM) or teaser residential real estate loans in its portfolio.

Beginning in March 2017, the Company periodically began purchasing the guaranteed portion of SBA loans as a way to supplement loan originations, further diversify its loan portfolio and earn a higher yield than earned on its cash or short-term investments. These SBA loans are originated through another financial institution located outside the Company's primary market area. These loans are purchased with servicing retained by the seller. At June 30, 2018, the Company's purchased SBA loan portfolio was \$51.6 million compared to \$47.0 million at March 31, 2018. During the quarter ended June 30, 2018, the Bank purchased \$7.4 million of SBA loans, including premiums.

Deposits decreased \$13.3 million to \$982.4 million at June 30, 2018 compared to \$995.7 million at March 31, 2018. The Company had no wholesale-brokered deposits as of June 30, 2018 or March 31, 2018. Core branch deposits accounted for 97.9% of total deposits at June 30, 2018 compared to 98.3% at March 31, 2018. The Company plans to continue its focus on core deposits and on building customer relationships as opposed to obtaining deposits through the wholesale markets.

## Shareholders' Equity and Capital Resources

Shareholders' equity increased \$2.9 million to \$119.8 million at June 30, 2018 from \$116.9 million at March 31, 2018. The increase was mainly attributable to net income of \$4.4 million. Accumulated other comprehensive loss related to unrealized holding losses on securities available for sale increased \$736,000, decreasing shareholders' equity. In addition, shareholders' equity decreased due to cash dividends declared of \$790,000 for the three months ended June 30, 2018. The Company did not repurchase any shares of common stock for the three months ended June 30, 2018 or for the fiscal year ended March 31, 2018.

The Bank is subject to various regulatory capital requirements administered by the Office of the Comptroller of the Currency ("OCC"). Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. As of June 30, 2018, the Bank was "well capitalized" as defined under the regulatory framework for prompt corrective action. To be categorized as "well capitalized," the Bank must maintain the minimum capital ratios set forth in the tables below.

## Edgar Filing: RIVERVIEW BANCORP INC - Form 10-Q

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

	Actual	Ratio	For Capital Adequacy Purposes			"Well Capitalized" Under Prompt Corrective Action	
	Amount		Amount	Ratio	%	Amount	Ratio
June 30, 2018							
Total Capital:							
(To Risk-Weighted Assets)	\$ 125,954	15.59 %	\$ 64,645	8.0	%	\$ 80,807	10.0 %
Tier 1 Capital:							
(To Risk-Weighted Assets)	115,831	14.33	48,484	6.0		64,645	8.0
Common equity tier 1 Capital:							
(To Risk-Weighted Assets)	115,831	14.33	36,363	4.5		52,524	6.5
Tier 1 Capital (Leverage):							
(To Average Tangible Assets)	115,831	10.46	44,312	4.0		55,390	5.0

	Actual	Ratio	For Capital Adequacy Purposes	Ratio	"Well Capitalized" Under Prompt Corrective Action	Ratio
March 31, 2018	Amount		Amount		Amount	
Total Capital:						
(To Risk-Weighted Assets)	\$ 123,061	15.41 %	\$ 63,868	8.0 %	\$ 79,835	10.0 %
Tier 1 Capital:						
(To Risk-Weighted Assets)	113,066	14.16	47,901	6.0	63,868	8.0
Common equity tier 1 Capital:						
(To Risk-Weighted Assets)	113,066	14.16	35,926	4.5	51,893	6.5
Tier 1 Capital (Leverage):						
(To Average Tangible Assets)	113,066	10.26	44,093	4.0	55,116	5.0

In addition to the minimum common equity tier 1 ("CET1"), Tier 1 and total capital ratios, the Bank now has to maintain a capital conservation buffer consisting of additional CET1 capital above the required minimum levels in order to avoid limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses based on percentages of eligible retained income that could be utilized for such actions. This new capital conservation buffer requirement started to be phased in beginning in January 2016 when more than 0.625% of risk-weighted assets was required and increases each year until fully implemented to an amount greater than 2.5% of risk-weighted assets in January 2019. As of June 30, 2018, the Bank's CET1 capital exceeded the required capital conservation buffer at an amount greater than 1.875%.

For a savings and loan holding company, such as the Company, the capital guidelines apply on a bank only basis. The Federal Reserve expects the holding company's subsidiary banks to be well capitalized under the prompt corrective action regulations. If the Company was subject to regulatory guidelines for bank holding companies at June 30, 2018, the Company would have exceeded all regulatory capital requirements.

At periodic intervals, the OCC and the FDIC routinely examine the Bank's financial condition and risk management processes as part of their legally prescribed oversight. Based on their examinations, these regulators can direct that the Company's consolidated financial statements be adjusted in accordance with their findings. A future examination by the OCC or the FDIC could include a review of certain transactions or other amounts reported in the Company's 2018 consolidated financial statements.

### Liquidity and Capital Resources

Liquidity is essential to our business. The objective of the Bank's liquidity management is to maintain ample cash flows to meet obligations for depositor withdrawals, to fund the borrowing needs of loan customers, and to fund ongoing operations. Core relationship deposits are the primary source of the Bank's liquidity. As such, the Bank focuses on deposit relationships with local consumer and business clients who maintain multiple accounts and services at the Bank.

