RIVERVIEW BANCORP INC
Form 10-K
June 13, 2007

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

FORM 10-K

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

For the Fiscal Year Ended March 31, 2007 OR

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

Commission File Number: 0-22957

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

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

Registrant's telephone number, including area code: (360) 693-6650

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

Securities registered pursuant to Section 12(g) of the Act: Common Stock, Par Value $.01 per Share the Nasdaq Stock Market LLC
(Title of Class)

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and disclosure will not be contained, to the best of the registrant's knowledge, in any definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendments to this Form 10-K X

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act (Check One):

Large accelerated filer ___ Accelerated filer X Non-accelerated filer ___

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

The aggregate market value of the voting stock held by non-affiliates of the Registrant, based on the closing sales price of the registrant's Common Stock as quoted on the Nasdaq Global Market System under the symbol "RVSB" on September 30, 2006 was approximately $156,268,872 (11,575,472 shares at $13.50 per share). It is assumed for purposes of this calculation that none of the registrant's officers, directors and 5% stockholders (including the Riverview Bancorp, Inc. Employee Stock Ownership Plan) are affiliates. As of June 8, 2007, there were issued and outstanding 11,627,980 shares of the registrant's common stock.

DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of registrant's Definitive Proxy Statement for the 2007 Annual Meeting of Shareholders (Part III).

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PART I

Item 1. Business

General

Riverview Bancorp, Inc. ("the Company"), a Washington corporation, is the savings and loan holding company of Riverview Community Bank (the "Bank"). On July 18, 2003, the Company completed the acquisition of Today's Bancorp, Inc. ("Today's Bancorp"). The acquisition of Today's Bancorp's $122.3 million of assets and $105.1 million of deposits were accounted for using the purchase method of accounting. On April 22, 2005, the Company completed the acquisition of American Pacific Bank ("APB"). The acquisition of APB's $128.5 million of assets and $80.0 million of deposits were accounted for using the purchase method of accounting. At March 31, 2007, the Company had total assets of $820.3 million, total deposit accounts of $665.4 million and shareholders' equity of $100.2 million. The Company's executive offices are located at 900 Washington Street. All references to the Company herein include the Bank where applicable.

Substantially all of the Company's business is conducted through the Bank which is regulated by the Office of Thrift Supervision ("OTS"), its primary regulator, and by the Federal Deposit Insurance Corporation ("FDIC"), the insurer of its deposits. The Bank's deposits are insured by the FDIC up to applicable legal limits under the Savings Association Insurance Fund ("SAIF"). The Bank has been a member of the Federal Home Loan Bank ("FHLB") of Seattle since 1937.

The Company is a progressive, community-oriented financial services company, which emphasizes local, personal service to residents of its primary market area. The Company considers Clark, Cowlitz, Klickitat and Skamania counties of Washington and Multnomah, Clackamas and Marion counties of Oregon as its primary market area. The Company is engaged primarily in the business of attracting deposits from the general public and using such funds in its primary market area to originate commercial real estate, one-to-four family residential real estate, construction, and commercial and consumer loans. Commercial and construction loans have grown from 72.42% of the loan portfolio at March 31, 2003 to 89.38% at March 31, 2007. The Company's strategic plan includes targeting the commercial banking customer base in its primary market area, specifically small and medium size businesses, professionals and wealth building individuals. In pursuit of these goals, the Company emphasizes controlled growth and the diversification of its loan portfolio to include a higher portion of commercial and commercial real estate loans. A related goal is to increase the proportion of personal and business checking account deposits used to fund these new loans. Significant portions of these new loan products carry adjustable rates, higher yields or shorter terms and higher credit risk than traditional fixed-rate mortgages. The strategic plan stresses increased emphasis on non-interest income, including increased fees for asset management 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. The Company is well positioned to attract new customers and to increase its market share with 18 branches including ten in fast growing Clark county, three in the Portland metropolitan area and three lending centers.

In order to support its strategy of growth without compromising its local, personal service to its customers and a commitment to asset quality, the Company has made significant investments in experienced branch, lending, asset management and support personnel and has incurred significant costs in facility expansion. The Company's efficiency ratios reflect this investment and will likely remain relatively high by industry standards for the foreseeable future because of the emphasis on growth and local, personal service. Control of non-interest expenses remains a high priority for the Company's management.

The Company continuously reviews new products and services to give its customers more financial options. With an emphasis on growth of non-interest income and control of non-interest expense, all new technology and services are reviewed for business development and cost saving purposes. The in-house processing of checks and production of images has supported the Bank's increased service to customers and at the same time has increased efficiency. The Company continues to experience growth in customer use of its online banking services. Customers are able to

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conduct a full range of services on a real-time basis, including balance inquiries, transfers and electronic bill paying. This online service has also enhanced the delivery of cash management services to commercial customers. The internet banking branch web site is www.riverviewbank.com.

Special Note Regarding Forward-Looking Statements

Management's Discussion and Analysis and other portions of this Form 10-K contain certain "forward-looking statements" concerning the future operations of the Company. Management desires to take advantage of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995 and is including this statement for the express purpose of availing the Company of the protections of such safe harbor with respect to all "forward-looking statements" contained in the Company's Annual Report. The Company has used "forward-looking statements' to describe future plans and strategies, including its expectations of the Company's future financial results. Management's ability to predict results or the effect of future plans or strategies is inherently uncertain. Factors which could affect actual results include interest rate trends, the general economic climate in the Company's market area and the country as a whole, the ability of the Company to control costs and expenses, deposit flows, demand for mortgages and other loans, real estate value and vacancy rates, the ability of the Company to efficiently incorporate acquisitions into its operations, competition, loan delinquency rates, and changes in federal and state regulation. These factors should be considered in evaluating the "forward-looking statements," and undue reliance should not be placed on such statements. The Company does not undertake to update any forward-looking statement that may be made on behalf of the Company.

Market Area

The Company conducts operations from its home office in Vancouver and 18 branch offices in Camas, Washougal, Stevenson, White Salmon, Battle Ground, Goldendale, Vancouver (seven branch offices) and Longview, Washington and Portland, Wood Village and Aumsville, Oregon. The Company's market area for lending and deposit taking activities encompasses Clark, Cowlitz, Skamania and Klickitat counties in Washington, as well as Multnomah, Clackamas and Marion counties in Oregon, and throughout the Columbia River Gorge area. The Company operates a trust and financial services company, Riverview Asset Management Corp., located in downtown Vancouver, Washington. Riverview Mortgage, a mortgage broker division of the Company, originates mortgage loans for various mortgage companies predominantly in the Vancouver/Portland metropolitan areas, as well as for the Company. The Business and Professional Banking Division located at the downtown Vancouver headquarters and the Portland lending office offers commercial and business banking services.

Vancouver is located in Clark County, Washington, which is just north of Portland, Oregon. Many businesses are located in the Vancouver area because of the favorable tax structure and lower energy costs in Washington as compared to Oregon. Washington has no state income tax and Clark County operates a public electric utility that provides relatively lower cost electricity. Companies located in the Vancouver area included Sharp Microelectronics, Hewlett Packard, Georgia Pacific, Underwriters Laboratory and Wafer Tech, as well as several support industries. In addition to this industrial base, the Columbia River Gorge Scenic Area has been a source of tourism, which has helped to transform the area from its past dependence on the timber industry.

Lending Activities

General. At March 31, 2007, the Company's total net loans receivable, including loans held for sale, amounted to $683.0 million, or 83.3% of total assets at that date. The principal lending activity of the Company is the origination of mortgage loans through its mortgage banking activities, including loans collateralized by commercial properties, land for development, and residential construction loans. A substantial portion of the Company's loan portfolio is secured by real estate, either as primary or secondary collateral, located in its primary market area.

In prior years Riverview reported and disclosed the composition of its loan portfolio based on collateral with a focus upon residential construction and permanent financing activities a view that was consistent with Riverview's background as a thrift organization. However, since 1998 and more pronounced in recent years, Riverview has strategically migrated its lending focus to one similar to a commercial bank. This intended strategy is evident not

only in the changing mix of the loan portfolio that has occurred organically but also has been accomplished through the Company's recent acquisitions of community banks that emphasized commercial lending activities. To align with the strategic direction of the Company, and to better conform to established industry practices, we have modified certain loan disclosures to reflect the increasingly commercial nature of our loan portfolio, and to classify loan types based on loan purpose, rather than collateral. All impacted tables and loan disclosures in this Form 10-K reflect these new disclosure and the related reclassifications.

Loan Portfolio Analysis. The following table sets forth the composition of the Company's loan portfolio by type of loan at the dates indicated.

	At March 31,							
	2007		2006		2005		2004	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Per
	(Dollars in thousands)							
Commercial and construction:								
Commercial	$ 91,174	13.18%	$ 90,083	14.29%	$ 78,280	18.02%	$ 57,578	14
Other real estate mortgage	360,930	52.19	329,631	52.30	220,813	50.84	206,850	53
Real estate construction	166,073	24.01	137,598	21.83	58,699	13.51	49,042	12
Total commercial and construction	618,177	89.38	557,312	88.42	357,792	82.37	313,470	81
Consumer:								
Real estate one-to-four family	69,808	10.10	64,091	10.17	69,455	15.99	67,699	17
Other installment	3,619	0.52	8,899	1.41	7,107	1.64	4,846	1
Total consumer loans	73,427	10.62	72,990	11.58	76,562	17.63	72,545	18
Total loans and loans held for sale	691,604	100.00%	630,302	100.00%	434,354	100.00%	386,015	100
Less:								
Allowance for loan losses	8,653		7,221		4,395		4,481	
Total loans receivable, net (1)	$682,951		$623,081		$429,959		$381,534	

(1) Includes loans held for sale of none, $65,000, $510,000, $407,000 and $1.5 million at March 31, 2007, 2006, 2005, 2004 and 2003, respectively.

Loan Portfolio Composition. The following table sets forth the composition of the Company's commercial and construction loan portfolio based on loan purpose at the dates indicated.

COMPOSITION OF COMMERCIAL AND CONSTRUCTION LOAN TYPES BASED ON LOAN PURPOSE

	Commercial & Construction Total	Commercial	Other Real Estate Mortgage	Real Estate Construction
	(Dollars in thousands)			
March 31, 2007				
Commercial	$91,174	$91,174	$ -	$ -
Commercial construction	56,226	-	-	56,226
Office buildings	62,310	-	62,310	-
Warehouse/industrial	40,238	-	40,238	-
Retail/shopping centers/ strip malls	70,219	-	70,219	-
Assisted living facilities	11,381	-	11,381	-
Single purpose facilities	41,501	-	41,501	-
Land	103,240	-	103,240	-
Multi-family	32,041	-	32,041	-
One-to-four family	109,847	-	-	109,847
Total	$618,177	$91,174	$360,930	$166,073
March 31, 2006				
Commercial	$90,083	$90,083	$ -	$ -
Commercial construction	43,715	-	-	43,715
Office buildings	44,538	-	44,538	-
Warehouse/industrial	47,945	-	47,945	-
Retail/shopping centers/ strip malls	75,877	-	75,877	-
Assisted living facilities	11,576	-	11,576	-
Single purpose facilities	41,506	-	41,506	-
Land	77,084	-	77,084	-
Multi-family	31,105	-	31,105	-
One-to-four family	93,883	-	-	93,883
Total	$557,312	$90,083	$329,631	$137,598

Commercial Lending. Commercial loans are generally made to customers who are well known to the Company and are typically secured by all business assets or other property. The Company's commercial loans may be structured as term loans or as lines of credit. Commercial term loans are generally made to finance the purchase of assets and have maturities of five years or less. Commercial lines of credit are typically made for the purpose of providing working capital and usually have a term of one year or less. Lines of credit are made at variable rates of interest equal to a negotiated margin above an index rate and term loans are at either a variable or fixed rate. The Company also generally obtains personal guarantees from financially capable parties based on a review of personal financial statements.

Commercial lending involves greater risk than residential mortgage lending and involves risks that are different from those associated with residential and commercial real estate lending. Real estate lending is generally considered to be collateral based lending with loan amounts based on predetermined loan to collateral values and liquidation of the underlying real estate collateral being viewed as the primary source of repayment in the event of borrower default. Repayment of commercial business loans is often dependent on cash flow of the borrower, which may be unpredictable, and collateral securing these loans may fluctuate in value. Commercial business loans are primarily made based on the cash flow of the borrower and secondarily on the underlying collateral provided by the borrower. Most often, this collateral is accounts receivable, inventory, equipment or real estate. In the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from

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its customers. Other collateral securing loans may depreciate over time, may be difficult to appraise and may fluctuate in value based on the success of the business.

Other Real Estate Mortgage Lending. At March 31, 2007, the other real estate lending portfolio balance totaled $360.9 million, or 52.19% of total loans. The Company originates other real estate loans including office buildings, warehouse/industrial, retail, assisted living facilities, land and multi-family primarily located in our market area.

The Company actively pursues other real estate loans. Typically, these loans have higher loan balances, are more difficult to evaluate and monitor, and involve a higher degree of risk than one-to-four family residential loans. Often payments on loans secured by commercial properties are dependent on the successful operation and management of the property securing the loan or business conducted on the property securing the loan; therefore, repayment of these loans may be affected by adverse conditions in the real estate market or the economy. Because our loan portfolio contains a significant number of commercial and multifamily real estate loans with relatively large balances, the deterioration of one or a few of these loans may cause a significant increase in nonperforming loans. An increase in nonperforming loans could cause an increase in the provision for loan losses and an increase in loan charge-offs which could adversely impact our results of operations and financial condition. Compared to one-to-four family first mortgage loans, land loans may involve larger loan balances to single borrowers, and the payment experience may be dependent on the successful development of the land and the sale of the lots. These risks can be significantly impacted by supply and demand conditions. If the borrower is a corporation, personal guarantees are generally required and obtained from the corporate principals based upon a review of their personal financial statements and individual credit reports. A portion of the commercial real estate loan portfolio is relatively unseasoned and contains a higher risk of default and loss than one-to-four family residential loans.

Both fixed and adjustable-rate loans are offered on other real estate loans. Adjustable-rate other real estate loans are originated with rates that generally adjust after an initial period ranging from one to five years. Adjustable-rate other real estate loans are generally priced utilizing the Federal Home Loan Bank of Seattle's fixed advance rate for an equivalent period plus a margin ranging from 2.5% to 3.5%, with principal and interest payments fully amortizing over terms up to 25 years. These loans generally have a prepayment penalty. Both adjustable-rate mortgages and fixed-rate mortgages generally allow provisions for assumption of a loan by another borrower subject to lender approval and a 1% assumption fee.

The maximum loan-to-value ratio for other real estate loans is generally 75%

for both purchases and refinances. Appraisals are required on all properties securing other real estate loans. Independent appraisers designated by us perform appraisals. Other real estate loan borrowers with outstanding balances in excess of $500,000 are required to submit annual financial statements and tax returns. The subject property is inspected at least every two years if the loan balance exceeds $500,000. The Company attempts to minimize this risk by limiting the maximum loan-to-value ratio on land loans to 65% of the estimated developed value of the secured property. Loans on raw land may run the risk of adverse zoning changes, environmental or other restrictions on future use.

Loans originated on a fixed-rate basis generally are originated at fixed terms up to five years, with amortization terms up to 25 years. Interest rates on fixed-rate loans are generally established utilizing the Federal Home Loan Bank of Seattle's fixed advance rate for an equivalent period plus a margin. Depending on the market conditions at the time the loan was originated, certain loan agreements may include prepayment penalties.

The average size loan in the other real estate loan portfolios was approximately $694,000 as of March 31, 2007. The Company targets individual other real estate loans between $500,000 and $5.0 million; however, the loan policy allows origination of loans to one borrower up to 15% of the Bank's capital. The largest other real estate loan as of March 31, 2007 was an office building with an outstanding principal balance of $8.8 million located in Vancouver, Washington. This loan is performing according to the loan payment terms, as were all other real estate loans as of March 31, 2007, except for two non-accrual loans with a balance of $226,000.

Real Estate Construction. The real estate construction loan portfolio, not including loan commitments, totaled $166.1 million at March 31, 2007. The Company actively originates three types of residential construction loans: (i) speculative construction loans, (ii) custom/presold construction loans and (iii) construction/permanent loans. Subject to market conditions, the

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Company intends to increase its residential construction lending activities. The Company also originates construction loans for the development of multi-family and commercial properties.

The composition of the Company's construction loan portfolio including loan commitments at March 31, 2007 and 2006 was as follows:

	At March 31,			
	2007		2006	
	Amount(1)	Percent	Amount(1)	Percent
	(Dollars in thousands)			
Speculative construction	$119,944	50.59%	$111,699	53.06%
Commercial/multi-family construction	82,248	34.69	73,436	34.88
Custom/presold construction	18,818	7.93	3,752	1.78
Construction/permanent	16,096	6.79	21,631	10.28
Total	$237,106	100.00%	$210,518	100.00%

(1) Includes loans in process.

Speculative construction loans are made to home builders and are termed "speculative" because the home builder does not have, at the time of loan origination, a signed contract with a home buyer who has a commitment for permanent financing with either the Company or another lender for the finished home. The home buyer may be identified either during or after the construction period, with the risk that the builder will have to debt service the speculative construction loan and finance real estate taxes and other carrying costs of the completed home for a significant time after the completion of construction until the home buyer is identified. At March 31, 2007, the Company had 34 borrowers with aggregate outstanding speculative loan balances of more than $1.0 million, which totaled $73.5 million and were performing according to original terms.

Unlike speculative construction loans, presold construction loans are made for homes that have buyers. Presold construction loans are made to homebuilders who, at the time of construction, have a signed contract with a home buyer who has a commitment for permanent financing for the finished home from the Company or another lender. Custom construction loans are made to the homeowner. Custom/presold construction loans are generally originated for a term of 12 months. At March 31, 2007, the largest custom construction loan and presold construction loan had outstanding balances of $315,000 and $964,000, respectively, and were performing according to original terms.

Construction/permanent loans are originated to the homeowner rather than the homebuilder along with a commitment by the Company to originate a permanent loan to the homeowner to repay the construction loan at the completion of construction. The construction phase of a construction/permanent loan generally lasts six to nine months. At the completion of construction, the Company may either originate a fixed rate mortgage loan or an ARM loan or use its mortgage brokerage capabilities to obtain permanent financing for the customer with another lender. At completion of construction, the Company-originated fixed rate permanent loan's interest rate is set at a market rate and for adjustable rate loans, the interest rates adjust on their first adjustment date. See " Mortgage Brokerage," " Loan Originations, Sales and Purchases" and " Mortgage Loan Servicing." At March 31, 2007, the largest outstanding construction/permanent loan had an outstanding balance of $510,000 and was performing according to its original terms.

The Company also provides construction financing for non-residential properties such as multi-family and commercial properties. The Company has increased its commercial lending resources with the intent of increasing the amount of other real estate loan balances such as construction commercial and construction multi-family loans. The commercial construction loans outstanding at March 31, 2007 were $56.2 million and the loan commitment amount was $86.3 million. At March 31, 2007, the largest construction commercial loan had an outstanding balance of $6.2 million and was performing according to its original repayment terms.

The loan-to-value ratio, maturity and other provisions of the loans generally have reflected the Bank's policy of making less than the maximum loan permissible under applicable regulations, in accordance with sound lending practices, market conditions and the Bank's underwriting standards. The Bank's current lending policy on residential real estate construction loans generally limits the maximum loan-to-value ratio to 80% of the appraised value of the property for loans to

individuals and 75% of the appraised market value of the project for loans to developers, provided that the loan does not exceed 85% of total costs to complete the project. The minimum cash equity required for an individual construction loan is 15%. The minimum cash equity required for a developer loan is 15% of total costs, with up to 50% of appreciated land equity being considered as cash equity provided certain conditions are met. In addition, for loans to tract developers, the loan to discounted cash flow or bulk sale value generally may not exceed 85%. Development plans are required from both individuals and developers prior to making the loan. The Bank's loan officers are required to personally visit the proposed site of the development and the sites of competing developments. The Bank requires that developers maintain adequate insurance coverage. While maturity dates for residential construction loans are largely a function of the estimated construction period of the project, loans to an individual generally do not exceed one year while loans to developers generally do not exceed 18 months. Substantially all of the Bank's residential construction loans have adjustable rates of interest based on the Wall Street Journal Prime Rate and, during the term of construction, the accumulated interest is added to the principal of the loan through an interest reserve.

Construction lending affords the Company the opportunity to achieve higher interest rates and fees with shorter terms to maturity than does its single-family permanent mortgage lending. Construction lending, however, generally involves a higher degree of risk than single-family permanent mortgage lending because of the inherent difficulty in estimating both a property's value at completion of the project and the estimated cost of the project. The nature of these loans is such that they are generally more difficult to evaluate and monitor. If the estimate of construction cost proves to be inaccurate, the Company may be required to advance funds beyond the amount originally committed to permit completion of the project. Projects may also be jeopardized by disagreements between borrowers and builders and by the failure of builders to pay subcontractors. The Company addresses these risks by adhering to strict underwriting policies, disbursement procedures and monitoring practices. In addition, because the Company's construction lending is in its primary market area, changes in the local economy and real estate market could adversely affect the Company's construction loan portfolio and the Company's ability to continue to originate a significant amount of construction loans. At March 31, 2007, the Company had no construction loans on non-accrual status.

Consumer Lending. Consumer loans totaled $73.4 million at March 31, 2007, or 10.62% of total loans. Consumer lending is comprised of one-to-four family mortgage loans, home equity lines of credit, land loans for the future construction of one-to-four family homes, totaling $69.8 million, and other secured and unsecured consumer loans, totaling $3.6 million at March 31, 2007.

One-to-four family residences located in the Company's primary market area secure the majority of the residential loans. Underwriting standards require that one-to-four family portfolio loans generally be owner occupied and that loan amounts not exceed 80% or (95% with private mortgage insurance) of the lesser of current appraised value or cost of the underlying collateral. Terms typically range from 15 to 30 years, and the Company also offers balloon mortgage loans with terms of either five or seven years. The Company originates both fixed rate mortgages and adjustable rate mortgages ("ARMs") with repricing based on one-year constant maturity U.S. Treasury index or other index. The ability to generate volume in ARMs, however, is largely a function of consumer preference and the interest rate environment. At March 31, 2007, the Company had no one-to-four family residential real estate loans on non-accrual status.

In addition to originating one-to-four family loans for its portfolio, the Company is an active mortgage broker for several third party mortgage lenders. In recent periods, these mortgage brokerage activities have reduced the volume of fixed rate one-to-four family loans that are originated and sold by the Company. See " Loan Originations, Sales and Purchases" and " Mortgage Brokerage."

The Company generally sells fixed-rate mortgage loans with maturities of 15 years or more and balloon mortgages to the Federal Home Loan Mortgage Corporation ("FHLMC"), servicing retained. See "-Loan Originations, Sales and Purchases" and "-Mortgage Loan Servicing."

The Company originates a variety of consumer loans, including home equity lines of credit, home equity term loans, home improvement loans, loans for debt consolidation and other purposes, automobile loans, boat loans and savings account loans.

Consumer loans generally entail greater risk than do residential mortgage loans, particularly in the case of consumer loans that are unsecured or secured by assets that depreciate rapidly, such as mobile homes, automobiles, boats and recreational vehicles. At March 31, 2007, the Company had no consumer loans non-accrual status.

Loan Maturity. The following table sets forth certain information at March 31, 2007 regarding the dollar amount of loans maturing in the Company's portfolio based on their contractual terms to maturity, but does not include potential prepayments. Demand loans, loans having no stated schedule of repayments and no stated maturity and overdrafts are reported as due in one year or less. Loan balances are reported net of deferred fees.

	Within 1 Year	1-3 Years	After 3-5 Years	After 5-10 Years	Beyond 10 Years	Total
	(Dollars in thousands)					
Commercial and construction						
Commercial						
Adjustable rate	$53,823	$ 7,975	$ 7,242	$ 4,819	$ 61	$73,920
Fixed rate	2,541	6,053	7,557	958	145	17,254
Other real estate mortgage						
Adjustable rate	73,680	30,142	13,344	162,215	14,391	293,772
Fixed rate	10,919	21,412	18,151	15,770	906	67,158
Real estate construction						
Adjustable rate	115,553	16,831	-	9,521	1,372	143,277
Fixed rate	16,316	325	-	5,803	352	22,796
Total commercial & construction	272,832	82,738	46,294	199,086	17,227	618,177
Consumer						
Real estate one-to-four family						
Adjustable rate	37	1,095	513	513	36,331	38,489
Fixed rate	3,432	5,511	9,975	1,180	11,221	31,319
Other installment						
Adjustable rate	303	48	-	375	72	798
Fixed rate	477	724	890	463	267	2,821
Total consumer	4,249	7,378	11,378	2,531	47,891	73,427
Total net loans	$277,081	$90,116	$57,672	$201,617	$65,118	$691,604

The following table sets forth the dollar amount of all loans due one year after March 31, 2007, which have fixed interest rates or have floating or adjustable interest rates.

	Fixed-Rates	Floating or Adjustable Rates
	(In thousands)	
Commercial	$ 14,713	$ 20,097
Other real estate mortgage	56,239	220,092
Real estate construction	6,480	27,724
Real estate one-to-four family	27,887	38,452
Other installment	2,344	495
Total	$107,663	$306,860

Scheduled contractual principal repayments of loans do not reflect the actual life of such assets. The average life of a loan is substantially less than its contractual terms because of prepayments. In addition, due-on-sale clauses on loans generally give the Company the right to declare loans immediately due and payable in the event, among other things, that the borrower sells the real property. The average life of mortgage loans tends to increase, however, when current mortgage loan market rates are substantially higher than rates on existing mortgage loans and, conversely, decrease when rates on existing mortgage loans are substantially higher than current mortgage loan market rates. Furthermore, management believes that a significant number of the Company's residential mortgage loans are outstanding for a period less than their contractual terms because of the transitory nature of many of the borrowers who reside in its primary market area.

Loan Solicitation and Processing. The Company's lending activities are subject to the written, non-discriminatory, underwriting standards and loan origination procedures established by the Board of Directors and management. The customary sources of loan originations are realtors, walk-in customers, referrals and existing customers. The Company also uses commissioned loan brokers and print advertising to market its products and services.

The Company's loan approval process is intended to assess the borrower's ability to repay the loan, the viability of the loan, the adequacy of the value of the property that will secure the loan, if any, and in the case of commercial and multi-family real estate loans, the cash flow of the project and the quality of management involved with the project. The Company's lending policy requires borrowers to obtain certain types of insurance to protect the Company's interest in any collateral securing the loan. Loans are approved at various levels of management, depending upon the amount of the loan.

The Company's general permissible lending limit for loans-to-one-borrower is equal to the greater of $500,000 or 15% of unimpaired capital and surplus (except for loans fully secured by certain readily marketable collateral, in which case this limit is increased to 25% of unimpaired capital and surplus). At March 31, 2007 the Company's lending limit under this restriction was $12.7 million and, at that date, the Company's largest single loan to one borrower was $11.4 million, which was performing according to its original terms.

Loan Commitments. The Company issues commitments to originate commercial loans, commercial real estate mortgage loans, commercial construction loans, residential mortgage loans and consumer loans conditioned upon the occurrence of certain events. The Company uses the same credit policies in making commitments as it does for on-balance sheet instruments. Commitments to extend credit 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. At March 31, 2007, the Company had outstanding commitments to originate loans of $14.9 million.

Loan Originations, Sales and Purchases. While the Company originates adjustable-rate and fixed-rate loans, its ability to generate each type of loan depends upon relative customer demand for loans in its primary market area. During the years ended March 31, 2007 and 2006, the Company's total loan originations, including mortgage loans originated for sale and participations purchased, were $611.9 million and $677.8 million, respectively, of which 80.26% and 82.84%, respectively, were subject to periodic interest rate adjustment and 19.74% and 17.16%, respectively, were fixed-rate loans.

The Company customarily sells the fixed-rate residential one-to-four family mortgage loans that it originates with maturities of 15 years or more to Federal Home Loan Mortgage Corporation ("FHLMC") as part of its asset liability

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strategy. Mortgage loans are sold to FHLMC on a non-recourse basis where-by foreclosure losses are generally the responsibility of FHLMC and not the Company. Servicing is retained on loans sold to FHLMC. The sale of these loans allows the Company to continue to make loans during periods when savings flow declines or funds are not otherwise available for lending purposes; however, the Company assumes an increased risk if these loans cannot be sold in a rising interest rate environment. Changes in the level of interest rates and the condition of the local and national economies affect the amount of loans originated by the Company and demanded by investors to whom the loans are sold. Generally, the Company's residential one-to-four family mortgage loan origination, and sale and mortgage brokerage activity (described below) and, therefore, its results of operations, may be adversely affected by an increasing interest rate environment to the extent such environment results in decreased loan demand by borrowers and/or investors. Accordingly, the volume of loan originations and the profitability related to the sale or brokerage of one-to-four family mortgage loans can vary significantly from period to period. During periods of reduced loan demand, the Company's profitability may be adversely affected to the extent that we are unable to reduce expenses commensurate with the decline in loan originations.

Interest rates on residential one-to-four family mortgage loan applications are typically locked with customers and FHLMC during the application stage for periods ranging from 30 to 90 days, the most typical period being 45 days. These loans are locked with FHLMC under a best-efforts delivery program. The Company makes every effort to deliver these loans before their rate locks expire. This arrangement requires the Company to deliver the loans to FHLMC within ten days of funding. Delays in funding the loans can require a lock extension. The cost of a lock extension at times is borne by the borrower and at times by the Company. These lock extension costs paid by the Company are not expected to have a material impact to operations. This activity is managed daily.

There can be no assurance that the Company will be successful in its efforts to reduce the risk of interest rate fluctuation between the time of mortgage loan origination and the time of the ultimate sale of the loan. To the extent that the Company does not adequately manage its interest rate risk, the Company may incur significant mark-to-market losses or losses relating to the sale of such loans, adversely affecting its financial condition and results of operations.

The following table shows total loans originated, sold and repaid during the periods indicated.

	For the Years Ended March 31,		
	2007	2006	2005
	(In thousands)		
Total net loans receivable and loans held for sale at beginning of period	$623,081	$429,959	$381,534
Loans originated:			
Other real estate mortgage	122,365	191,601	98,590
Real estate construction	190,594	153,409	101,801
Commercial	210,753	258,056	163,884
Consumer	54,817	62,219	64,480
Total loans originated	578,529	665,285	428,755
Loans purchased:			
Other real estate mortgage	5,915	12,526	5,664
Real estate construction	27,311	-	-
Commercial	145	-	-
Total loans purchased	33,371	12,526	5,664
Loans sold:			
Other real estate mortgage	(11,941)	(4,931)	-
Real estate construction	(5,940)	-	-
Consumer (one-to-four family)	(17,031)	(23,402)	(22,840)
Total loans sold	(34,912)	(28,333)	(22,840)
Repayment of principal	(516,347)	(573,707)	(363,607)
American Pacific Bank acquisition	-	120,077	-
Increase (decrease) in other items, net	(771)	(2,726)	453
Net increase in loans	59,870	193,122	48,425
Total net loans receivable and loans held for sale at end of period	$682,951	$623,081	$429,959

Mortgage Brokerage. In addition to originating mortgage loans for retention in its portfolio, the Company employs ten commissioned brokers who originate mortgage loans (including construction loans) for various mortgage companies predominately in the Portland metropolitan area, as well as for the Company. The loans brokered to mortgage companies are closed in the name of and funded by the purchasing mortgage company and are not originated as an asset of the Company. In return, the Company receives a fee ranging from 1% to 1.5% of the loan amount that it shares with the commissioned broker. Loans brokered to the Company are closed on the Company's books as if the Company had originated them and the commissioned broker receives a fee of approximately 0.55% of the loan amount. During the year ended March 31, 2007, brokered loans totaled $250.7 million (including $48.0 million brokered to the Company). Gross fees of $2.2 million (excluding the portion of fees shared with the commissioned brokers) were recognized for the year ended March 31, 2007. The interest rate environment has a strong influence on the loan volume and amount of fees generated from the mortgage broker activity. In general, during periods of rising interest rates the volume of loans and the amount of loan fees generally decrease as a result of slower mortgage loan demand. Conversely, during periods of falling interest rates, the volume of loans and the amount of loan fees generally increase as a result of the increased mortgage loan demand.

Mortgage Loan Servicing. The Company is a qualified servicer for FHLMC. The Company's general policy is to close its residential loans on the FHLMC modified loan documents to facilitate future sales to FHLMC. Upon sale, the Company continues to collect payments on the loans, to supervise foreclosure proceedings, if necessary, and to otherwise service the loans.

The Company generally retains the servicing rights on the fixed-rate mortgage loans that it sells to FHLMC. At March 31, 2007, total loans serviced for others was $130.6 million, of which $110.8 million was sold to FHLMC.

The value of mortgage servicing rights is significantly affected by interest rates. In general, during periods of falling interest rates, mortgage loans repay at faster rates and the value of the mortgage servicing declines. Conversely, during periods of rising interest rates, the value of the mortgage servicing rights generally increases as a result of slower rates of prepayments. The Company may be required to recognize this decrease in value by taking a charge against its earnings, which would cause its net income to decrease. The Company has experienced stable prepayments of mortgages even as there was a slight increase in interest rates during the past two years, which has impacted the value of the servicing asset. Accordingly, the Company recognized a decrease of $25,000 and $24,000 for fiscal years ended March 31, 2007 and 2006, respectively in its valuation allowance for mortgage servicing rights reflecting the increase in mortgage interest rates and stable prepayment speeds. The Company believes, based on historical experience that the amount of prepayments and the related impairment charges should decrease as interest rates increase.