Liquidity management is both a short and long-term responsibility of the Company's management. The Company adjusts its investments in liquid assets based upon management's assessment of (i) expected loan demand, (ii) projected loan sales, (iii) expected deposit flows, (iv) yields available on interest-bearing deposits and (v) its asset/liability management program objectives. Excess liquidity is invested generally in interest-bearing overnight deposits and other short-term government and agency obligations. If the Company requires funds beyond its ability to generate them internally, it has additional diversified and reliable sources of funds with the FHLB, the FRB and other wholesale facilities. These sources of funds may be used on a long or short-term basis to compensate for a reduction in other sources of funds or on a long-term basis to support lending activities.

The Company's primary sources of funds are customer deposits, proceeds from principal and interest payments on loans, proceeds from the sale of loans, maturing securities, FHLB advances and FRB borrowings. While maturities and scheduled amortization of loans and securities are a predictable source of funds, deposit flows and prepayment of mortgage loans and mortgage-backed securities are greatly influenced by general interest rates, economic conditions and competition. Management believes that its focus on core relationship deposits coupled with access to borrowing through reliable counterparties provides reasonable and prudent assurance that ample liquidity is available. However, depositor or counterparty behavior could change in response to competition, economic or market situations or other unforeseen circumstances, which could have liquidity implications that may require different strategic or operational actions.

The Company must maintain an adequate level of liquidity to help ensure the availability of sufficient funds for loan originations, deposit withdrawals and continuing operations, satisfy other financial commitments and take advantage of investment opportunities. During the three months ended June 30, 2018, the Bank used its sources of funds primarily to fund loan commitments. At June 30, 2018, cash and available for sale investments totaled \$238.3 million, or 20.9% of total assets. The Bank generally maintains sufficient cash and short-term investments to meet short-term liquidity needs; however, its primary liquidity management practice is to increase or decrease short-term borrowings, including FRB borrowings and FHLB advances. At June 30, 2018, the Company had no advances from the FRB and a borrowing capacity of \$54.9 million from the FRB, subject to sufficient collateral. At June 30, 2018, there were no borrowings from the FHLB and the Company had an available credit facility of \$279.8 million, subject to sufficient collateral and stock investment. At June 30, 2018, the Company had sufficient unpledged collateral to allow it to utilize its available borrowing capacity from the FRB and the FHLB. Borrowing capacity may, however, fluctuate based on acceptability and risk rating of loan collateral and counterparties could adjust discount rates applied to such collateral at their discretion.

An additional source of wholesale funding includes brokered certificates of deposit. While the Bank has utilized brokered deposits from time to time, the Bank historically has not extensively relied on brokered deposits to fund its operations. At June 30, 2018 and March 31, 2018, the Bank had no wholesale brokered deposits. The Bank participates in the CDARS and ICS deposit products, which allows the Company to accept deposits in excess of the FDIC insurance limit for that depositor and obtain "pass-through" insurance for the total deposit. The Bank's CDARS and ICS balances were \$19.7 million, or 2.0% of total deposits, and \$23.6 million, or 2.4% of total deposits, at June 30, 2018 and March 31, 2018, respectively. In addition, the Bank is enrolled in an internet deposit listing service. Under this listing service, the Bank may post time deposit rates on an internet site where institutional investors have the ability to deposit funds with the Bank. At June 30, 2018 and March 31, 2018, the Company had no deposits through this listing service. Although the Company did not originate any internet based deposits during the quarter ended June 30, 2018, or during the year ended March 31, 2018, the Company may do so in the future consistent with its asset/liability objectives. The combination of all the Bank's funding sources gives the Bank available liquidity of \$738.6 million, or 64.8% of total assets at June 30, 2018.

At June 30, 2018, the Company had total commitments of \$209.0 million, which includes commitments to extend credit of \$54.7 million, unused lines of credit and undisbursed balances of \$151.8 million and standby letters of credit totaling \$2.4 million. The Company anticipates that it will have sufficient funds available to meet current loan commitments. Certificates of deposit that are scheduled to mature in less than one year totaled \$82.8 million. Historically, the Bank has been able to retain a significant amount of its deposits as they mature. Offsetting these cash outflows are scheduled loan maturities of less than one year totaling \$60.0 million.

Riverview Bancorp, Inc., as a separate legal entity from the Bank, must provide for its own liquidity. Sources of capital and liquidity for Riverview Bancorp, Inc. include distributions from the Bank and the issuance of debt or equity securities. Dividends and other capital distributions from the Bank are subject to regulatory notice. At June 30, 2018, Riverview Bancorp, Inc. had \$7.5 million in cash to meet liquidity needs.

## Asset Quality

Nonperforming assets, consisting of nonperforming loans and REO, decreased to \$2.3 million or 0.21% of total assets at June 30, 2018 compared to \$2.7 million or 0.24% of total assets at March 31, 2018.

The following table sets forth information regarding the Company's nonperforming loans at the dates indicated (dollars in thousands):

	June 30, 2018		March 31, 2018	
	Number of Loans		Number of Loans	
		Balance		Balance
Commercial business	1	\$ 173	1	\$ 178
Commercial real estate	2	1,167	2	1,200
Land	1	751	1	763
Consumer	19	253	12	277
Total	23	\$ 2,344	16	\$ 2,418

The Company continues to focus on managing the residential construction and land acquisition and development loan portfolios. At June 30, 2018, the Company's residential construction and land acquisition and development loan portfolios were \$15.8 million and \$17.3 million, respectively, as compared to \$16.4 million and \$15.3 million, respectively, at March 31, 2018. The percentage of nonperforming loans in the land acquisition and development loan portfolios at June 30, 2018 was 4.34%, compared 4.97% at March 31, 2018. There were no nonperforming residential construction loans at June 30, 2018 or March 31, 2018. For the three months ended June 30, 2018, there were no charge-offs or recoveries in the residential construction loan portfolio or in the land development loan portfolio.