Loan Origination and Other Fees. The Company generally receives loan origination fees and discount "points." Loan fees and points are a percentage of the principal amount of the loan that is charged to the borrower for funding the loan. The Company usually charges origination fees of 1.5% to 2.0% on one-to-four family residential real estate loans, long-term commercial real estate loans and residential construction loans. Commercial loan fees are based on terms of the individual loan. Current accounting standards require fees received for originating loans to be deferred and amortized into interest income over the contractual life of the loan. Deferred fees associated with loans that are sold are recognized as gain on sale of loans. The Company had $3.7 million of net deferred loan fees at March 31, 2007. The Company also receives loan servicing fees on the loans it sells and on which it retains the servicing rights. See Note 9 of the Notes to the Consolidated Financial Statements contained in Item 8 of this Form 10-K.

Delinquencies. The Company's collection procedures for all loans except other installment loans provide for a series of contacts with delinquent borrowers. A late charge delinquency notice is first sent to the borrower when the loan secured by real estate becomes 17 days past due. A follow-up telephone call, or letter if the borrower cannot be contacted by telephone, is made when the loan becomes 22 days past due. A delinquency notice is sent to the borrower when the loan becomes 30 days past due. When payment becomes 60 days past due, a notice of default letter is sent to the borrower stating that foreclosure proceedings will commence unless the delinquency is cured. If a loan continues in a delinquent status for 90 days or more, the Company generally initiates foreclosure proceedings. In certain instances, however, the Company may decide to modify the loan or grant a limited moratorium on loan payments to enable borrowers to reorganize their financial affairs.

A delinquent installment loan borrower is contacted when the loan is 15 days past due. A letter of intent to repossess collateral is mailed to the borrower after the loan becomes 45 days past due and repossession proceedings are initiated after the loan becomes 90 days delinquent.

Delinquencies in commercial loans are handled on a case-by-case basis. Generally, notices are sent and personal contact is made with the borrower when the loan is 15 days past due. Loan officers are responsible for collecting loans they originate or that are assigned to them. Depending on the nature of the loan or type of collateral securing the loan, negotiations, or other actions, are undertaken depending upon the circumstances.

Nonperforming Assets. Loans are reviewed regularly and it is the Company's general policy that when a loan is 90 days delinquent or when collection of interest appears doubtful, it is placed on non-accrual status, at which time the accrual of interest ceases and a reserve for any unrecoverable accrued interest is established and charged against operations. Typically, payments received on non-accrual loans are applied to reduce the outstanding principal balance on a cash-basis method.

The following table sets forth information with respect to the Company's nonperforming assets. At the dates indicated, the Company had no restructured loans within the meaning of Statement of Financial Accounting Standards ("SFAS") No. 15 (as amended by SFAS No. 114), Accounting by Debtors and Creditors for Troubled Debt Restructuring.

	At March 31,				
	2007	2006	2005	2004	2003
	(Dollars in thousands)				
Loans accounted for on a non-accrual basis:					
Commercial	$ -	$ -	$ 97	$ 872	$ -
Other real estate mortgage	226	415	198	340	-
Consumer	-	-	161	89	323
Total	226	415	456	1,301	323
Accruing loans which are contractually past due 90 days or more	-	-	-	-	-
Total of non-accrual and 90 days past due loans	226	415	456	1,301	323

Real estate owned	-	-	270	742	425
Total nonperforming assets	$ 226	$ 415	$ 726	$2,043	$ 748
Total loans delinquent 90 days or more to net loans	0.03%	0.07%	0.10%	0.34%	0.11%
Total loans delinquent 90 days or more to total assets	0.03	0.05	0.08	0.25	0.08
Total nonperforming assets to total assets	0.03	0.05	0.13	0.39	0.18

The gross amount of interest income on the non-accrual loans that would have been recorded during the year ended March 31, 2007 if the non-accrual loans had been current in accordance with their original terms was approximately $12,000. For the year ended March 31, 2007, $85,000 was earned on the non-accrual loans and included in interest and fees on loans receivable interest income.

Loans not included in nonperforming or past due categories, but where information about possible credit problems causes management to be uncertain about the borrower's ability to comply with existing repayment terms, totaled $3.9 million at March 31, 2007 and $3.7 million at March 31, 2006.

Asset Classification. The OTS has adopted various regulations regarding problem assets of savings institutions. The regulations require that each insured institution review and classify its assets on a regular basis. In addition, in connection with examinations of insured institutions, OTS examiners have authority to identify problem assets and, if appropriate, require them to be classified. There are three classifications for problem assets: substandard, doubtful and loss. Substandard assets have one or more defined weaknesses and are characterized by the distinct possibility that the insured institution will sustain some loss if the deficiencies are not corrected. Doubtful assets have the weaknesses of substandard assets with the additional characteristic that the weaknesses make collection or liquidation in full on the basis of currently existing facts, conditions and values questionable, and there is a high possibility of loss. An asset classified as loss is considered uncollectible and of such little value that continuance as an asset of the institution is not warranted. If an asset or portion thereof is classified as loss, the insured institution establishes specific allowances for loan losses for the full amount of the portion of the asset classified as loss. All or a portion of general loan loss allowances established to cover possible losses related to assets classified substandard or doubtful can be included in determining an institution's regulatory capital, while specific valuation allowances for loan losses generally do not qualify as regulatory capital. Assets that do not currently expose the insured institution to sufficient risk to warrant classification in one of the aforementioned categories but possess weaknesses are designated "special mention" and monitored by the Company.

The aggregate amount of the Company's classified assets, general loss allowances, specific loss allowances and charge-offs were as follows at the dates indicated:

	At or For the Year Ended March 31,	
	2007	2006
	(In thousands)	
Substandard assets	$4,143	$4,066
Doubtful assets	-	-
Loss assets	-	-
General loss allowances	8,623	7,221
Specific loss allowances	30	-
Charge-offs	186	711

The loans classified as substandard assets at March 31, 2007 are made up of nine real estate secured commercial loans totaling $1.2 million, two commercial real estate construction loans totaling $2.0 million and ten commercial loans totaling $967,000.

Real Estate Owned. Real estate properties acquired through foreclosure or by deed-in-lieu of foreclosure is recorded at the lower of cost or fair value less estimated costs of disposal. Management periodically performs valuations and an allowance for loan losses is established by a charge to operations if the carrying value exceeds the estimated net realizable value. At March 31, 2007 and 2006, the Company owned no real estate properties acquired through foreclosure.

Allowance for Loan Losses. The Company maintains an allowance for loan losses to provide for losses inherent in the loan portfolio. The adequacy of the allowance is evaluated monthly to maintain the allowance at levels sufficient to provide for inherent losses. A key component to the evaluation is the Company's internal loan review and loan classification system. The internal loan review system provides for at least an annual review by the internal audit department of all loans that meet selected criteria. The Problem Loan Committee reviews and monitors the risk and quality of the Company's loan portfolio. The Problem Loan Committee members include the Executive Vice President Chief Credit Officer, Chairman and Chief Executive Officer, President and Chief Operating Officer, Senior Vice President and Chief Financial Officer, Senior Vice President of Credit Administration, and Vice President of Special Assets. Credit officers are expected to monitor their portfolios and make recommendations to change loan grades whenever changes are warranted. At least annually, loans that are delinquent 60 days or more and with specified outstanding loan balances are subject to review by the internal audit department. Credit Administration approves any changes to loan grades and monitors loan grades.

The Company uses the OTS loan classifications of special mention, substandard, doubtful and loss plus the additional loan classifications of pass and watch in order to assign a loan grade to be used in the determination of the proper amount of allowance for loan losses. The definition of a pass classification represents a level of credit quality, which contains no well-defined deficiency or weakness. The definition of watch classification is used to identify a loan that currently contains no well-defined deficiency or weakness, but management has deemed it desirable to closely monitor the loan.

The Company uses the loan classifications from the internal loan review and Credit Administration in the following manner to determine the amount of the allowance for loan losses. The calculation of the allowance for loan losses must consider loan classification in order to determine the amount of the allowance for loan losses for the required three separate elements of the allowance for losses: general allowances, allocated allowances and unallocated allowances.

The general allowance element relates to assets with no well-defined deficiency or weakness such as assets classified pass or watch, and takes into consideration loss that is embedded within the portfolio but has not been realized. Borrowers are impacted by events that may ultimately result in a loan default and eventual loss well in advance of a lender's knowledge. Examples of such loss-causing events in the case of installment or one-to-four family residential loans would be a borrower job loss, divorce or medical crisis. Examples in commercial or construction loans may be loss of customers as a result of competition or changes in the economy. General allowances for each major loan type are determined by applying loss

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factors that take into consideration past loss experience, asset duration, economic conditions and overall portfolio quality to the associated loan balance.

The allocated allowance element relates to assets with well-defined deficiencies or weaknesses such as assets classified special mention, substandard, doubtful or loss. The OTS loss factors are applied against current classified asset balances to determine the amount of allocated allowances. Included in these allowances are those amounts associated with loans where it is probable that the value of the loan has been impaired and the loss can be reasonably estimated.

The unallocated allowance element is more subjective and is reviewed quarterly to take into consideration estimation errors and economic trends that are not necessarily captured in determining the general and allocated allowance.

The change in the balance of the allowance for loan losses at March 31, 2007 reflects the proportionate increase in loan balances, the change in mix of loan balances and a change in loss rate when compared to March 31, 2006. The mix of the loan portfolio showed an increase in the loan balances of commercial, other real estate and real estate construction as well as a slight increase in consumer at March 31, 2007 as compared to balances at March 31, 2006. Substandard assets and assets classified as doubtful were unchanged at $4.1 million at March 31, 2007 and 2006.

At March 31, 2007, the Company had an allowance for loan losses of $8.7 million, or 1.25% of total outstanding net loans at that date. The allowance for loan losses, including unfunded commitments of $380,000, was $9.0 million, or 1.31% of net loans at March 31, 2007. Based on past experience and probable losses inherent in the loan portfolio, management believes that loan loss reserves are adequate.

While the Company believes it has established its existing allowance for loan losses in accordance with accounting principles generally accepted in the United States of America ("generally accepted accounting principles" or "GAAP"), there can be no assurance that regulators, in reviewing the Company's loan portfolio, will not request the Company to increase significantly its allowance for loan losses, thereby negatively affecting the Company's financial condition and results of operations. The following table sets forth an analysis of the Company's allowance for loan losses for the periods indicated.

	Year Ended March 31,				
	2007	2006	2005	2004	2003
	(Dollars in thousands)				
Balance at beginning of period	$7,221	$4,395	$4,481	$2,739	$2,537
Provision for loan losses	1,425	1,500	410	210	727
Recoveries:					
Commercial and construction					
Commercial	165	87	156	74	63
Real estate construction	-	-	-	-	-
Total commercial and construction	165	87	156	74	63
Consumer					
Residential real estate	-	48	-	7	15
Other installment	28	14	17	10	-
Total consumer	28	62	17	17	15
Total recoveries	193	149	173	91	78
Charge-offs:					
Commercial and construction					
Commercial	172	577	490	882	136
Real estate construction	-	-	-	-	-
Total commercial and construction	172	577	490	882	136
Consumer					
Residential real estate	-	41	149	85	224
Other installment	14	93	30	215	68
Total consumer	14	134	179	300	292
Total charge-offs	186	711	669	1,182	428
Net charge-offs (recoveries)	(7)	562	496	1,091	350
Allowance acquired from Today's Bank	-	-	-	2,639	-
Allowance acquired from American Pacific Bank	-	1,888	-	-	-
Net change in allowance for unfunded loan commitments	-	-	-	(16)	(175)
Balance at end of period	$8,653	$7,221	$4,395	$4,481	$2,739
Ratio of allowance to total loans outstanding at end of period	1.25%	1.15%	1.01%	1.16%	0.90%
Ratio of net charge-offs to average net loans outstanding during period	-	0.10	0.13	0.31	0.12
Ratio of allowance to total of non-					

accrual and 90 days past due loans	3,829	1,740	964	344	848

Changes in the allowance for unfunded loan commitments:

	Year Ended March 31,				
	2007	2006	2005	2004	2003
	(Dollars in thousands)				
Balance at beginning of period	$ 362	$ 253	$ 191	$ 175	$ -
Net change in allowance for unfunded loan commitments	18	109	62	16	175
Balance at end of period	$ 380	$ 362	$ 253	$ 191	$ 175

The following table sets forth the breakdown of the allowance for loan losses by loan category an
specific loan loss factor to the outstanding balances of related loan category as of the date of
for the periods indicated.

	At March 31,							
	2007		2006		2005		2004	
	Amount	Loan Category as a Percent of Total Loans	Amount	Loan Category as a Percent of Total Loans	Amount	Loan Category as a Percent of Total Loans	Amount	Loa Catego as a Perce of Tota Loan
	(Dollars in thousands)							
Commercial and construction:								
Commercial	$1,553	13.18%	$1,549	14.29%	$1,834	18.02%	$1,589	14.9
Other real estate mortgage	4,066	52.19	3,553	52.30	1,863	50.84	2,426	53.5
Real estate construction	2,060	24.01	1,365	21.83	276	13.51	155	12.7
Consumer:								
Real estate one-to-four family	333	10.10	292	10.17	278	15.99	264	17.5
Other installment	63	0.52	168	1.41	144	1.64	37	1.2
Unallocated	578	-	294	-	-	-	10	
Total allowance for loan losses	$8,653	100.00%	$7,221	100.00%	$4,395	100.00%	$4,481	100.0

Investment Activities

OTS regulated institutions have authority to invest in various types of liquid assets, including U.S. Treasury obligations, securities of various federal agencies and of state and municipal governments, deposits at the applicable FHLB, certificates of deposit of federally insured institutions, certain bankers' acceptances and federal funds. Subject to various restrictions, OTS regulated institutions may also invest a portion of their assets in commercial paper, corporate debt securities and mutual funds, the assets of which conform to the investments that federally chartered savings institutions are otherwise authorized to make directly.

Federal regulations require the Bank to maintain a minimum sufficient liquidity to ensure its safe and sound operation. Liquid assets include cash, cash equivalents consisting of short-term interest-earning deposits, certain other time deposits, and other obligations generally having remaining maturities of less than five years. It is management's intention to hold securities with short maturities in the investment portfolio in order to match more closely the interest rate sensitivities of the Company's assets and liabilities. At March 31, 2007, the Bank's liquidity ratio, the ratio of cash and eligible investments to the sum of withdrawable savings and borrowings due within one year, was 4.98%.

The Investment Committee, composed of the Company's Chairman, President, Chief Financial Officer, Controller, and one outside Director make investment decisions. The Company's investment objectives are: (i) to provide and maintain liquidity within regulatory guidelines; (ii) to maintain a balance of high quality, diversified investments to minimize risk; (iii) to provide collateral for pledging requirements; (iv) to serve as a balance to earnings; and (v) to optimize returns. At March 31, 2007, the Company's investment and mortgage-backed securities portfolio totaled $27.1 million and consisted primarily of obligations of federal agencies, and Federal National Mortgage Association ("FNMA") and FHLMC mortgage-backed securities.

At March 31, 2007, the Company's investment securities portfolio did not contain any tax-exempt securities of any issuer with an aggregate book value in excess of 10% of the Company's consolidated shareholders' equity, excluding those securities issued by the U.S. Government or its agencies.

The Board of Directors sets the investment policy of the Company which dictates that investments be made based on the safety of the principal amount, liquidity requirements of the Company and the return on the investments. At March 31, 2007, no investment securities were held for trading. The policy does not permit investment in non-investment grade bonds and permits investment in various types of liquid assets permissible under OTS regulation, which includes U.S. Treasury obligations, securities of various federal agencies, "bank qualified" municipal bonds, certain certificates of deposit of insured banks, repurchase agreements and federal funds.

The Company has adopted SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities, which requires the classification of securities at acquisition into one of three categories: held to maturity, available for sale or trading. See Note 1 of the Notes to the Consolidated Financial Statements contained in Item 8 of this Form 10-K.

The following table sets forth the investment securities portfolio and carrying values at the dat
of the investment and mortgage-backed securities portfolio was $27.2 million, $34.0 million and $

2007, 2006 and 2005, respectively.