The Company had no REO as of June 30, 2018. The Company's REO totaled \$298,000 at March 31, 2018. The \$298,000 balance of REO that existed as of March 31, 2018 was comprised of a one-to-four family real estate property located in Washington. This REO property was sold during the three months ended June 30, 2018 for approximately its carrying value. There were no valuation write-downs or transfers to REO for the three months ended June 30, 2018.

The allowance for loan losses was \$11.3 million or 1.37% of total loans at June 30, 2018 compared to \$10.8 million or 1.33% of total loans at March 31, 2018. The ---balance of the allowance for loan losses at June 30, 2018 reflects the lower levels of delinquent, nonperforming and classified loans, elevated levels of net recoveries, as well as stabilizing real estate values in our market areas. The Company recorded a recapture of loan losses of \$200,000 for the three months ended June 30, 2018.

The coverage ratio of allowance for loan losses to nonperforming loans was 484.17% at June 30, 2018 compared to 445.24% at March 31, 2018. At June 30, 2018, the Company identified \$2.1 million or 89.22% of its nonperforming loans as impaired and performed a specific valuation analysis on each loan resulting in no specific reserves being required for these impaired loans. Management considers the allowance for loan losses to be adequate at June 30, 2018 to cover probable losses inherent in the loan portfolio based on the assessment of various factors affecting the loan portfolio, and the Company believes it has established its existing allowance for loan losses in accordance with GAAP. However, a decline in local economic conditions, results of examinations by the Company's regulators, or other factors could result in a material increase in the allowance for loan losses and may adversely affect the Company's future financial condition and results of operations. In addition, because future events affecting borrowers and collateral cannot be predicted with certainty, there can be no assurance that the existing allowance for loan losses will be adequate or that substantial increases will not be necessary should the quality of any loans deteriorate or should collateral values decline as a result of the factors discussed elsewhere in this document. For further information regarding the Company's impaired loans and allowance for loan losses, see Note 8 of the Notes to Consolidated Financial Statements contained in Item 1 of this Form 10-Q.

Troubled debt restructurings ("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, when a loan is deemed to be impaired, the amount of the impairment is measured using discounted cash flows using the original note rate, except when the loan is collateral dependent. In these cases, the estimated fair value of the collateral (less any selling costs, if applicable) is used. Impairment is recognized as a specific component within the allowance for loan losses if the estimated value of the impaired loan is less than the recorded investment in the loan. When the amount of the impairment represents a confirmed loss, it is charged off against the allowance for loan losses. At June 30, 2018, the Company had TDRs totaling \$6.6 million, of which \$4.5 million were on accrual status. As of June 30, 2018, all of the Company's TDRs were paying pursuant to their modified loan terms except for one commercial business TDR loan totaling \$173,000 and two commercial real estate TDR loans totaling \$1.2 million that defaulted since these loans were modified. The related amount of interest income recognized on TDRs was \$54,000 and \$88,000 for the three months ended June 30, 2018 and 2017,

respectively.

The Company has determined that, in certain circumstances, it is appropriate to split a loan into multiple notes. This typically includes a nonperforming charged-off loan that is not supported by the cash flow of the relationship and a performing loan that is supported by the cash flow. These may also be split into multiple notes to align portions of the loan balance with the various sources of repayment when more than one exists. Generally the new loans are restructured based on customary underwriting standards. In situations where they are not, the policy exception qualifies as a concession, and if the borrower is experiencing financial difficulties, the loans are accounted for as TDRs.

The accrual status of a loan may change after it has been classified as a TDR. The Company's general policy related to TDRs is to perform a credit evaluation of the borrower's financial condition and prospects for repayment under the revised terms. This evaluation includes consideration of the borrower's sustained historical repayment performance for a reasonable period of time. A sustained period of repayment performance generally would be a minimum of six months and may include repayments made prior to the restructuring date. If repayment of principal and interest appears doubtful, it is placed on non-accrual status.



The following table sets forth information regarding the Company's nonperforming assets at the dates indicated (dollars in thousands):

	June 30, 2018	March 31, 2018
Loans accounted for on a non-accrual basis:		
Commercial business	\$173	\$178
Other real estate mortgage	1,918	1,963
Consumer	253	277
Total	2,344	2,418
Accruing loans which are contractually past due 90 days or more	-	-
Total nonperforming loans	2,344	2,418
REO	-	298
Total nonperforming assets	\$2,344	\$2,716
Foregone interest on non-accrual loans <sup>(1)</sup>	\$24	\$102
Total nonperforming loans to total loans	0.28 %	0.30 %
Total nonperforming loans to total assets	0.21 %	0.21 %
Total nonperforming assets to total assets	0.21 %	0.24 %

<sup>(1)</sup> Three months ended June 30, 2018 and year ended March 31, 2018.

The following tables set forth information regarding the Company's nonperforming assets by loan type and geographical area at the dates indicated (in thousands):

	Other Oregon	Southwest Washington	Other Washington	Other	Total
<u>June 30, 2018</u>					
Commercial business	\$-	\$ 173	\$ -	\$ -	\$173
Commercial real estate	970	197	-	-	1,167
Land	751	-	-	-	751
Consumer	-	175	-	78	253
Total nonperforming loans	1,721	545	-	78	2,344
REO	-	-	-	-	-
Total nonperforming assets	\$1,721	\$ 545	\$ -	\$ 78	\$2,344

March 31, 2018

Commercial business	\$-	\$178	\$-	\$-	\$178
Commercial real estate	997	203	-	-	1,200
Land	763	-	-	-	763
Consumer	-	206	-	71	277
Total nonperforming loans	1,760	587	-	71	2,418
REO	-	-	298	-	298

Total nonperforming assets \$1,760 \$587 \$298 \$71 \$2,716

## Edgar Filing: RIVERVIEW BANCORP INC - Form 10-Q

The composition of land acquisition and development and speculative construction loans by geographical area is as follows at the dates indicated (in thousands):

	Northwest Oregon	Other Oregon	Southwest Washington	Total
<u>June 30, 2018</u>				
Land development	\$ 203	\$861	\$ 16,240	\$17,304
Speculative construction	873	-	12,526	13,399
Total land development and speculative construction	\$ 1,076	\$861	\$ 28,766	\$30,703

### March 31, 2018

Land development	\$482	\$881	\$13,974	\$15,337
Speculative construction	400	421	12,596	13,417
Total land development and speculative construction	\$882	\$1,302	\$26,570	\$28,754

Other loans of concern, which are classified as substandard loans and are not presently included in the non-accrual category, consist of loans where the borrowers have cash flow problems, or the collateral securing the respective loans may be inadequate. In either or both of these situations, the borrowers may be unable to comply with the present loan repayment terms, and the loans may subsequently be included in the non-accrual category. Management considers the allowance for loan losses to be adequate to cover the probable losses inherent in these and other loans.

The following table sets forth information regarding the Company's other loans of concern at the dates indicated (dollars in thousands):

	June 30, 2018	March 31, 2018
	Number of Loans	Number of Loans
	Balance	Balance
Commercial business	11 \$ 3,040	11 \$ 3,209
Commercial real estate	2 1,770	2 1,785
Multi-family	2 21	1 11
Total	15 \$ 4,831	14 \$ 5,005

At June 30, 2018, loans delinquent 30 - 89 days were 0.07% of total loans compared to 0.06% at March 31, 2018. At June 30, 2018, loans 30 - 89 days delinquent in the commercial real estate and consumer portfolios totaled \$370,000 and \$229,000, respectively. There were no loans 30-89 days delinquent in any other loan category at June 30, 2018. At that date, commercial real estate loans represented the largest portion of the loan portfolio at 54.20% of total loans and commercial business and consumer loans represented 17.94% and 12.23% of total loans, respectively.

### Off-Balance Sheet Arrangements and Other Contractual Obligations

In the normal course of operations, the Company enters into certain contractual obligations and other commitments. Obligations generally relate to funding of operations through deposits and borrowings as well as leases for premises. Commitments generally relate to lending operations.

The Company has obligations under long-term operating and capital leases, principally for building space and land. Lease terms generally cover five-year periods, with options to extend, and are not subject to cancellation. During the

second quarter of fiscal 2016, the Company modified its lease agreement on its operations center reducing the Company's square footage leased and extending the lease agreement to November 2039.

The Company has commitments to originate fixed and variable rate mortgage loans to customers. Because some commitments expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Undisbursed loan funds and unused lines of credit include funds not disbursed but committed to construction projects and home equity and commercial lines of credit. Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party.

For further information regarding the Company's off-balance sheet arrangements and other contractual obligations, see Note 14 of the Notes to Consolidated Financial Statements contained in Item 1 of this Form 10-Q.

## Goodwill Valuation

Goodwill is initially recorded when the purchase price paid for an acquisition exceeds the estimated fair value of the net identified tangible and intangible assets acquired. Goodwill is presumed to have an indefinite useful life and is tested, at least annually, for impairment at the reporting unit level. The Company has two reporting units, the Bank and the Trust Company, for purposes of evaluating goodwill for impairment. All of the Company's goodwill has been allocated to the Bank reporting unit. The Company performs an annual review in the third quarter of each fiscal year, or more frequently if indications of potential impairment exist, to determine if the recorded goodwill is impaired. If the fair value exceeds the carrying value, goodwill at the reporting unit level is not considered impaired and no additional analysis is necessary. If the carrying value of the reporting unit is greater than its fair value, there is an indication that impairment may exist and additional analysis must be performed to measure the amount of impairment loss, if any. The amount of impairment is determined by comparing the implied fair value of the reporting unit's goodwill to the carrying value of the goodwill in the same manner as if the reporting unit was being acquired in a business combination. Specifically, the Company would allocate the fair value to all of the assets and liabilities of the reporting unit, including unrecognized intangible assets, in a hypothetical analysis that would calculate the implied fair value of goodwill. If the implied fair value of goodwill is less than the recorded goodwill, the Company would record an impairment charge for the difference.