	At March 31,				
	2007		2006		
	Carrying Value	Percent of Portfolio	Carrying Value	Percent of Portfolio	Ca
			(Dollars in thousands)		
Held to maturity (at amortized cost):					
Real estate mortgage investment conduits ("REMICs")	$ 923	3.40%	$ 1,402	4.13%	$
FHLMC mortgage-backed securities	116	0.43	138	0.41	
FNMA mortgage-backed securities	193	0.71	265	0.78	
	1,232	4.54	1,805	5.32	
Available for sale (at fair value):					
Agency securities	10,740	39.57	15,028	44.25	
REMICs	1,083	4.00	1,338	3.94	
FHLMC mortgage-backed securities	5,439	20.04	6,635	19.54	
FNMA mortgage-backed securities	118	0.43	161	0.47	
Municipal securities	3,508	12.93	3,950	11.63	
Trust preferred securities	5,019	18.49	5,044	14.85	
	25,907	95.46	32,156	94.68	
Total investment securities	$27,139	100.00%	$33,961	100.00%	$

The following table sets forth the maturities and weighted average yields in the securities portf

	Less Than One Year		One to Five Years		More Than Five to Ten Years		
	Amount	Weighted Average Yield(1)	Amount	Weighted Average Yield(1)	Amount	Weighted Average Yield(1)	Am
			(Dollars in thousands)				
Municipal securities	$ 571	4.08%	$ 1,033	4.27%	$ 637	4.83%	$ 1
Agency securities	10,740	3.78	-	-	-	-	
REMICs	-	-	73	6.50	407	5.02	1
FHLMC mortgage-backed securities	-	-	-	-	5,439	4.02	
FNMA mortgage-backed securities	-	-	-	-	98	6.22	
Trust preferred securities	-	-	-	-	-	-	5
Total	$11,311	3.79%	$ 1,106	4.42%	$ 6,581	4.19%	$ 8

(1) For available for sale securities carried at fair value, the weighted average yield is computed using amortized cost without a tax equivalent adjustment for tax-exempt obligatio

In addition to U.S. Government treasury obligations, the Company invests in mortgage-backed securities and REMIC's. Mortgage-backed securities ("MBS"), which are also known as mortgage participation certificates or pass-through certificates, represent a participation interest in a pool of single-family or multi-family mortgages. Principal and interest payments on mortgage-backed securities are passed from the mortgage originators, through intermediaries such as FNMA, FHLMC, the Government National Mortgage Association ("GNMA") or private issuers that pool and repackage the participation interests in the form of securities to investors such as the Company. Mortgage-backed securities generally increase the quality of the Company's assets by virtue of the guarantees that back them, are more liquid than individual mortgage loans and may be used to collateralize borrowings or other obligations of the Company. See Note 5 of the Notes to the Consolidated Financial Statements contained in Item 8 of this Form 10-K for additional information.

REMICs are created by redirecting the cash flows from the pool of mortgages or mortgage-backed securities underlying these securities to create two or more classes, or tranches, with different maturity or risk characteristics designed to meet a variety of investor needs and preferences. Management believes these securities may represent attractive alternatives relative to other investments because of the wide variety of maturity, repayment and interest rate options available. Current investment practices of the Company prohibit the purchase of high risk REMICs. At March 31, 2007, the Company held REMICs with a net carrying value of $2.0 million, of which $900,000 were classified as held-to-maturity and $1.1 million of which were available-for-sale. REMICs may be sponsored by private issuers, such as mortgage bankers or money center banks, or by U.S. Government agencies and government-sponsored entities. At March 31, 2007, the Company owned no privately issued REMICs. See Note 5 of the Notes to the Consolidated Financial Statements contained in Item 8 of this Form 10-K for additional information.

Investments in mortgage-backed securities, including REMICs, involve a risk that actual prepayments will be greater than estimated prepayments over the life of the security, which may require adjustments to the amortization of any premium or accretion of any discount relating to such instruments thereby reducing the net yield on such securities. There is also reinvestment risk associated with the cash flows from such securities. In addition, the market value of such securities may be adversely affected by changes in interest rates.

The investment in municipal securities was $3.5 million at March 31, 2007 compared to $4.0 million at March 31, 2006.

Deposit Activities and Other Sources of Funds

General. Deposits, loan repayments and loan sales are the major sources of the Company's funds for lending and other investment purposes. Loan repayments are a relatively stable source of funds, while deposit inflows and outflows and loan prepayments are significantly influenced by general interest rates and money market conditions. Borrowings may be used on a short-term basis to compensate for reductions in the availability of funds from other sources. They may also be used on a longer-term basis for general business purposes.

Deposit Accounts. The Company attracts deposits from within its primary market area by offering a broad selection of deposit instruments, including demand deposits, negotiable order of withdrawal ("NOW") accounts, money market accounts, regular savings accounts, certificates of deposit and retirement savings plans. Historically, the Company has focused on retail deposits. Expansion in commercial lending has led to growth in business deposits including demand deposit accounts. Deposit account terms vary according to the minimum balance required, the time periods the funds must remain on deposit and the interest rate, among other factors. In determining the terms of its deposit accounts, the Company considers the rates offered by its competition, profitability to the Company, matching deposit and loan products and customer preferences and concerns. The Company generally reviews its deposit mix and pricing weekly.

Deposit Balances

The following table sets forth information concerning the Company's certificates of deposit, other interest-bearing and non-interest bearing deposits at March 31, 2007.

Interest Rate	Term	Category	Minimum Amount	Balance	Percent of Total Deposits
				(Dollars in thousands)	
3.193%	None	Interest checking	$ 100	$144,451	21.71%
0.550	None	Regular savings	500	29,472	4.43
4.615	None	Money market	2,500	205,007	30.81
None	None	Non-interest checking	100	86,601	13.01
	Total transaction accounts			465,531	69.96
		Certificates of Deposit			
4.823	91 Days	Fixed-term, Fixed-rate	2,500	22,049	3.32
4.935	182-364 Days	Fixed-term, Fixed-rate	2,500	30,825	4.63
4.800	12-17 Months	Fixed-term, Fixed-rate	2,500	55,820	8.39
4.470	18 Months	Fixed-term, Variable rate, Individual Retirement account("IRA")	100	2,410	0.36
4.067	18-23 Months	Fixed-term, Fixed-rate	2,500	1,540	0.23
4.499	24-35 Months	Fixed-term, Fixed-rate	2,500	42,848	6.44
4.626	36-59 Months	Fixed-term, Fixed-rate	2,500	24,076	3.62
4.271	60-83 Months	Fixed-term, Fixed-rate	2,500	12,855	1.93
4.680	84-120 Months	Fixed-term, Fixed-rate	2,500	7,451	1.12
	Total certificates of deposit			199,874	30.04
	Total deposits			$665,405	100.00%

Deposit Flow

The following table sets forth the balances of deposit accounts in the various types offered by t indicated.

	At March 31,	
	2007	2006

	Balance	Percent	Increase/ (Decrease)	Balance	Percent	Increase/ (Decrease)	Ba
				(Dollars in thousands)			
Non-interest-bearing demand	$ 86,601	13.01%	$ (7,991)	$ 94,592	15.58%	$ 15,093	$ 7
Interest checking	144,451	21.71	14,994	129,457	21.33	13,228	11
Regular savings accounts	29,472	4.43	(8,872)	38,344	6.32	2,831	3
Money market accounts	205,007	30.81	67,556	137,451	22.65	61,120	7
Certificates of deposit which mature (1):							
Within 12 months	144,210	21.67	14,051	130,159	21.44	53,101	7
12-36 months	46,884	7.05	(18,795)	65,679	10.82	26,573	3
Beyond 36 months	8,780	1.32	(2,502)	11,282	1.86	(21,860)	3
Total	$665,405	100.00%	$ 58,441	$606,964	100.00%	$150,086	$45

(1) IRAs of $17.9 million, $16.6 million and $15.4 million at March 31, 2007, 2006 and 2005,
included in certificates of deposit balances.

(2) The April 22, 2005 acquisition of APB deposits included $38.1 million in transaction acco
million in certificates of deposit.

Certificates of Deposit by Rates and Maturities

The following table sets forth the certificates of deposit classified by rates as of the dates indicated.

	At March 31, 2007	2006	2005
	(In thousands)		
Below 2.00%	$ 186	$ 2,257	$ 34,136
2.00 - 2.99%	1,381	22,012	37,157
3.00 - 3.99%	19,636	90,763	36,216
4.00 - 4.99%	120,987	85,746	30,277
5.00 - 5.99%	57,557	6,063	9,670
6.00 - 7.99%	127	279	1,850
Total	$199,874	$207,120	$149,306

The following table sets forth the amount and maturities of certificates of deposit at March 31, 2007.

	Amount Due: Less Than One Year	1 to 2 Years	After 2 to 3 Years	After 3 Years	Total
	(In thousands)				
Below 2.00%	$ 186	$ -	$ -	$ -	$ 186
2.00 - 2.99%	1,273	55	15	38	1,381
3.00 - 3.99%	14,328	2,747	1,663	898	19,636

4.00 - 4.99%	81,428	30,795	2,078	6,686	120,987
5.00 - 5.99%	46,970	9,197	232	1,158	57,557
6.00 - 7.99%	25	102	-	-	127
Total	$144,210	$ 42,896	$3,988	$ 8,780	$199,874

The following table presents the amount and weighted average rate of certificates of deposit equal to or greater than $100,000 at March 31, 2007.

Maturity Period	Amount	Weighted Average Rate
	(Dollars in thousands)	
Three months or less	$ 42,620	4.82%
Over three through six months	16,172	4.86
Over six through 12 months	15,685	4.87
Over 12 Months	24,854	4.73
Total	$ 99,331	4.81%

Deposit Activities

The following table sets forth the deposit activities of the Company for the periods indicated.

	Year Ended March 31, 2007	2006	2005
	(Dollars in thousands)		
Beginning balance	$606,964	$456,878	$409,115
Net increase before interest credited	38,198	137,743	42,342
Interest credited	20,243	12,343	5,421
Net increase in savings deposits	58,441	150,086	47,763
Ending balance	$665,405	$606,964	$456,878

Borrowings. Deposits are the primary source of funds for the Company's lending and investment activities and for its general business purposes. The Company relies upon advances from the FHLB of Seattle to supplement its supply of lendable funds and to meet deposit withdrawal requirements. Advances from the FHLB of Seattle are typically secured by the Bank's commercial real estate loans, first mortgage loans and investment securities.

The FHLB functions as a central reserve bank providing credit for savings and loan associations and certain other member financial institutions. As a member, the Bank is required to own capital stock in the FHLB and is authorized to apply for advances on the security of such stock and certain of its mortgage loans and other assets (principally securities which are obligations of, or guaranteed by, the United States) provided certain standards related to creditworthiness have been met. Advances are made pursuant to several different programs. Each credit program has its own interest rate and range of maturities. Depending on the program, limitations on the amount of advances are based either on a fixed percentage of an institution's assets or on the FHLB's assessment of the institution's creditworthiness. The FHLB determines specific lines of credit for each member institution and the Bank has a 30% of total assets line of credit with the FHLB of Seattle to the extent the Bank provides qualifying collateral and holds sufficient FHLB stock. At March 31, 2007, the Bank had $35.1 million of outstanding advances from the FHLB of Seattle under an available credit facility of $249.9 million, which is limited to available collateral.

The following tables set forth certain information concerning the Company's FHLB borrowings at the dates and for the periods indicated.

	At March 31,		
	2007	2006	2005
Weighted average rate on FHLB advances	5.66%	4.65%	5.05%

	Year Ended March 31,		
	2007	2006	2005
	(Dollars in thousands)		
Maximum amounts of FHLB advances outstanding at any month end	$90,000	$66,400	$43,000
Average FHLB advances outstanding	68,300	51,091	40,274
Weighted average rate on FHLB advances	5.26%	4.44%	5.00%

In addition, the Bank has a Fed Funds borrowing facility with Pacific Coast Bankers' Bank with a guideline limit of $10 million through June 30, 2007. The facility may be reduced or withdrawn at any time. As of March 31, 2007,

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the Bank did not have any outstanding advances on this facility.

In December 2005 a wholly owned subsidiary grantor trust established by the Company issued $7.0 million of pooled Trust Preferred Securities ("trust preferred securities"). Trust preferred securities accrue and pay distributions periodically at specified rates as provided in the amended and restated declaration of trust. The trust used the net proceeds from the offering to purchase a like amount of Junior Subordinated Debentures (the "Debentures") of the Company which pays interest at the same rate as distribution on the trust preferred securities. 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 mandatory redeemable upon the maturity of the Debentures, or upon earlier redemption as provided in the indenture. The Company has the right to redeem the Debentures in whole or in part five years after issuance on any coupon date, at a redemption price specified in the indentures plus any accrued but unpaid interest to the redemption date.

The following table is a summary of junior subordinated debentures securities at March 31, 2007:

	Preferred			
Issuance	Security	Initial	Rate at	Maturing

Issuance trust	Date	Amount	Rate Type	Rate	3/31/07	Date
	(Dollars in thousands)					
Riverview Bancorp, Inc. Statutory Trust 1	12/2005	$7,000	Variable	5.88%	6.71%	12/2035

The total amount of trust preferred securities outstanding at December 31, 2005 was $7.0 million. The interest rates on the trust preferred securities reset quarterly and is tied to the London Interbank Offered Rate ("LIBOR"). The Company has the right to redeem the Debentures in December 2010.

The Debentures issued by the Company to the grantor trusts, totaling $7.0 million, are reflected in our consolidated balance sheet in the liabilities section at December 31, 2005, under the caption "Junior subordinated debentures." The Company recorded $217,000 in other assets in the consolidated balance sheet at March 31, 2007, for the common capital securities issued by the issuer trusts. The Company invested $5.0 million of the trust preferred securities proceeds in the Bank and retained the remaining $2.0 million for general corporate purposes.

Taxation

For details regarding the Company's taxes, see Note 14 of the Notes to the consolidated financial statements contained in Item 8 of this Form 10-K.

Personnel

As of March 31, 2007, the Company had 255 full-time equivalent employees, none of whom are represented by a collective bargaining unit. The Company believes its relationship with its employees is good.

Corporate Information

The Company's principal executive offices are located at 900 Washington Street, Vancouver, Washington 98660. Its telephone number is (360) 693-6650. The Company maintains a website with the address www.riverviewbank.com. The information contained on the Company's website is not included as a part of, or incorporated by reference into, this Annual Report on Form 10-K. Other than an investor's own Internet access charges, the Company makes available free of charge through its website the Annual Report on Form 10-K, quarterly reports on Form 10-K and current reports on Form 8-K, and amendments to these reports, as soon as reasonably practicable after it has electronically filed such material with, or furnished such material to, the Securities and Exchange Commission.

Subsidiary Activities

Under OTS regulations, the Bank is authorized to invest up to 3% of its assets in subsidiary corporations, with amounts in excess of 2% only if primarily for community purposes. At March 31, 2007, the Bank's investments of $940,000 in Riverview Services, Inc. ("Riverview Services"), its wholly owned subsidiary, and $1.1 million in Riverview Asset Management Corp. ("RAMCorp"), an 85% owned subsidiary were within these limitations.

Riverview Services acts as a trustee for deeds of trust on mortgage loans granted by the Bank, and receives a reconveyance fee of approximately $70 for each deed of trust. Riverview Services had net income of $46,800 for the fiscal year ended March 31, 2007 and total assets of $942,500 at that date. Riverview Services' operations are included in the Consolidated Financial Statements of the Company.

RAM Corp is an asset management company providing trust, estate planning and investment management services. RAM Corp commenced business in December 1998 and had net income of $382,100 for the fiscal year ended March 31, 2007 and total assets of $1.6 million at that date. RAM Corp earns fees on the management of assets held in fiduciary or agency capacity. At March 31, 2007, the fair market value of total assets under management approximated $285.6 million. RAM Corp's operations are included in the Consolidated Financial Statements of the Company.

Executive Officers. The following table sets forth certain information regarding the executive officers of the Company.

Name	Age (1)	Position
Patrick Sheaffer	67	Chairman of the Board and Chief Executive Officer
Ronald A. Wysaske	54	President and Chief Operating Officer
David A. Dahlstrom	56	Executive Vice President and Chief Credit Officer
Ronald L. Dobyns	58	Senior Vice President and Chief Financial Officer
John A. Karas	58	Senior Vice President
James D. Baldovin	48	Senior Vice President Retail Banking

(1) At March 31, 2007

Patrick Sheaffer is Chairman of the Board and Chief Executive Officer of the Company and Chief Executive Officer of the Bank. Prior to February 2004, Mr. Sheaffer served as Chairman of the Board, President and Chief Executive Officer of the Company since inception in 1997. He became Chairman of the Board of the Bank in 1993. Mr. Sheaffer joined the Bank in 1965. He is responsible for leadership and management of the Company. Mr. Sheaffer is active in numerous professional and civic organizations.

Ronald A. Wysaske is President and Chief Operating Officer of the Bank. Prior to February 2004, Mr. Wysaske served as Executive Vice President, Treasurer and Chief Financial Officer of the Bank from 1981 to 2004 and of the Company at inception in 1997. He joined the Bank in 1976. Mr. Wysaske is responsible for daily operations and management of the Bank. He holds an M.B.A. from Washington State University and is active in numerous professional and civic organizations.

David A. Dahlstrom, Executive Vice President and Chief Credit Officer, was hired in May 2002. He is responsible for all Riverview lending divisions related to its commercial, mortgage and consumer loan activities. Prior to joining Riverview, Mr. Dahlstrom spent 14 years with First Interstate and progressed through a number of management positions, including serving as Senior Vice President of the Business Banking Group in Portland. In 1999, Mr. Dahlstrom joined a regional bank as Executive Vice President/Community Banking, responsible for all branch operations and small business banking.

Ronald L. Dobyns is Senior Vice President and Chief Financial Officer of the Company. Prior to February 2004, Mr. Dobyns served as Controller since 1996. He is responsible for accounting, SEC reporting as well as treasury functions for the Bank and the Company. He is a State of Oregon certified public accountant, holds an M.B.A. from the University of Minnesota and is a graduate of Pacific Coast Banking School.

John A. Karas, Senior Vice President of the Bank, also serves as Chairman of the Board, President and CEO of our subsidiary, Riverview Asset Management Corp. Mr. Karas has been employed by the Company since 1999 with over 20 years of trust experience. He is familiar with all phases of the trust business and his experience includes trust administration, trust legal council, investments and real estate. Mr. Karas received his B.A. from Willamette University and his Juris Doctor degree from Lewis & Clark Law School's Northwestern School of Law. He is a member of the Oregon, Multnomah County and American Bar Associations and is a Certified Trust and Financial Advisor. Mr. Karas is also active in numerous civic organizations.

James D. Baldovin is Senior Vice President of Retail Banking and is responsible for the Bank's branch banking network, customer service, sales and community development. Mr. Baldovin has been employed by the Bank since January 2003 and has over 22 years of banking expertise in developing and leading sales and service cultures. He holds a Bachelor of Arts degree in economics from Linfield College and is a graduate of the Pacific Coast Banking School.

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REGULATION

The following is a brief description of certain laws and regulations which are applicable to the Company and the Bank. The description of these laws and regulations, as well as descriptions of laws and regulations contained elsewhere herein, does not purport to be complete and is qualified in its entirety by reference to the applicable laws and regulations.

Legislation is introduced from time to time in the United States Congress that may affect the Company's operations. In addition, the regulations governing us may be amended from time to time by the OTS. Any such legislation or regulatory changes in the future could adversely affect us. We cannot predict whether any such changes may occur.

General

As a federally chartered savings institution, the Bank is subject to extensive regulation, examination and supervision by the OTS, as its primary federal regulator, and the FDIC, as the insurer of its deposits. The Bank is a member of the FHLB System and its deposit accounts are insured up to applicable limits by the Deposit Insurance Fund, which is administered by the FDIC. The Bank must file reports with the OTS and the FDIC concerning its activities and financial condition in addition to obtaining regulatory approvals prior to entering into certain transactions such as mergers with, or acquisitions of, other financial institutions. There are periodic examinations by the OTS and, under certain circumstances, the FDIC to evaluate the Bank's safety and soundness and compliance with various regulatory requirements. This regulatory structure is intended primarily for the protection of the insurance fund and depositors. The regulatory structure also gives the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to the classification of assets and the establishment of adequate loan loss reserves for regulatory purposes. Any change in such policies, whether by the OTS, the

FDIC or Congress, could have a material adverse impact on the Company and the Bank and their operations. The Company, as a savings and loan holding company, is required to file certain reports with, is subject to examination by, and otherwise must comply with the rules and regulations of the OTS. The Company is also subject to the rules and regulations of the SEC under the federal securities laws. See "-- Savings and Loan Holding Company Regulations."

Federal Regulation of Savings Institutions

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

In addition, the investment, lending and branching authority of the Bank also are prescribed by federal laws, which prohibit the Bank from engaging in any activities not permitted by these laws. For example, no savings institution may invest in non-investment grade corporate debt securities. In addition, the permissible level of investment by federal institutions in loans secured by non-residential real property may not exceed 400% of total capital, except with approval of the OTS. Federal savings institutions are also generally authorized to branch nationwide. The Bank is in compliance with the noted restrictions.

All savings institutions are required to pay assessments to the OTS to fund the agency's operations. The general assessments, paid on a semi-annual basis, are determined based on the savings institution's total assets, including consolidated subsidiaries. The Bank's OTS assessment for the fiscal year ended March 31, 2007 was $168,400.

The Bank's general permissible lending limit for loans-to-one-borrower is equal to the greater of $500,000 or 15% of unimpaired capital and surplus (except for loans fully secured by certain readily marketable collateral, in which case this limit is increased to 25% of unimpaired capital and surplus). At March 31, 2007, the Bank's lending limit under this restriction was $12.7 million and, at that date, the Bank's largest loans to one borrower was $11.4 million, which was performing according to its original terms.

The OTS, as well as the other federal banking agencies, has adopted guidelines establishing safety and soundness standards on such matters as loan underwriting and documentation, asset quality, earnings standards, internal controls and audit systems, interest rate risk exposure and compensation and other employee benefits. Any institution that fails to comply with these standards must submit a compliance plan.

Federal Home Loan Bank System. The Bank is a member of the FHLB of Seattle, which is one of 12 regional FHLBs that administer the home financing credit function of savings institutions. Each FHLB serves as a reserve or central bank for its members within its assigned region. It is funded primarily from proceeds derived from the sale of consolidated obligations of the FHLB System. It makes loans or advances to members in accordance with policies and procedures, established by the Board of Directors of the FHLB, which are subject to the oversight of the Federal Housing Finance Board. All advances from the FHLB are required to be fully secured by sufficient collateral as determined by the FHLB. In addition, all long-term advances are required to provide funds for residential home financing. See Business - Deposit Activities and Other Sources of Funds - Borrowings.

As a member, the Bank is required to purchase and maintain stock in the FHLB of Seattle. At March 31, 2007, the Bank had $7.4 million in FHLB stock, which was in compliance with this requirement. In past years, the Bank has received substantial dividends on its FHLB stock until such dividends were suspended on May 18, 2005. As a result, the Bank received no dividends from the FHLB of Seattle for the year ended March 31, 2006. During the fourth quarter of the 2006 calendar year, the FHLB received approval to resume paying its members cash dividends on a quarterly basis. As a result, the Bank received $14,700 in dividends from the FHLB of Seattle for the year ended March 31, 2007.

Under federal law, the FHLBs are required to provide funds for the resolution of troubled savings institutions and to contribute to low- and moderately-priced housing programs through direct loans or interest subsidies on advances targeted for community investment and low- and moderate-income housing projects. These contributions have affected adversely the level of FHLB dividends paid and could continue to do so in the future. These contributions could also have an adverse effect on the value of FHLB stock in the future. A reduction in value of the Bank's FHLB stock may result in a corresponding reduction in the Bank's capital.

Federal Deposit Insurance Corporation. The Bank's deposits are insured up to applicable limits by the Deposit Insurance Fund of the FDIC. The Deposit Insurance Fund is the successor to the Bank Insurance Fund and the Savings Association Insurance Fund, which were merged effective March 31, 2006. As insurer, the FDIC imposes deposit insurance premiums and is authorized to conduct examinations of and to require reporting by FDIC-insured institutions. It also may prohibit any FDIC-insured institution from engaging in any activity the FDIC determines by regulation or order to pose a serious risk to the fund. The FDIC also has the authority to initiate enforcement actions against savings institutions, after giving the OTS an opportunity to take such action, and may terminate the deposit insurance if it determines that the institution has engaged in unsafe or unsound practices or is in an unsafe or unsound condition.

The FDIC recently amended its risk-based assessment system for 2007 to implement authority granted by the Federal Deposit Insurance Reform Act of 2005, which was enacted in 2006 ("Reform Act"). Under the revised system, insured institutions are assigned to one of four risk categories based on supervisory evaluations, regulatory capital levels and certain other factors. An institution's assessment rate depends upon the category to which it is assigned. Risk Category I, which contains the least risky depository institutions, is expected to include more than 90% of all institutions. Unlike the other categories, Risk Category I contains further risk differentiation based on the FDIC's analysis of financial ratios, examination component ratings and other information. Assessment rates are determined by the FDIC and currently range from five to seven basis points for the healthiest institutions (Risk Category I) to 43 basis points of assessable deposits for the riskiest (Risk Category IV). The FDIC may adjust rates uniformly from one quarter to the next, except that no single adjustment can exceed three basis points. No institution may pay a dividend if in default of the FDIC assessment.

The Reform Act also provided for a one-time credit for eligible institutions based on their assessment base as of December 31, 1996. Subject to certain limitations with respect to institutions that are exhibiting weaknesses, credits can be used to offset assessments until exhausted. The Bank's one-time credit is expected to be approximately $283,000. The Reform Act also provided for the possibility that the FDIC may pay dividends to insured institutions once the Deposit Insurance Fund reserve ratio equals or exceeds 1.35% of estimated insured deposits.

In addition to the assessment for deposit insurance, institutions are required to make payments on bonds issued in the late 1980s by the Financing Corporation to recapitalize a predecessor deposit insurance fund. This payment is established quarterly and during the calendar year ending March 31, 2007 averaged 1.22 basis points of assessable deposits. The Financing Corporation was chartered in 1987, by the Federal Home Loan Bank board solely for the purpose of functioning as a vehicle for the recapitalization of the Federal Savings and Loan Insurance Corporation.

The Reform Act provided the FDIC with authority to adjust the Deposit Insurance Fund ratio to insured deposits within a range of 1.15% and 1.50%, in contrast to the prior statutorily fixed ratio of 1.25%. The ratio, which is viewed by the FDIC as the level that the fund should achieve, was established by the agency at 1.25% for 2007.

The FDIC has authority to increase insurance assessments. A significant increase in insurance premiums would likely have an adverse effect on the operating expenses and results of operations of the Bank. There can be no prediction as to what insurance assessment rates will be in the future. Insurance of deposits may be terminated by the FDIC upon a finding that the institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC or the OTS. Management of the Bank is not aware of any practice, condition or violation that might lead to termination of the Bank's deposit insurance.

Prompt Corrective Action. The OTS is required to take certain supervisory actions against undercapitalized savings institutions, the severity of which depends upon the institution's degree of undercapitalization. Generally, an institution that has a ratio of total capital to risk-weighted assets of less than 8%, a ratio of Tier I (core) capital to risk-weighted assets of less than 4%, or a ratio of core capital to total assets of less than 4% (3% or less for institutions with the highest examination rating) is considered to be "undercapitalized." An institution that has a total risk-based capital ratio less than 6%, a Tier I capital ratio of less than 3% or a leverage ratio that is less than 3% is considered to be "significantly undercapitalized" and an institution that has a tangible capital to assets ratio equal to or less than 2% is deemed to be "critically undercapitalized." Subject to a narrow exception, the OTS is required to appoint a receiver or conservator for a savings institution that is "critically undercapitalized." OTS regulations also require that a capital restoration plan be filed with the OTS within 45 days of the date a savings institution receives notice that it is "undercapitalized," "significantly undercapitalized" or "critically undercapitalized." In addition, numerous mandatory supervisory actions become immediately applicable to an undercapitalized institution, including, but not limited to, increased monitoring by regulators and restrictions on growth, capital distributions and expansion. "Significantly undercapitalized" and "critically undercapitalized" institutions are subject to more extensive mandatory regulatory actions. The OTS also could take any one of a number of discretionary supervisory actions, including the issuance of a capital directive and the replacement of senior executive officers and directors.

At March 31, 2007, the Bank was categorized as "well capitalized" under the prompt corrective action regulations of the OTS.

Qualified Thrift Lender Test. All savings institutions, including the Bank, are required to meet a qualified thrift lender ("QTL") test to avoid certain restrictions on their operations. This test requires a savings institution to have at least 65% of its total assets, as defined by regulation, in qualified thrift investments on a monthly average for nine out of every 12 months on a rolling basis. As an alternative, the savings institution may maintain 60% of its assets in those assets specified in Section 7701(a)(19) of the Internal Revenue Code ("Code"). Under either test, such assets primarily consist of residential housing related loans and investments.

A savings institution that fails to meet the QTL is subject to certain operating restrictions and may be required to convert to a national bank charter. Recent legislation has expanded the extent to which education loans, credit card loans and small business loans may be considered "qualified thrift investments." As of March 31, 2007, the Bank maintained 65.41% of its portfolio assets in qualified thrift investments and, therefore, met the qualified thrift lender test.

Capital Requirements. Federally insured savings institutions, such as the Bank, are required by the OTS to maintain minimum levels of regulatory capital. Theses minimum capital standards include: a 1.5% tangible capital to total assets ratio, a 4% leverage ratio (3% for institutions receiving the highest rating on the CAMELS examination rating system) and an 8% risk-based capital ratio. In addition, the prompt corrective action standards, discussed below, also establish, in effect, a minimum 2% tangible capital standard, a 4% leverage ratio (3% for institutions receiving the highest rating on the CAMELS system) and, together with the risk-based capital standard itself, a 4% Tier I risk-based capital standard. The OTS regulations also require that, in meeting the tangible, leverage and risk-based capital standards, institutions must generally deduct investments in and loans to subsidiaries engaged in activities as principal that are not permissible for a national bank.

The risk-based capital standard requires federal savings institutions to maintain Tier I (core) and total capital (which is defined as core capital and supplementary capital) to risk-weighted assets of at least 4% and 8%, respectively. In determining the amount of risk-weighted assets, all assets, including certain off-balance sheet assets, recourse obligations, residual interests and direct credit substitutes, are multiplied by a risk-weight factor of 0% to 100%, assigned by the OTS capital regulation based on the risks believed inherent in the type of asset. Core (Tier I) capital is defined as common stockholders' equity (including retained earnings), certain noncumulative perpetual preferred stock and related surplus and minority interests in equity accounts of consolidated subsidiaries, less intangibles other than certain mortgage servicing rights and credit card relationships. The components of supplementary capital currently include cumulative preferred stock, long-term perpetual preferred stock, mandatory convertible securities, subordinated debt and intermediate preferred stock, the allowance for loan and lease losses limited to a maximum of 1.25% of risk-weighted assets and up to 45% of unrealized gains on available-for-sale equity securities with readily determinable fair market values. Overall, the amount of supplementary capital included as part of total capital cannot exceed 100% of core capital.

The OTS also has authority to establish individual minimum capital requirements in appropriate cases upon a determination that an institution's capital level is or may become inadequate in light of the particular circumstances. At March 31, 2007, the Bank met each of these capital requirements. For additional information, see Note 17 of the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

Limitations on Capital Distributions. OTS regulations impose various restrictions on savings institutions with respect to their ability to make distributions of capital, which include dividends, stock redemptions or repurchases, cash-out mergers and other transactions charged to the capital account. Generally, savings institutions, such as the Bank, that before and after the proposed distribution are well-capitalized, may make capital distributions during any calendar year equal to up to 100% of net income for the year-to-date plus retained net income for the two preceding years. However, an institution deemed to be in need of more than normal supervision by the OTS may have its dividend authority restricted by the OTS. The Bank may pay dividends to the Company in accordance with this general authority.

Savings institutions proposing to make any capital distribution need not submit written notice to the OTS prior to such distribution unless they are a subsidiary of a holding company or would not remain well capitalized following the distribution. Savings institutions that do not, or would not meet their current minimum capital requirements following a proposed capital distribution or propose to exceed these net income limitations, must obtain OTS approval prior to making such distribution. The OTS may object to the distribution during that 30-day period based on safety and soundness concerns. See "-Capital Requirements."

Activities of Associations and their Subsidiaries. When a savings institution establishes or acquires a subsidiary or elects to conduct any new activity through a subsidiary that the association controls, the savings institution must

notify the FDIC and the OTS 30 days in advance and provide the information each agency may, by regulation, require. Savings institutions also must conduct the activities of subsidiaries in accordance with existing regulations and orders.

The OTS may determine that the continuation by a savings institution of its ownership control of, or its relationship to, the subsidiary constitutes a serious risk to the safety, soundness or stability of the association or is inconsistent with sound banking practices or with the purposes of the FDIA. Based upon that determination, the FDIC or the OTS has the authority to order the savings institution to divest itself of control of the subsidiary. The FDIC also may determine by regulation or order that any specific activity poses a serious threat to the Deposit Insurance Fund. If so, it may require that no FDIC insured institution engage in that activity directly.

Transactions with Affiliates. The Bank's authority to engage in transactions with "affiliates" is limited by OTS regulations and by Sections 23A and 23B of the Federal Reserve Act as implemented by the Federal Reserve Board's Regulation W. The term "affiliates" for these purposes generally means any company that controls or is under common control with an institution. The Company and its non-savings institution subsidiaries would be affiliates of the Bank. In general, transactions with affiliates must be on terms that are as favorable to the institution as comparable transactions with non-affiliates. In addition, certain types of transactions are restricted to an aggregate percentage of the institution's capital. Collateral in specified amounts must usually be provided by affiliates in order to receive loans from an institution. In addition, savings institutions are prohibited from lending to any affiliate that is engaged in activities that are not permissible for bank holding companies and no savings institution may purchase the securities of any affiliate other than a subsidiary.

The Sarbanes-Oxley Act of 2002 generally prohibits a company from making loans to its executive officers and directors. However, that act contains a specific exception for loans by a depository institution to its executive officers and directors in compliance with federal banking laws. Under such laws, the Bank's authority to extend credit to executive officers, directors and 10% stockholders ("insiders"), as well as entities such person's control is limited. The law restricts both the individual and aggregate amount of loans the Bank may make to insiders based, in part, on the Bank's capital position and requires certain Board approval procedures to be followed. Such loans must be made on terms substantially the same as those offered to unaffiliated individuals and not involve more than the normal risk of repayment. There is an exception for loans made pursuant to a benefit or compensation program that is widely available to all employees of the institution and does not give preference to insiders over other employees. There are additional restrictions applicable to loans to executive officers.