A significant amount of judgment is involved in determining if an indicator of impairment has occurred. Such indicators may include, among others: a significant decline in our expected future cash flows; a sustained, significant decline in our stock price and market capitalization; a significant adverse change in legal factors or in the business climate; adverse action or assessment by a regulator; and unanticipated competition. Any adverse change in these factors could have a significant impact on the recoverability of these assets and could have a material impact on the Company's consolidated financial statements.

The Company performed its annual goodwill impairment test as of October 31, 2017. The goodwill impairment test involves a two-step process. Step one of the goodwill impairment test estimates the fair value of the reporting unit utilizing the allocation of corporate value approach, the income approach and the market approach in order to derive an enterprise value of the Company. The allocation of corporate value approach applies the aggregate market value of the Company and divides it among the reporting units. A key assumption in this approach is the control premium applied to the aggregate market value. A control premium is utilized as the value of a company from the perspective of a controlling interest is generally higher than the widely quoted market price per share. The Company used an expected control premium of 30%, which was based on comparable transactional history. The income approach uses a reporting unit's projection of estimated operating results and cash flows that are discounted using a rate that reflects current market conditions. The projection uses management's best estimates of economic and market conditions over the projected period including growth rates in loans and deposits, estimates of future expected changes in net interest margins and cash expenditures. Assumptions used by the Company in its discounted cash flow model (income approach) included an annual revenue growth rate that approximated 6.9%, a net interest margin that approximated 4.3% and a return on assets that ranged from 1.17% to 1.38% (average of 1.27%). In addition to utilizing the above projections of estimated operating results, key assumptions used to determine the fair value estimate under the income approach were the discount rate of 14.26% utilized for our cash flow estimates and a terminal value estimated at 1.8 times the ending book value of the reporting unit. The Company used a build-up approach in developing the discount rate that included: an assessment of the risk free interest rate, the rate of return expected from publicly traded stocks, the industry the Company operates in and the size of the Company. The market approach estimates fair value by applying tangible book value multiples to the reporting unit's operating performance. The multiples are derived from comparable publicly traded companies with similar operating and investment characteristics of the reporting unit. In applying the market approach method, the Company selected four publicly traded comparable institutions. After selecting comparable institutions, the Company derived the fair value of the reporting unit by completing a comparative analysis of the relationship between their financial metrics listed above and their market values utilizing a market multiple of 1.5 times tangible book value. The Company calculated a fair value of its reporting unit of \$265.0 million using the corporate value approach, \$196.5 million using the income approach and \$275.0 million using the

market approach, with a final concluded value of \$250.0 million, with primary weight given to the market approach. 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 no impairment of goodwill exists.

Even though the Company determined that there was no goodwill impairment, a decline in the value of its stock price as well as values of other financial institutions, declines in revenue for the Company beyond our current forecasts, significant adverse changes in the operating environment for the financial industry or an increase in the value of our assets without an increase in the value of the reporting unit may result in a future impairment charge.

It is possible that changes in circumstances existing at the measurement date or at other times in the future, or in the numerous estimates associated with management's judgments, assumptions and estimates made in assessing the fair value of our goodwill, could result in an impairment charge of a portion or all of our goodwill. If the Company recorded an impairment charge, its financial position and results of operations would be adversely affected; however, such an impairment charge would have no impact on our liquidity, operations or regulatory capital.

Comparison of Operating Results for the Three Months Ended June 30, 2018 and 2017

**Net Income.** Net income was \$4.4 million, or \$0.20 per diluted share for the three months ended June 30, 2018, compared to \$2.7 million, or \$0.12 per diluted share for same prior year period. The Company's earnings improved due to the impact of utilizing a lower effective tax rate due to the Tax Act as well as increases in both interest and dividend income and non-interest income.

**Net Interest Income.** The Company's profitability depends primarily on its net interest income, which is the difference between the income it receives on interest-earning assets and the interest paid on deposits and borrowings. When the rate earned on interest-earning assets equals or exceeds the rate paid on interest-bearing liabilities, this positive interest rate spread will generate net interest income. The Company's results of operations are also significantly affected by general economic and competitive conditions, particularly changes in market interest rates, government legislation and regulation, and monetary and fiscal policies.

Net interest income for the three months ended June 30, 2018 was \$11.5 million, representing an increase of \$1.1 million, or 10.10%, from \$10.4 million during the same prior year period. The net interest margin for the three months ended June 30, 2018 was 4.40% compared to 4.09% for the three months ended June 30, 2017. This increase was attributable to the increases in the average balance of both loans receivable and investment securities in addition to the recovery of \$585,000 of nonaccrual interest from two loans that were previously charged off. The positive impact on the net interest margin from the recovery of nonaccrual interest was 23 basis points for the quarter ended June 30, 2018.

**Interest and Dividend Income.** Interest and dividend income for the three months ended June 30, 2018 increased \$1.1 million to \$12.1 million compared to \$11.0 million for the same period in the prior year. The increase was due primarily to an increase in interest on loans receivable of \$988,000 and interest on investment securities of \$88,000.

The average balance of net loans increased \$26.7 million to \$813.0 million for the three months ended June 30, 2018 from \$786.3 million for the same prior year period. The average yield on net loans was 5.32% for the three months ended June 30, 2018 compared to 4.99% for the same three months in the prior year.