Community Reinvestment Act. Under the Community Reinvestment Act, every FDIC-insured institution has a continuing and affirmative obligation consistent with safe and sound banking practices to help meet the credit needs of its entire community, including low and moderate income neighborhoods. The Community Reinvestment Act does not establish specific lending requirements or programs for financial institutions nor does it limit an institution's discretion to develop the types of products and services that it believes are best suited to its particular community, consistent with the Community Reinvestment Act. The Community Reinvestment Act requires the OTS, in connection with the examination of the Bank, to assess the institution's record of meeting the credit needs of its community and to take such record into account in its evaluation of certain applications, such as a merger or the establishment of a branch, by the Bank. An unsatisfactory rating may be used as the basis for the denial of an application by the OTS. Due to the heightened attention being given to the Community Reinvestment Act in the past few years, the Bank may be required to devote additional funds for investment and lending in its local community. The Bank was examined for Community Reinvestment Act compliance and received a rating of outstanding in its latest examination.

Affiliate Transactions. The Company and the Bank are separate and distinct legal entities. Various legal limitations restrict the Bank from lending or otherwise supplying funds to the Company, generally limiting any single transaction to 10% of the Bank's capital and surplus and limiting all such transactions to 20% of the Bank's capital and surplus. These transactions also must be on terms and conditions consistent with safe and sound banking practices that are substantially the same as those prevailing at the time for transactions with unaffiliated companies.

Federally insured savings institutions are subject, with certain exceptions, to certain restrictions on extensions of

credit to their parent holding companies or other affiliates, on investments in the stock or other securities of affiliates and on the taking of such stock or securities as collateral from any borrower. In addition, these institutions are prohibited from engaging in certain tie-in arrangements in connection with any extension of credit or the providing of any property or service.

Enforcement. The OTS has primary enforcement responsibility over savings institutions and has the authority to bring action against all "institution-affiliated parties," including shareholders, and any attorneys, appraisers and accountants who knowingly or recklessly participate in wrongful action likely to have an adverse effect on an insured institution. Formal enforcement action may range from the issuance of a capital directive or cease and desist order to removal of officers or directors, receivership, conservatorship or termination of deposit insurance. Civil penalties cover a wide range of violations and can amount to $25,000 per day, or $1.1 million per day in especially egregious cases. The FDIC has the authority to recommend to the Director of the OTS that enforcement action be taken with respect to a particular savings institution. If action is not taken by the Director, the FDIC has authority to take such action under certain circumstances. Federal law also establishes criminal penalties for certain violations.

Standards for Safety and Soundness. As required by statute, the federal banking agencies have adopted Interagency Guidelines prescribing Standards for Safety and Soundness. The guidelines set forth the safety and soundness standards that the federal banking agencies use to identify and address problems at insured depository institutions before capital becomes impaired. If the OTS determines that a savings institution fails to meet any standard prescribed by the guidelines, the OTS may require the institution to submit an acceptable plan to achieve compliance with the standard.

Environmental Issues Associated with Real Estate Lending. The Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA"), a federal statute, generally imposes strict liability on all prior and present "owners and operators" of sites containing hazardous waste. However, Congress asked to protect secured creditors by providing that the term "owner and operator" excludes a person whose ownership is limited to protecting its security interest in the site. Since the enactment of the CERCLA, this "secured creditor exemption" has been the subject of judicial interpretations which have left open the possibility that lenders could be liable for cleanup costs on contaminated property that they hold as collateral for a loan.

To the extent that legal uncertainty exists in this area, all creditors, including the Bank, that have made loans secured by properties with potential hazardous waste contamination (such as petroleum contamination) could be subject to liability for cleanup costs, which costs often substantially exceed the value of the collateral property.

Privacy Standards. The Gramm-Leach-Bliley Financial Services Modernization Act of 1999 ("GLBA"), which was enacted in 1999, modernized the financial services industry by establishing a comprehensive framework to permit affiliations among commercial banks, insurance companies, securities firms and other financial service providers. The Bank is subject to OTS regulations implementing the privacy protection provisions of the GLBA. These regulations require the Bank to disclose its privacy policy, including identifying with whom it shares "non-public personal information," to customers at the time of establishing the customer relationship and annually thereafter.

Anti-Money Laundering and Customer Identification. Congress enacted the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the "USA Patriot Act") on October 26, 2001 in response to the terrorist events of September 11, 2001. The USA Patriot Act gives the federal government new powers to address terrorist threats through enhanced domestic security measures, expanded surveillance powers, increased information sharing, and broadened anti-money laundering requirements. In March 2006, Congress re-enacted certain expiring provisions of the USA Patriot Act.

Savings and Loan Holding Company Regulations

General. The Company is a unitary savings and loan holding company subject to regulatory oversight of the OTS. Accordingly, the Company is required to register and file reports with the OTS and is subject to regulation and examination by the OTS. In addition, the OTS has enforcement authority over the Company and its non-savings

institution subsidiaries which also permits the OTS to restrict or prohibit activities that are determined to present a serious risk to the subsidiary savings institution.

Mergers and Acquisitions. The Company must obtain approval from the OTS before acquiring more than 5% of the voting stock of another savings institution or savings and loan holding company or acquiring such an institution or holding company by merger, consolidation or purchase of its assets. In evaluating an application for the Company to acquire control of a savings institution, the OTS would consider the financial and managerial resources and future prospects of the Company and the target institution, the effect of the acquisition on the risk to the insurance funds, the convenience and the needs of the community and competitive factors.

Activities Restrictions. As a unitary savings and loan holding company, the Company generally is not subject to activity restrictions. The Company and its non-savings institution subsidiaries are subject to statutory and regulatory restrictions on their business activities specified by federal regulations, which include performing services and holding properties used by a savings institution subsidiary, activities authorized for savings and loan holding companies as of March 5, 1987, and non-banking activities permissible for bank holding companies pursuant to the Bank Holding Company Act of 1956 or authorized for financial holding companies pursuant to the GLBA.

If the Bank fails the QTL test, the Company must, within one year of that failure, register as, and will become subject to, the restrictions applicable to bank holding companies. See "- Federal Regulation of Savings Institutions - Qualified Thrift Lender Test."

Sarbanes-Oxley Act of 2002. The Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley Act") was signed into law on July 30, 2002 in response to public concerns regarding corporate accountability in connection with recent accounting scandals. The stated goals of the Sarbanes-Oxley Act are to increase corporate responsibility, to provide for enhanced penalties for accounting and auditing improprieties at publicly traded companies and to protect investors by improving the accuracy and reliability of corporate disclosures pursuant to the securities laws. The Sarbanes-Oxley Act generally applies to all companies, both U.S. and non-U.S., that file or are required to file periodic reports with the Securities and Exchange Commission ("SEC") under the Securities Exchange Act of 1934, including the Company.

The Sarbanes-Oxley Act includes very specific additional disclosure requirements and new corporate governance rules, requires the SEC and securities exchanges to adopt extensive additional disclosure, corporate governance and related rules. The Sarbanes-Oxley Act represents significant federal involvement in matters traditionally left to state regulatory systems, such as the regulation of the accounting profession, and to state corporate law, such as the relationship between a board of directors and management and between a board of directors and its committees.

Item 1A. Risk Factors

An investment in our common stock is subject to risks inherent in our business. Before making an investment decision, you should carefully consider the risks and uncertainties described below together with all of the other information included in this report. In addition to the risks and uncertainties described below, other risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially and adversely affect our business, financial condition and results of operations. The value or market price of our common stock could decline due to any of these identified or other risks, and you could lose all or part of your investment.

Fluctuations in interest rates could reduce our profitability and affect the value of our assets.

Like other financial institutions, we are subject to interest rate risk. Our primary source of income is net interest income, which is the difference between interest earned on loans and investments and the interest paid on deposits and borrowings. We expect that we will periodically experience imbalances in the interest rate sensitivities of our assets and liabilities and the relationships of various interest rates to each other. Over any period of time, our interest-earning assets may be more sensitive to changes in market interest rates than our interest-bearing liabilities, or vice versa. In addition, the individual market interest rates underlying our loan and deposit products may not change to the same degree over a given time period. In any event, if market interest rates should move contrary to our position, our earnings may be negatively affected. In addition, loan volume and quality and deposit volume and mix can be affected by market interest rates. Changes in levels of market interest rates could materially adversely affect our net interest spread, asset quality, origination volume and overall profitability.

Interest rates have recently been at historically low levels. However, since June 30, 2004, the U.S. Federal Reserve has increased its target for the federal funds rate seventeen times, from 1.00% to 5.25%. While these short-term market interest rates (which we use as a guide to price our deposits) have increased the pricing of our loans have moved in parallel with this increased funding cost. The inverted/flat interest rate yield curve continues to exert pressure on the net interest margin. In a sustained rising interest rate environment the asset yields are expected to closely match rising funding costs. A sustained falling interest rate environment would negatively impact margins. Opportunities to reduce non-maturity deposit rates become more difficult to realize in a protracted decline in rates, while asset yields come under constant pressure.

We principally manage interest rate risk by managing our volume and mix of our earning assets and funding liabilities. In a changing interest rate environment, we may not be able to manage this risk effectively. If we are unable to manage interest rate risk effectively, our business, financial condition and results of operations could be materially harmed.

Changes in the level of interest rates also may negatively affect our ability to originate real estate loans, the value of our assets and our ability to realize gains from the sale of our assets, all of which ultimately affect our earnings.

Our business is subject to various lending risks that could adversely impact our results of operations and financial condition.

Other real estate mortgage loans involve higher principal amounts than other loans, and repayment of these loans may be dependent on factors outside our control or the control of our borrowers. At March 31, 2007, we had $360.9 million of other real estate loans, representing 52.2% of our total loans and loans held for sale portfolio. The income generated from the operation of the property securing the loan is generally considered by us to be the principal source of repayment on this type of loan. The other real estate lending in which we engage typically involves larger loans to a single borrower and is generally viewed as exposing the lender to a greater risk of loss than one-four family residential lending because these loans generally are not fully amortizing over the loan period, but have a balloon payment due at maturity. A borrower's ability to make a balloon payment typically will depend on being able to either refinance the loan or timely sell the underlying property.

Repayment of our commercial loans is often dependent on the cash flows of the borrower, which may be unpredictable, and the collateral securing these loans may fluctuate in value. At March 31, 2007, commercial loans totaled $91.2 million, or 13.2%, of our total loan and loans held for sale portfolio. Our commercial loans are primarily made based on the identified cash flow of the borrower and secondarily on the underlying collateral provided by the borrower. Most often, this collateral consists of accounts receivable, inventory or equipment. Credit support provided by the borrower for most of these loans and the probability of repayment is based on the liquidation of the pledged collateral and enforcement of a personal guarantee, if any exists. As a result, in the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its customers. The collateral securing other loans may depreciate over time may be difficult to appraise and may fluctuate in value based on the success of the business.

Our real estate construction loans are based upon estimates of costs and value associated with the complete project. These estimates may be inaccurate. We originate construction loans for commercial properties, as well as for single-family home construction. At March 31, 2007, construction loans totaled $166.1 million, or 24.0% of total loans and loans held for sale. Construction, land acquisition and development lending involves additional risks because funds are advanced upon the security of the project, which is of uncertain value prior to its completion. There are also risks associated with the timely completion of the construction activities for their allotted costs, as a number of factors can result in delays and cost overruns, and the time needed to stabilize income producing properties or to sell residential tract developments. Because of the uncertainties inherent in estimating construction costs, as well as the market value of the completed project and the effects of governmental regulation of real property, it is relatively difficult to evaluate accurately the total funds required to complete a project and the related loan-to-value ratio. As a result, construction loans and land acquisition and development loans often involve the disbursement of substantial funds with repayment dependent, in part, on the success of the ultimate project and the ability of the borrower to sell or lease the property or refinance the indebtedness, rather than the ability of the borrower or guarantor to repay principal and interest. If our appraisal of the value of the completed project proves to be overstated, we may have inadequate security for the repayment of the loan upon completion of construction of the project and may incur a loss.

Our other installment loans generally have a higher risk of default than our other loans. At March 31, 2007, other installment loans totaled $3.6 million, or 0.5%, of our total loan and loans held for sale portfolio. Other consumer loans typically have shorter terms and lower balances with higher yields as compared to one-to-four family residential mortgage loans, but generally carry higher risks of default. Consumer loan collections are dependent on the borrower's continuing financial stability, and thus are more likely to be affected by adverse personal circumstances. Furthermore, the application of various federal and state laws, including bankruptcy and insolvency laws, may limit the amount which can be recovered on these loans.

An inadequate allowance for loan losses would reduce our earnings.

We are exposed to the risk that our borrowers will be unable to repay their loans according to their terms and that any collateral securing the payment of their loans will not be sufficient to assure full repayment. Credit losses are inherent in the lending business and could have a material adverse effect on our operating results. Volatility and deterioration in the economy may also increase our risk for credit losses. We evaluate the collectibility of our loan portfolio and provide an allowance for loan losses that we believe is adequate based upon such factors as:

* Cash flow of the borrower and/or the project being financed;
* in the case of a collateralized loan, the changes and uncertainties as to the future value of the collateral;
* the credit history of a particular borrower;
* changes in economic and industry conditions; and
* the duration of the loan.

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If our evaluation is incorrect and borrower defaults cause losses exceeding our allowance for loan losses, our earnings could be materially and adversely affected. We cannot assure you that our allowance will be adequate to cover loan losses inherent in our portfolio. We may experience losses in our loan portfolio or perceive adverse trends that require us to significantly increase our allowance for loan losses in the future, which would also reduce our earnings. In addition, the Bank's regulators, as an integral part of their examination process, may require us to make additional provisions for loan losses.

The unseasoned nature of many of the commercial real estate loans we originated may lead to additional provisions for loan losses or charge-offs, which would hurt our profits.

The diversification of our real estate loan portfolio has led to a significant increase in the number of commercial real estate loans in our portfolio. Many of these loans are unseasoned and have not been subjected to unfavorable economic conditions. We have limited experience in originating these types of loans and as a result do not have a significant payment history pattern with which to judge future collectibility. As a result, it is difficult to predict the future performance of this part of our real estate loan portfolio. These loans may have delinquency or charge-off levels above our historical experience, which could adversely affect our profitability.

Our real estate lending also exposes us to the risk of environmental liabilities.

In the course of our business, we may foreclose and take title to real estate, and could be subject to environmental liabilities with respect to these properties. We may be held liable to a governmental entity or to third persons for property damage, personal injury, investigation and clean-up costs incurred by these parties in connection with environmental contamination, or may be required to investigate or clean up hazardous or toxic substances, or chemical releases at a property. The costs associated with investigation or remediation activities could be substantial. In addition, as the owner or former owner of a contaminated site, we may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from the property. If we ever become subject to significant environmental liabilities, our business, financial condition and results of operations could be materially and adversely affected.

Our profitability depends significantly on economic conditions in the States of Washington and Oregon.

Our success depends primarily on the general economic conditions of the States of Washington and Oregon and the specific local markets in which we operate. Unlike larger national or other regional banks that are more geographically diversified, we provide banking and financial services to customers located primarily in seven counties of Washington and Oregon. The local economic conditions in our market areas have a significant impact on the demand for our products and services as well as the ability of our customers to repay loans, the value of the collateral securing loans and the stability of our deposit funding sources. Adverse economic conditions unique to these Northwest markets could have a material adverse effect on our financial condition and results of operations. Further, a significant decline in general economic conditions, caused by inflation, recession, acts of terrorism, outbreak of hostilities or other international or domestic occurrences, unemployment, changes in securities markets or other factors could impact these state and local markets and, in turn, also have a material adverse effect on our financial condition and results of operations.

Our funding sources may prove insufficient to replace deposits and support our future growth.

We rely on customer deposits and advances from the FHLB and other borrowings to fund our operations. Although we have historically been able to replace maturing deposits and advances if desired, no assurance can be given that we would be able to replace such funds in the future if our financial condition or the financial condition of the FHLB or market conditions were to change. Our financial flexibility will be severely constrained if we are unable to maintain our access to funding or if adequate financing is not available to accommodate future growth at acceptable interest rates. Finally, if we are required to rely more heavily on more expensive funding sources to support future growth, our revenues may not increase proportionately to cover our costs. In this case, our profitability would be adversely affected.

Although we consider such sources of funds adequate for our liquidity needs, we may seek additional debt in the future to achieve our long-term business objectives. There can be no assurance additional borrowings, if sought, would be available to us or, if available, would be on favorable terms. If additional financing sources are unavailable or are not available on reasonable terms, our growth and future prospects could be adversely affected.

Competition with other financial institutions could adversely affect our profitability.

The banking and financial services industry is very competitive. Legal and regulatory developments have made it easier for new and sometimes unregulated competitors to compete with us. Consolidation among financial service providers has resulted in fewer very large national and regional banking and financial institutions holding a large accumulation of assets. These institutions generally have significantly greater resources, a wider geographic presence or greater accessibility. Our competitors sometimes are also able to offer more services, more favorable pricing or greater customer convenience than we do. In addition, our competition has grown from new banks and other financial services providers that target our existing or potential customers. As consolidation continues among large banks, we expect additional institutions to try to exploit our market.

Technological developments have allowed competitors including some non-depository institutions, to compete more effectively in local markets and have expanded the range of financial products, services and capital available to our target customers. If we are unable to implement, maintain and use such technologies effectively, we may not be able to offer products or achieve cost-efficiencies necessary to compete in our industry. In addition, some of these competitors have fewer regulatory constraints and lower cost structures.

We rely heavily on the proper functioning of our technology.

We rely heavily on communications and information systems to conduct our business. Any failure, interruption or breach in security of these systems could result in failures or disruptions in our customer relationship management, general ledger, deposit, loan and other systems. While we have policies and procedures designed to prevent or limit the effect of the failure, interruption or security breach of our information systems, there can be no assurance that any such failures, interruptions or security breaches will not occur or, if they do occur, that they will be adequately addressed. The occurrence of any failures, interruptions or security breaches of our information systems could damage our reputation, result in a loss of customer business, subject us to additional regulatory scrutiny, or expose us to civil litigation and possible financial liability, any of which could have a material adverse effect on our financial condition and results of operations.

We rely on third-party service providers for much of our communications, information, operating and financial control systems technology. If any of our third-party service providers experience financial, operational or technological difficulties, or if there is any other disruption in our relationships with them, we may be required to locate alternative sources of such services, and we cannot assure that we could negotiate terms that are as favorable to us, or could obtain services with similar functionality, as found in our existing systems, without the need to expend substantial resources, if at all. Any of these circumstances could have an adverse effect on our business.

We are dependent upon the services of our management team.

We are dependent upon the ability and experience of a number of our key management personnel who have substantial experience with our operations, the financial services industry and the markets in which we offer our services. It is possible that the loss of the services of one or more of our senior executives or key managers would have an adverse effect on our operations. Our success also depends on our ability to continue to attract, manage and retain other qualified personnel as we grow. We cannot assure you that we will continue to attract or retain such personnel.

We may be unable to successfully integrate any acquisition we may make.

We regularly explore opportunities to acquire financial services businesses or assets and may also consider opportunities to acquire other banks or financial institutions. We cannot predict the number, size or timing of acquisitions. Difficulties in integrating an acquired business or company may cause us not to realize expected revenue increases, cost savings, increases in geographic or product presence, and/or other projected benefits from the acquisition. The process of integrating operations could cause an interruption of, or loss of momentum in, the activities of our business and the loss of deposits, customers and key personnel. The diversion of management's attention and any delays or difficulties encountered in connection with any merger could have an adverse effect on our business and results of operations following the acquisition or otherwise adversely affect our ability to achieve the anticipated benefits of the acquisition.

An increase in interest rates may reduce our mortgage revenues, which would negatively impact our non-interest income, which would negatively impact our net interest income.

Our mortgage banking operations provide a significant portion of our non-interest income. We generate mortgage revenues primarily from broker loan fees on the sale of loans to investors on a servicing released basis. In a rising or higher interest rate environment, our originations of mortgage loans may decrease, resulting in fewer loans that are available to be sold to investors. This would result in a decrease in mortgage revenues and a corresponding decrease in non-interest income. In addition, our results of operations are affected by the amount of non-interest expenses associated with mortgage banking activities, such as salaries and employee benefits, occupancy, equipment and data processing expense and other operating costs. During periods of reduced loan demand, our results of operations may be adversely affected to the extent that we are unable to reduce expenses commensurate with the decline in loan originations.

Terrorist activities could cause reductions in investor confidence and substantial volatility in real estate and securities markets.

It is impossible to predict the extent to which terrorist activities may occur in the United States or other regions, or their effect on a particular security issue. It is also uncertain what effects any past or future terrorist activities and/or any consequent actions on the part of the United States government and others will have on the United States and world financial markets, local, regional and national economics, and real estate markets across the United States. Among other things, reduced investor confidence could result in substantial volatility in securities markets, a decline in general economic conditions and real estate related investments and an increase in loan defaults. Such unexpected losses and events could materially affect our results of operations.

We are subject to extensive regulation that could restrict our activities and impose financial requirements or limitations on the conduct of our business.

We are subject to extensive federal and state regulation and supervision, primarily through the Bank. Banking regulations are primarily intended to protect depositors' funds, federal deposit insurance funds and the banking system as a whole, not shareholders. These regulations affect our lending practices, capital structure, investment practices, dividend policy and growth, among other things. Congress and federal regulatory agencies continually review banking laws, regulations and policies for possible changes. Changes to statutes, regulations or regulatory policies, including changes in interpretation or implementation of statutes, regulations or policies, could affect us in substantial and unpredictable ways. Such changes could subject us to additional costs, limit the types of financial services and products we may offer and/or increase the ability of non-banks to offer competing financial services and products, among other things. Failure to comply with laws, regulations or policies could result in sanctions by regulatory agencies, civil money penalties and/or reputation damage, which could have a material adverse effect on our business, financial condition and results of operations. While we have policies and procedures designed to prevent any such violations, there can be no assurance that such violations will not occur.

We rely on dividends from subsidiaries for most of our revenue.

Riverview Bancorp, Inc is a separate and distinct legal entity from its subsidiaries. We receive substantially all of our revenue from dividends from our subsidiaries. These dividends are the principal source of funds to pay dividends on our common stock and interest and principal on our debt. Various federal and/or state laws and regulations limit the amount of dividends that the Bank may pay us. Also, our right to participate in a distribution of assets upon a subsidiary's liquidation or reorganization is subject to the prior claims of the subsidiary's creditors. In the event the Bank is unable to pay dividends to us, we may not be able to service our debt, pay obligations or pay dividends on our common stock. The inability to receive dividends from the Bank could have a material adverse effect on our business, financial condition and results of operations

If we fail to maintain an effective system of internal control over financial reporting, we may not be able to accurately report our financial results or prevent fraud, and, as a result, investors and depositors could lose confidence in our financial reporting, which could adversely affect our business, the trading price of our stock and our ability to attract additional deposits.

In connection with the enactment of the Sarbanes-Oxley Act of 2002 ("Act") and the implementation of the rules and regulations promulgated by the SEC, we document and evaluate our internal control over financial reporting in order to satisfy the requirements of Section 404 of the Act. This requires us to prepare an annual management report on our internal control over financial reporting, including among other matters, management's assessment of the effectiveness of internal control over financial reporting and an attestation report by our independent auditors addressing these assessments. If we fail to identify and correct any significant deficiencies in the design or operating effectiveness of our internal control over financial reporting or fail to prevent fraud, current and potential shareholders and depositors could lose confidence in our internal controls and financial reporting, which could adversely affect our business, financial condition and results of operations, the trading price of our stock and our ability to attract additional deposits.

Changes in accounting standards may affect our performance.

Our accounting policies and methods are fundamental to how we record and report our financial condition and results of operations. From time to time there are changes in the financial accounting and reporting standards that govern the preparation of our financial statements. These changes can be difficult to predict and can materially impact how we report and record our financial condition and results of operations. In some cases, we could be required to apply a new or revised standard retroactively, resulting in restating prior period financial statements.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The following table sets forth certain information relating to the Company's offices as of March 31, 2007.

Location	Year Opened	Approximate Square Footage	Deposits (In millions)
Main Office:			
900 Washington, Suite 900 Vancouver, Washington (1)	2000	16,000	$98.8
Riverview Center:			
17205 SE Mill Plain Boulevard Vancouver, Washington (1)(2)	2006	50,000	
Branch Offices:			
700 N.E. Fourth Avenue Camas, Washington (1)(2)	1975	25,000	55.6
3307 Evergreen Way Washougal, Washington (1)(2)(3)	1963	3,200	39.1
225 S.W. 2nd Street Stevenson, Washington (2)	1971	1,700	38.2
330 E. Jewett Boulevard White Salmon, Washington (2)(4)	1977	3,200	40.8
15 N.W. 13th Avenue Battle Ground, Washington (2)(5)	1979	2,900	40.8
412 South Columbus Goldendale, Washington (2)	1983	2,500	20.6
11505-K N.E. Fourth Plain Boulevard Vancouver, Washington (2)	1994	3,500	31.1
7735 N.E. Highway 99 Vancouver, Washington (1)(6)(2)	1994	4,800	32.2
1011 Washington Way Longview, Washington (6)(2)	1994	2,000	31.4
900 Washington St., Suite 100 Vancouver, Washington (1)(2)	1998	5,300	74.7

1901-E N.E. 162nd Avenue Vancouver, Washington (1)(2)	1999	3,200	18.7
800 N.E. Tenney Road, Suite D Vancouver, Washington (2)	2000	3,200	33.7
915 MacArthur Boulevard Vancouver, Washington (1)(2)(7)	2003	3,000	21.3
320 S.E. 192nd Avenue Vancouver, Washington (1)(2)	2006	3,200	4.9
315 SW Fifth Avenue Portland, Oregon (1)(2)(8)	2005	9,304	30.2
23500 NE Sandy Boulevard Wood Village, Oregon (1)(2)(8)	2005	900	12.8
112 Main Street Aumsville, Oregon (2)(8)	2005	2,500	33.0
10401 NE Halsey Street Portland, Oregon (2)	2006	7,800	7.5

(1) Leased.
(2) Location of an automated teller machine.
(3) New facility in 2001.
(4) New facility in 2000.
(5) New facility in 1994.
(6) Former branches of Great American Federal Savings Association, San Diego, California, that were acquired from the Resolution Trust Corporation on May 13, 1994. In the acquisition, the Company assumed all insured deposit liabilities of both branch offices totaling approximately $42.0 million.
(7) Former location of Today's Bank, Vancouver, Washington, acquired on July 18, 2003.
(8) Former location of American Pacific Bank, Aumsville, Oregon, acquired on April 22, 2005.

The Company's main office for administration is located at the downtown Vancouver, Washington address of 900 Washington Street. The Washougal branch office was relocated during the first quarter of the fiscal year 2001.

At March 31, 2007, the net book value of the Company's office properties, furniture, fixtures and equipment was $21.4 million.

Management believes that the facilities are of sound construction and good operating condition, and are appropriately insured and adequately equipped for carrying on the business of the Company.

Item 3. Legal Proceedings

Periodically, there have been various claims and lawsuits involving the Company, such as claims to enforce liens, condemnation proceedings on properties in which the Company holds security interests, claims involving the making and servicing of real property loans and other issues incident to the Company's business. The Company is not a party to any pending legal proceedings that it believes would have a material adverse effect on the financial condition, results of operations or liquidity of the Company.

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year ended March 31, 2007.

PART II

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

At March 31, 2007, there were 11,707,980 shares of Company Common Stock issued and outstanding, 827 stockholders of record and an estimated 1,500 holders in nominee or "street name." Under Washington law, the Company is prohibited from paying a dividend if, as a result of its payment, the Company would be unable to pay its debts as they become due in the normal course of business, or if the Company's total liabilities would exceed its total assets. The principal source of funds for the Company is dividend payments from the Bank. OTS regulations require the Bank to give the OTS 30 days advance notice of any proposed declaration of dividends to the Company, and the OTS has the authority under its supervisory powers to prohibit the payment of dividends to the Company. The OTS imposes certain limitations on the payment of dividends from the Bank to the Company which utilize a three-tiered approach that permits various levels of distributions based primarily upon a savings association's capital level. See "REGULATION - Federal Regulation of Savings Associations - Limitations on Capital Distributions." In addition, the Company may not declare or pay a cash dividend on its capital stock if the effect thereof would be to reduce the regulatory capital of the Company below the amount required for the liquidation account established pursuant to the Company's Plan of Conversion adopted in connection with the Conversion and Reorganization. See Note 1 of the Notes to the Consolidated Financial Statements contained in Item 8 of this Form 10-K.

The common stock of the Company is traded on the Nasdaq Global Select Market under the symbol "RVSB". The following table sets forth the high and low trading prices, as reported by Nasdaq, and cash dividends paid for each quarter during 2007 and 2006 fiscal years. At March 31, 2007, there were 15 market makers in the Company's common stock as reported by the Nasdaq Global Select Market. On August 24, 2006 Riverview Bancorp. Inc. issued 2-for-1 stock split in the form of a 100% stock dividend. Shareholders received one additional share for every share owned. The Board of Directors declared the stock split on July 27, 2006 and the record date was August 10, 2006. All share and per share amounts (including stock options) in the Consolidated Financial Statements and accompanying notes were restated to reflect the split.

Cash Dividends

Fiscal Year Ended March 31, 2007	High	Low	Declared
Quarter ended March 31, 2007	$17.58	$15.29	$0.100
Quarter ended December 31, 2006	15.72	13.47	0.100
Quarter ended September 30, 2006	13.65	12.58	0.100
Quarter ended June 30, 2006	13.53	12.14	0.095

Fiscal Year Ended March 31, 2006	High	Low	Cash Dividends Declared
Quarter ended March 31, 2006	$13.75	$11.56	$0.085
Quarter ended December 31, 2005	11.97	10.38	0.085
Quarter ended September 30, 2005	11.05	10.38	0.085
Quarter ended June 30, 2005	10.90	10.17	0.085

Stock Repurchase

The shares are being repurchased from time-to-time in open market transactions. The timing, volume and price of purchases will be made at our discretion, and will also be contingent upon our overall financial condition, as well, as market conditions in general. The following table reflects activity for the quarter ended March 31, 2007.

Common Stock Repurchased

	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan	Maximum Number of Shares That May Yet Be Purchased Under the Program
January 1, - January 31, 2007	-	-	-	-
February 1 - February 28, 2007	-	-	-	-
March 1 - March 31, 2007	-	-	-	-
Balance at March 31, 2007	-	-	-	250,000

(1) On March 22, 2007 the Company announced a stock repurchase of up to 250,000 shares of its outstanding common stock, representing approximately 2% of outstanding shares.
(2) During the year ended March 31, 2007, the Company repurchased 49,446 shares of its common stock under a cashless exercise of stock options.
(3) On May 11, 2007, the Company repurchased 80,000 shares of its common stock under the announced March 22, 2007 common stock repurchases plan.

Securities for Equity Compensation Plans

Please refer to item 12 for a listing of securities authorized for issuance under equity compensation plans.

[PERFORMANCE GRAPH APPEARS HERE]

	3/02	3/03	3/04	3/05	3/06	3/07
Riverview Bancorp, Inc.	100.00	125.34	153.44	166.19	215.54	263.94
S & P 500	100.00	75.24	101.66	108.47	121.19	135.52
NASDAQ Bank	100.00	94.03	131.20	132.73	147.62	152.21

* $100 invested on 3/31/02 in stock or index-including reinvestment of dividends fiscal year ending March 31.

Item 6. Selected Financial Data

The following condensed consolidated statements of operations and financial condition and selected performance ratios as of March 31, 2007, 2006, 2005, 2004 and 2003 and for the years then ended have been derived from the Company's audited consolidated financial statements. The information below is qualified in its entirety by the detailed information included elsewhere herein and should be read along with "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Item 8. Financial Statement and Supplementary Data."

	At March 31,				
	2007	2006	2005(2)	2004	2003(3)
	(Dollars in thousands)				
FINANCIAL CONDITION DATA:					
Total assets	$820,348	$763,847	$572,571	$520,487	$419,904
Loans receivable, net (1)	682,951	623,081	429,959	381,534	301,811
Mortgage-backed securities held to maturity, at amortized cost	1,232	1,805	2,343	2,517	3,301
Mortgage-backed securities available for sale, at fair value	6,640	8,134	11,619	10,607	13,069
Cash and interest-bearing deposits	31,423	31,346	61,719	47,907	60,858
Investment securities available for sale, at fair value	19,267	24,022	22,945	32,883	20,426
Deposit accounts	665,405	606,964	456,878	409,115	320,742
FHLB advances	35,050	46,100	40,000	40,000	40,000
Shareholders' equity	100,209	91,687	69,522	65,182	54,511

	Year Ended March 31,				
	2007	2006	2005	2004	2003
	(Dollars in thousands)				
OPERATING DATA:					
Interest income	$ 61,300	$ 47,229	$ 29,968	$ 27,584	$ 26,461
Interest expense	24,782	14,877	7,395	6,627	8,417
Net interest income	36,518	32,352	22,573	20,957	18,044
Provision for loan losses	1,425	1,500	410	210	727
Net interest income after provision for loan losses	35,093	30,852	22,163	20,747	17,317
Gains (losses) from sale of loans, securities and real estate owned	434	382	(672)	1,003	(531)
Gain on sale of land and fixed assets	3	2	830	3	-
Other non-interest income	8,597	8,453	6,348	5,583	4,469
Non-interest expenses	26,353	25,374	19,104	17,572	14,908
Income before income taxes	17,774	14,315	9,565	9,764	6,347
Provision for income taxes	6,168	4,577	3,036	3,210	1,988
Net income	$ 11,606	$ 9,738	$ 6,529	$ 6,554	$ 4,359

(1) Includes loans held for sale
(2) On April 22, 2005, the company acquired American Pacific Bank.
(3) On July 18, 2003, the Company acquired Today's Bancorp, Inc.