**Interest Expense.** Interest expense totaled \$618,000 for the three months ended June 30, 2018 compared to \$590,000 for the three months ended June 30, 2017. The increase in interest expense was primarily the result of an increase in interest expense related to variable rate junior subordinated debentures, which reprice quarterly based on the three-month LIBOR. The weighted average interest rate on interest-bearing deposits decreased to 0.15% for the three months ended June 30, 2018 from 0.18% for the same period in the prior year. The decrease in the weighted average interest rate on interest-bearing deposits was primarily due to the decrease in the average balance of certificates of deposit and the managed run-off of certain higher cost certificates of deposits acquired in the MBank transaction.

## Edgar Filing: RIVERVIEW BANCORP INC - Form 10-Q

The following tables set forth, for the periods indicated, information regarding average balances of assets and liabilities as well as the total dollar amounts of interest income earned on average interest-earning assets and interest expense paid on average interest-bearing liabilities, resultant yields, interest rate spread, ratio of interest-earning assets to interest-bearing liabilities and net interest margin (dollars in thousands):

	Three Months Ended June 30, 2018				2017			
	Average Balance	Interest and Dividends	Yield/Cost		Average Balance	Interest and Dividends	Yield/Cost	
Interest-earning assets:								
Mortgage loans	\$637,739	\$ 8,797	5.53	%	\$637,650	\$ 7,682	4.83	%
Non-mortgage loans	175,238	1,980	4.53		148,667	2,107	5.68	
Total net loans <sup>(1)</sup>	812,977	10,777	5.32		786,317	9,789	4.99	
Investment securities <sup>(2)</sup>	215,959	1,246	2.31		209,308	1,155	2.21	
Daily interest-earning assets	49	-	-		98	-	-	
Other earning assets	19,588	93	1.90		27,473	87	1.27	
Total interest-earning assets	1,048,573	12,116	4.63		1,023,196	11,031	4.32	
Non-interest-earning assets:								
Office properties and equipment, net	15,778				16,147			
Other non-interest-earning assets	67,149				72,803			
Total assets	\$1,131,500				\$1,112,146			
Interest-bearing liabilities:								
Regular savings accounts	\$134,986	34	0.10		\$125,892	32	0.10	
Interest checking accounts	177,278	25	0.06		166,451	24	0.06	
Money market accounts	263,203	80	0.12		276,712	84	0.12	
Certificates of deposit	117,704	121	0.41		147,012	182	0.50	
Total interest-bearing deposits	693,171	260	0.15		716,067	322	0.18	
Other interest-bearing liabilities	32,894	358	4.37		29,105	268	3.69	
Total interest-bearing liabilities	726,065	618	0.34		745,172	590	0.32	
Non-interest-bearing liabilities:								
Non-interest-bearing deposits	278,481				245,354			
Other liabilities	7,978				7,959			
Total liabilities	1,012,524				998,485			
Shareholders' equity	118,976				113,661			
Total liabilities and shareholders' equity	\$1,131,500				\$1,112,146			
Net interest income		\$ 11,498				\$ 10,441		
Interest rate spread			4.29	%			4.00	%
Net interest margin			4.40	%			4.09	%
Ratio of average interest-earning assets to average interest-bearing liabilities			144.42	%			137.31	%
Tax equivalent adjustment <sup>(3)</sup>		\$ 11				\$ 8		



(1) Includes non-accrual loans.

(2) For purposes of the computation of average yield on investment securities available for sale, historical cost balances were utilized; therefore, the yield information does not give effect to changes in fair value that are reflected as a component of shareholders' equity.

(3) Tax-equivalent adjustment relates to non-taxable investment interest income and preferred equity securities dividend income.

37

---

Edgar Filing: RIVERVIEW BANCORP INC - Form 10-Q

The following table sets forth the effects of changing rates and volumes on net interest income of the Company for the quarter ended June 30, 2018 compared to the quarter ended June 30, 2017. Variances that were insignificant have been allocated based upon the percentage relationship of changes in volume and changes in rate to the total net change (in thousands).

	Three Months Ended June 30, 2018 vs 2017		
	Increase (Decrease) Due to		
	Volume	Rate	Total Increase (Decrease)
Interest Income:			
Mortgage loans	\$1	\$1,114	\$ 1,115
Non-mortgage loans	340	(467 )	(127 )
Investment securities <sup>(1)</sup>	38	53	91
Other earning assets	(29 )	35	6
Total interest income	350	735	1,085
Interest Expense:			
Regular savings accounts	2	-	2
Interest checking accounts	1	-	1
Money market accounts	(4 )	-	(4 )
Certificates of deposit	(32 )	(29 )	(61 )
Other interest-bearing liabilities	38	52	90
Total interest expense	5	23	28
Net interest income	\$345	\$712	\$ 1,057

<sup>(1)</sup> Interest is presented on a fully tax-equivalent basis.

**Provision for Loan Losses.** The Company maintains an allowance for loan losses to provide for probable losses inherent in the loan portfolio consistent with GAAP guidelines. The adequacy of the allowance is evaluated monthly to maintain the allowance at levels sufficient to provide for inherent losses existing at the balance sheet date. The key components to the evaluation are the Company's internal loan review function by its credit administration, which reviews and monitors the risk and quality of the loan portfolio; as well as the Company's external loan reviews and its loan classification systems. Credit officers are expected to monitor their portfolios and make recommendations to change loan grades whenever changes are warranted. Credit administration approves any changes to loan grades and monitors loan grades.

In accordance with GAAP, loans acquired from MBank were recorded at their estimated fair value, which resulted in a net discount to the loans' contractual amounts, of which a portion reflects a discount for possible credit losses. Credit discounts are included in the determination of fair value and as a result no allowance for loan losses is recorded for acquired loans at the acquisition date. The discount recorded on the acquired loans is not reflected in the allowance for loan losses or related allowance coverage ratios. However, we believe it should be considered when comparing certain financial ratios of the Company calculated in periods after the MBank transaction, compared to the same financial ratios of the Company in periods prior to the MBank transaction. The net discount on these acquired loans was \$2.1 million and \$2.2 million at June 30, 2018 and March 31, 2018, respectively.

There was a recapture of loan losses of \$200,000 for the three months ended June 30, 2018, compared to no provision for or recapture of loan losses for the same prior year period. The recapture of loan losses and lack of a provision for loan losses for the three months ended June 30, 2018 and 2017, respectively, continues to be based primarily upon net recoveries and stabilizing real estate values in our market areas.

Net recoveries for the three months ended June 30, 2018 and 2017 were \$783,000 and \$69,000, respectively. Annualized net recoveries to average net loans for the three month periods ended June 30, 2018 and 2017 were 0.39% and 0.04%, respectively. The net recoveries occurred primarily as a result of stabilization in the level of delinquent, nonperforming and classified loans and the stabilization of real estate values in our market areas as well as an increase in recoveries on previously charged off loans. During the quarter ended June 30, 2018, the Company received \$581,000 and \$242,000 in recovery payments on two loans, respectively, that were previously charged off. No additional recoveries are expected on these loans as the Company has fully recouped its prior charge-offs. Nonperforming loans were \$2.3 million at June 30, 2018, compared to \$2.8 million at June 30, 2017. The ratio of allowance for loan losses to nonperforming loans was 484.17% at June 30, 2018 compared to 379.55% at June 30, 2017. See "Asset Quality" above for additional information related to asset quality that management considers in determining the provision for loan losses.

Impaired loans are subjected to an impairment analysis to determine an appropriate reserve amount to be held against each loan. As of June 30, 2018, the Company had identified \$6.6 million of impaired loans. Because the significant majority of the impaired loans are collateral dependent, nearly all of the specific allowances are calculated based on the estimated fair value of the collateral. Of those impaired loans, \$5.4 million have no specific valuation allowance as their estimated collateral value is equal to or exceeds the carrying costs, which in some cases is the result of previous loan charge-offs. At June 30, 2018, charge-offs on these impaired loans totaled \$460,000 from their original loan balances. The remaining \$1.1 million of impaired loans have specific valuation allowances totaling \$64,000.

**Non-Interest Income.** Non-interest income increased \$314,000 for the three months ended June 30, 2018 compared to the same prior year period. The increase resulted primarily from an increase in fees and service charges and asset management fees of \$348,000 and \$73,000, respectively, for the three months ended June 30, 2018 compared to the same prior year period. These increases were offset by a decrease in net gains on sales of loans held for sale of \$73,000.

**Non-Interest Expense.** Non-interest expense decreased \$155,000 for the three months ended June 30, 2018 compared to the same prior year period. Salaries and employee benefits increased \$156,000 for the three months ended June 30, 2018 compared to the same prior year period due to additional staffing attributable to the overall growth of the Company. Professional fees decreased \$131,000 for the three months ended June 30, 2018 compared to the same prior year period primarily due to the absence of professional fees incurred related to the MBank transaction in the prior year. FDIC insurance premium expense decreased \$69,000 for the three months ended June 30, 2018 compared to the same prior year period primarily due to a lower FDIC assessment rate for the three months ended June 30, 2018 compared to the same prior year period.

**Income Taxes.** The provision for income taxes was \$1.3 million for the three months ended June 30, 2018 and June 30, 2017. Although income before income taxes increased, the provision for income taxes remained relatively unchanged for the three months ended June 30, 2018 and 2017 as a result of utilizing a lower effective corporate income tax rate for the three months ended June 30, 2018 due to the Tax Act. Income before income taxes was \$5.7 million and \$4.0 million for the three months ended June 30, 2018 and 2017, respectively. The Company's effective tax rate for the three months ended June 30, 2018 and 2017 was 22.3% and 33.6%, respectively. As of June 30, 2018, management deemed that a valuation allowance related to the Company's deferred tax asset was not necessary. At June 30, 2018, the Company had a net deferred tax asset of \$5.0 million compared to \$4.8 million at March 31, 2018.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There has not been any material change in the market risk disclosures contained in the 2018 Form 10-K.

Item 4. Controls and Procedures

An evaluation of the Company's disclosure controls and procedures (as defined in Rule 13(a) - 15(e) of the Securities Exchange Act of 1934) as of June 30, 2018 was carried out under the supervision and with the participation of the Company's Chief Executive Officer, Chief Financial Officer and several other members of the Company's senior management. The Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures as in effect on June 30, 2018 were effective in ensuring that the information required to be disclosed by the Company in the reports it files or submits under the Securities and Exchange Act of 1934 is (i) accumulated and communicated to the Company's management (including the Chief Executive Officer and Chief Financial Officer) in a timely manner, and (ii) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. In the quarter ended June 30, 2018, the Company did not make any changes in its internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, these controls.

While the Company believes the present design of its disclosure controls and procedures is effective to achieve its goal, future events affecting its business may cause the Company to modify its disclosure controls and procedures. The Company does not expect that its disclosure controls and procedures and internal control over financial reporting will prevent all errors and fraud. A control procedure, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control procedure are met. Because of the inherent limitations in all control procedures, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns in controls or procedures can occur because of simple errors or mistakes. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any control procedure is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control procedure, misstatements attributable to errors or fraud may occur and not be detected.

RIVERVIEW BANCORP, INC. AND SUBSIDIARY  
PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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 on the Company's financial position, results of operations, or liquidity.

Item 1A. Risk Factors

There have been no material changes to the risk factors set forth in Part I. Item 1A of the Company's Form 10-K for the year ended March 31, 2018.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

Not applicable

Item 4. Mine Safety Disclosures

Not applicable

Item 5. Other Information

Not applicable

Item 6. Exhibits

(a) Exhibits:

- Purchase and Assumption Agreement among Riverview Community Bank, a federal savings bank, and
  - 2.1 Riverview Bancorp, Inc. a Washington corporation, and MBank, an Oregon state-chartered commercial bank,
  - and Merchants Bancorp, an Oregon corporation (1)
  - 3.1 Articles of Incorporation of the Registrant (2)
  - 3.2 Bylaws of the Registrant (3)
  - 4 Form of Certificate of Common Stock of the Registrant (2)
  - 10.1 Form of Employment Agreement between the Company and Kevin J. Lycklama (4)
  - 10.2 Form of Change in Control Agreement between the Company and the Bank and each of Patrick Sheaffer and
  - Kevin J. Lycklama (4)
  - 10.3 Form of Change in Control Agreement between the Company and Chris P. Cline (5)
  - 10.4 Employee Severance Compensation Plan (6)
  - 10.5 Employee Stock Ownership Plan (7)
  - 10.6 1998 Stock Option Plan (8)
  - 10.7 2003 Stock Option Plan (9)
  - 10.8 Form of Incentive Stock Option Award Pursuant to 2003 Stock Option Plan (10)
  - 10.9 Form of Non-qualified Stock Option Award Pursuant to 2003 Stock Option Plan (10)
  - 10.10 Deferred Compensation Plan (11)
  - 10.11 2017 Equity Incentive Plan (12)
  - 11 Statement of recomputation of per share earnings (See Note 5 of the Notes to Consolidated Financial
  - Statements contained herein.)
  - 31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act
  - 31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act
  - 32 Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the
  - Sarbanes-Oxley Act
- The following materials from Riverview Bancorp Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2018, formatted on Extensible Business Reporting Language (XBRL) (a) Consolidated Balance
- 101 Sheets; (b) Consolidated Statements of Income; (c) Consolidated Statements of Comprehensive Income; (d) Consolidated Statements of Shareholders' Equity (e) Consolidated Statements of Cash Flows; and (f) Notes to Consolidated Financial Statements

- (1) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed with the SEC on September 29, 2016 and incorporated herein by reference.
- (2) Filed as an exhibit to the Registrant's Registration Statement on Form S-1 (Registration No. 333-30203), and incorporated herein by reference.
- (3) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed with the SEC on August 1, 2017 and incorporated herein by reference.
- (4) Filed as an exhibit to the Registrant's Quarterly Report on Form 10-Q for the quarter ended December 31, 2014, and incorporated herein by reference.
- (5) Filed as an exhibit to the Registrant's Annual Report on Form 10-K for the year ended March 31, 2017 and incorporated herein by reference.
- (6) Filed as an exhibit to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1997, and incorporated herein by reference.
- (7) Filed as an exhibit to the Registrant's Annual Report on Form 10-K for the year ended March 31, 1998, and incorporated herein by reference.
- (8) Filed as an exhibit to the Registrant's Registration Statement on Form S-8 (Registration No. 333-66049), and incorporated herein by reference.
- (9)

Edgar Filing: RIVERVIEW BANCORP INC - Form 10-Q

Filed as an exhibit to the Registrant's Definitive Annual Meeting Proxy Statement (000-22957), filed with the Commission on June 5, 2003, and incorporated herein by reference.

(10) Filed as an exhibit to the Registrant's Quarterly Report on Form 10-Q for the quarter ended December 31, 2005, and incorporated herein by reference.

(11) Filed as an exhibit to the Registrant's Annual Report on Form 10-K for the year ended March 31, 2009 and incorporated herein by reference.

(12) Filed as Appendix A to the Registrant's Definitive Annual Meeting Proxy Statement (000-22957), filed with the Commission on June 16, 2017, and incorporated herein by reference.

42

---



SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

RIVERVIEW BANCORP, INC.

By: /S/ Kevin J. Lycklama

Kevin J. Lycklama

President and Chief Executive Officer  
Director

(Principal Executive Officer)

By: /S/ David Lam

David Lam

Executive Vice President and  
Chief Financial Officer

(Principal Executive Officer)

Date: August 9, 2018

Date: August 9, 2018

EXHIBIT INDEX

31.1      Certifications of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act

31.2      Certifications of the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act

32      Certifications of the Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act

101      The following materials from Riverview Bancorp Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2018, formatted on Extensible Business Reporting Language (XBRL) (a) Consolidated Balance Sheets; (b) Consolidated Statements of Income; (c) Consolidated Statements of Shareholders' Equity (d) Consolidated Statements of Cash Flows; and (e) Notes to Consolidated Financial Statements