	At March 31,				
	2007	2006	2005	2004	2003
OTHER DATA:					
Number of:					
Real estate loans outstanding	2,978	3,084	3,037	3,141	2,904
Deposit accounts	38,989	39,095	29,341	27,209	25,752
Full service offices	18	17	13	13	12

	At or For the Year Ended March 31,				
	2007	2006	2005	2004	2003
KEY FINANCIAL RATIOS:					
Performance Ratios:					
Return on average assets	1.43%	1.36%	1.24%	1.35%	1.07%
Return on average equity	11.88	10.95	9.56	10.60	7.99
Dividend payout ratio (1)	38.35	39.08	45.59	39.72	50.00
Interest rate spread	4.37	4.55	4.38	4.42	4.28
Net interest margin	5.01	5.03	4.74	4.76	4.83
Non-interest expense to average assets	3.24	3.54	3.62	3.61	3.66
Efficiency ratio (2)	57.85	61.60	65.70	63.79	67.82
Asset Quality Ratios:					
Average interest-earning assets					

to interest-bearing liabilities	118.96	121.14	123.45	122.53	124.62
Allowance for loan losses to total net loans at end of period	1.25	1.15	1.01	1.16	0.90
Net charge-offs to average outstanding loans during the period	-	0.10	0.13	0.31	0.12
Ratio of nonperforming assets to total assets	0.03	0.05	0.13	0.39	0.18
Capital Ratios:					
Average equity to average assets	12.01	12.39	12.92	12.72	13.39
Equity to assets at end of fiscal year	12.22	12.00	12.14	12.52	12.98

(1) Dividends per share divided by net income per share
(2) Non-interest expense divided by the sum of net interest income and non-interest income

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

General

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

Critical Accounting Policies

The Company has established various accounting policies that govern the application of accounting principles generally accepted in the United States of America ("GAAP") in the preparation of the Company's Consolidated Financial Statements. The Company has identified three policies, that due to judgments, estimates and assumptions inherent in those policies, are critical to an understanding of the Company's Consolidated Financial Statements. These policies relate to the methodology for the determination of the allowance for loan losses, the valuation of the mortgage servicing rights ("MSR's") and the impairment of investments. These policies and the judgments, estimates and assumptions are described in greater detail in subsequent sections of Management's Discussions and Analysis contained herein and in the Notes to the Consolidated Financial Statements contained in Item 8 of this Form 10-K. In particular, Note 1 of the Notes to Consolidated Financial Statements, "Summary of Significant Accounting Policies," describes generally the Company's accounting policies and Note 9, "Mortgage Servicing Rights" provides details used in valuing the Company's MSR's and the effect of changes to certain assumptions. Management believes that the judgments, estimates and assumptions used in the preparation of the Company's Consolidated Financial Statements are appropriate given the factual circumstances at the time. However, given the sensitivity of the Company's Consolidated Financial Statements to these critical accounting policies, the use of other judgments, estimates and assumptions could result in material differences in the Company's results of operations or financial condition.

Allowance for Loan Losses

The allowance for loan losses is maintained at a level sufficient to provide for probable loan losses based on evaluating known and inherent risks in the loan portfolio. The allowance is provided based upon management's continuing analysis of the pertinent factors underlying the quality of the loan portfolio. These factors include changes in the size and composition of the loan portfolio, actual loan loss experience, current economic conditions, and detailed analysis of individual loans for which full collectibility 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 appropriate allowance level is estimated based upon factors and trends identified by management at the time the consolidated financial statements are prepared.

Mortgage Servicing Rights

The Company stratifies its MSR's based on the predominant characteristics of the underlying financial assets including coupon interest rate and contractual maturity of the mortgage. An estimated fair value of MSR's is determined quarterly using a discounted cash flow model. The model estimates the present value of the future net cash flows of the servicing portfolio based on various factors, such as servicing costs, servicing income, expected prepayments speeds, discount rate, loan maturity and interest rate. The effect of changes in market interest rates on estimated rates of loan prepayments represents the predominant risk characteristic underlying the MSR's portfolio.

The Company's methodology for estimating the fair value of MSR's is highly sensitive to changes in assumptions. For example, the determination of fair value uses anticipated prepayment speeds. Actual prepayment experience may differ and any difference may have a material effect on the fair value. Thus, any measurement of MSR's fair value is limited by the conditions existing and assumptions made as of the date made. Those assumptions may not be appropriate if they are applied to a different time.

Future expected net cash flows from servicing a loan in the servicing portfolio would not be realized if the loan were paid off earlier than anticipated. Moreover, since most loans within the servicing portfolio do not contain penalty provisions for early payoff, the Company will not receive a corresponding economic benefit if the loan pays off earlier

than expected. MSR's are the discounted present value of the future net cash flows projected from the servicing portfolio. Accordingly, prepayment risk subjects the Company's MSR's to impairment. MSR's impairment is recorded in the amount that the estimated fair value is less than the MSR's carrying value on a strata by strata basis.

Investment Valuation

The Company's determination of impairment for various types of investments accounted for in accordance with SFAS No. 115 is predicated on the notion of other-than-temporary. The key indicator that an investment may be impaired is that the fair value of the investment is less than its carrying value. Each reporting period, the Company reviews those investments where the fair value is less than carrying value. The review includes determining whether certain indicators indicated the fair value of the investment has been negatively impacted. These indicators include deteriorating financial condition, regulatory, economic or technological changes, downgrade by a rating agency and length of time the fair value has been less than carrying value. If any indicators of impairment are present, management determines the fair value of the investment and compares this to its carrying value. If the fair value of the investment is less than the carrying value of the investment, the investment is considered impaired and a determination must be made as to whether the impairment is other-than-temporary.

Securities held to maturity are carried at cost, adjusted for amortization of premiums and accretion of discounts, which are recognized in interest income using the interest method. If the cost basis of these securities is determined to be other-than-temporary impaired, the amount of the impairment is charged to operations.

Securities available for sale are carried at fair value. Premiums and discounts are amortized using the interest method over the remaining period to contractual maturity. Unrealized holding gains and losses, or valuation allowances established for net unrealized losses, are excluded from earnings and reported as a separate component of shareholders' equity as accumulated other comprehensive income (loss), net of income taxes, unless the security is deemed other-than-temporary impaired. If the security is determined to be other-than-temporary impaired, the amount of the impairment is charged to operations.

The Company's underlying principle in determining whether impairment is other-than-temporary is an impairment shall be deemed other-than-temporary unless positive evidence indicating that an investment's carrying value is recoverable within a reasonable period of time outweighs negative evidence to the contrary. Evidence that is objectively determinable and verifiable is given greater weight than evidence that is subjective and or not verifiable. Evidence based on future events will generally be less objective as it is based on future expectations and therefore is generally less verifiable or not verifiable at all. Factors considered in evaluating whether a decline in value is other-than-temporary include, (a) the length of time and the extent to which the fair value has been less than amortized cost, (b) the financial condition and near-term prospects of the issuer and (c) the Company's intent and ability to retain the investment for a period of time. In situations in which the security's fair value is below amortized cost but it continues to be probable that all contractual terms of the security will be satisfied, and that the decline is solely attributable to changes in interest rates (not because of increased credit risk), and the Company asserts that it has positive intent and ability to hold that security to maturity, no other-than-temporary impairment is recognized.

Operating Strategy

In the fiscal year ended March 31, 1998, the Company began to implement a growth strategy to broaden its products and services from those of a traditional thrift to those more closely related to commercial banking. The growth strategy included four elements: geographic and product expansion, loan portfolio diversification, development of relationship banking and maintenance of asset quality.

The April 2005 acquisition of APB added three branches in Oregon: Portland, Aumsville and Wood Village. Fiscal year 2006 expansion also included opening in Vancouver the Riverview Center (an operations center) and the Tech Center Branch. The Riverview Center is a 50,000 square foot office building; over 80 employees from accounting, audit, data processing, human resources, information technology, loan origination, loan servicing, marketing and operations are located here. The Tech Center is a full service branch with the convenience of two drive-up teller windows, drive-up ATM and safe deposit boxes. During fiscal year 2007 the Company opened a new full service branch and commercial lending center (Gateway branch) in Portland, Oregon. The number of automated teller

machines increased from six at March 31, 1998 to 20 at March 31, 2007 so that each branch location now is serviced by at least one automated teller machine.

The Company's growing commercial customer base has enjoyed new products and the improvements in existing products. These new products include business checking, internet banking and new loan products. Retail customers have benefited from expanded choices ranging from additional automated teller machines, consumer lending products, checking accounts, debit cards, 24 hour account information service and internet banking.

Fiscal 2007 marked the 84th anniversary since the Bank opened its doors in 1923. The historical emphasis has been on residential real estate lending, however, the Company began diversifying its loan portfolio through the expansion of commercial loans in 1998. At March 31, 2003, commercial and construction loans as a percentage of the loan portfolio were 72.42%, which has increased to 89.38% of total loans at the end of fiscal year 2007. Commercial lending including commercial real estate has higher credit risk, wider interest margins and shorter loan terms than residential lending which can increase the loan portfolio's profitability.

The Company's relationship banking has been enhanced by the 1998 addition of Riverview Asset Management Corp, a trust company directed by experienced trust officers, through expanded loan products serviced by experienced commercial and consumer lending officers, and an expanded branch network led by experienced branch managers. Development of relationship banking has been the key to the Company's growth. The fair market value of assets under management in Riverview Asset Management Corp. has increased from $232.8 million at March 31, 2006, to $285.6 million at March 31, 2007.

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 its cost of funds, which consists of interest paid on deposits and borrowings. Net interest income is also affected by the relative amounts of interest-earning assets and interest-bearing liabilities. When interest-earning assets equal or exceed interest-bearing liabilities, any positive interest rate spread will generate net interest income. The level of non-interest income and expenses also affects the Company's profitability. Non-interest income includes deposit service fees, income associated with the origination and sale of mortgage loans, brokering loans, loan servicing fees, income from real estate owned, net gains and losses on sales of interest-earning assets, bank owned life insurance income and asset management fee income. Non-interest expenses include compensation and benefits, occupancy and equipment expenses, deposit insurance premiums, data servicing expenses and other operating costs. 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.

Comparison of Financial Condition at March 31, 2007 and 2006

At March 31, 2007, the Company had total assets of $820.3 million compared with $763.8 million at March 31, 2006. The increase in total assets was primarily as a result of the increase in the balance of loans outstanding.

Loans receivable, net, was $683.0 million at March 31, 2007, compared to $623.0 million at March 31, 2006, a 9.6% increase. The $60.0 million increase reflects increases in all loan categories except other installment. The national and local economy both are experiencing slower growth and this has reduced the demand for the Bank's loans particularly during the fourth quarter of fiscal year 2007. In the first quarter of fiscal year 2008 the Bank has implemented a strategy to increase the amount of resources available to attract more loans. A substantial portion of the Company's loan portfolio is secured by real estate, either as primary or secondary collateral located in its primary market areas.

Cash, including interest-earning accounts, totaled $31.4 million at March 31, 2007, compared to $31.3 million at March 31, 2006, as a result of the Company's increase in total loans.

Investment securities available-for-sale were $19.3 million at March 31, 2007, compared to $24.0 million at March 31, 2006. The decrease was attributable to maturities and scheduled cash flows.

Mortgage-backed securities held-to-maturity was $1.2 million at March 31, 2007, compared to $1.8 million at March 31, 2006. The decrease is attributable to maturities and scheduled cash flows.

Mortgage-backed securities available-for-sale were $6.6 million at March 31, 2007, compared to $8.1 million at March 31, 2006. The $1.5 million decrease was a result of pay downs.

Deposit accounts totaled $665.4 million at March 31, 2007 compared to $607.0 million at March 31, 2006. The increase in deposits is a result of increase in money market and NOW accounts. Checking accounts and money market accounts total average outstanding balance increased 22.3% to $301.2 million at March 31, 2007, compared to $246.2 million at March 31, 2006. Transaction accounts represented 56.2% and 51.4% of average total outstanding balance of deposits at March 31, 2007 and March 31, 2006, respectively. The increase in money market deposits resulted from making available an existing money market product to all the Bank's branches whereas prior only a select few branches offered this money market product.

FHLB advances decreased to $35.1 million at March 31, 2007 as compared to $46.1 million at March 31, 2006. The decrease reflects the growth in deposits.

Shareholders' equity increased $8.5 million to $100.2 million at March 31, 2007 from $91.7 million at March 31, 2006. The increase was primarily the result of $11.8 million total comprehensive income, $274,000 earned ESOP shares and $880,000 received from the exercise of stock options and partially offset by $4.5 million cash dividends paid to shareholders.

Comparison of Operating Results for the Years Ended March 31, 2007 and 2006

Net Income. Net income was $11.6 million, or $1.01 per diluted earning share for the year ended March 31, 2007, compared to $9.7 million, or $0.86 per diluted share for the year ended March 31, 2006. The increase resulted from an increase in interest income and non-interest income partially offset by increases in interest expense and non-interest expense.

Net Interest Income. Net interest income for fiscal year 2007 was $36.5 million, representing a $4.2 million, or a 12.9% increase, from $32.4 million in fiscal year 2006. This improvement reflected a 13.3% increase in the average balance of interest earning assets to $731.1 million, which was offset by a 15.4% increase in the average balance of interest-bearing liabilities an increase in all deposit categories except savings accounts, to $536.3 million. The ratio of average interest earning assets to average interest bearing liabilities decreased to 118.96% in fiscal 2007 from 121.14% in fiscal 2006 which indicates that the interest-earning asset growth is being funded more by interest-bearing liabilities as compared to capital and non-interest-bearing demand deposits.

Interest Income. Interest income was $61.3 million for the fiscal year ended March 31, 2007 compared to $47.2 million, for the fiscal year ended March 31, 2006. Increased interest income is the result of the increase in the average balance of interest earning assets and the increased yield on interest earning assets. Average interest-bearing assets increased $86.0 million to $731.1 million for fiscal 2007 from $645.1 million for fiscal 2006. The yield on interest-earning assets was 8.40% for fiscal year 2007 compared to 7.34% for fiscal 2006. The increased yield is primarily the result of the higher yields on loans, investment securities and other interest earning assets reflecting the increasing interest rate environment. The increased interest income is the result of the increase in the average balance of interest earning assets and the increase in the yield on interest earning assets.

Interest Expense. Interest expense for the fiscal year ended March 31, 2007 totaled $24.8 million, a $9.9 million or 6.66% increase from $14.9 million for the fiscal year ended March 31, 2006. The increase in interest expense is the result of higher rates of interest paid on deposits and borrowings that occurred during fiscal years 2007 and 2006. The weighted average interest rate of total deposits increased from 2.58% for the year ended March 31, 2006 to 3.82% for the year ended March 31, 2007. The weighted average interest rate of FHLB borrowings increased from 4.44% for the year ended March 31, 2006 to 5.26% for the year ended March 31, 2007. The mix of deposits has changed as the interest rates on deposit accounts have increased. There is an increased demand for higher yielding money market accounts which is reflected in the growth of total average money market accounts in fiscal year 2007 to $161.6 million compared to $120.2 million in fiscal year 2006. Growth in loans in fiscal year 2007 was supported by the increased average total FHLB-Seattle borrowings of $68.3 million for the fiscal year 2007 compared to $51.1 million for the fiscal year 2006.

Provision for Loan Losses. The provision for loan losses for fiscal year 2007 was $1.4 million, compared to $1.5 million for the same period in the prior year. Management analyzes the probable loss factors that drive the loan loss reserve on a quarterly basis. These probable loss factors contemplate historical loss rates, adjusted for qualitative factors that are included in our analysis. Such factors include the relative strength of the local economy, concentrations in certain categories, such as commercial real estate and construction loans, the impact of an increasing interest rate environment along with other factors. As part of that ongoing process, the Company has continued to refine its reserving methodologies with regard to larger and/or high-risk loans that we consider to be "non-homogeneous", such as commercial, speculative, and commercial construction loans. These refinements, which primarily included the improved methodology of calculating required allowance for loan losses based on loan purpose, have improved the determination of the required allowance for loan losses. During the fiscal year ended March 31, 2007, management evaluated known and inherent risks in the loan portfolio and changes were made in the estimation, assumptions and allocation of the allowance for loan losses to reflect the changing housing market. The national and local economy housing market is experiencing a slow down in housing sales which has impacted land developers' and housing contractors' ability to sell their products. The estimated loan loss rate was increased by 0.250% to 1.250% for the loans consisting of land and lots for development, speculative construction loans and raw land loans. Such changes resulted in approximately $400,000 of increased provision for the fiscal year ended March 31, 2007. The stable loan loss provision for the fiscal year ended March 31, 2007 as compared to the prior year was due to a combination of increased loan loss rates offset by the decreased loan charge-offs, smaller loan growth experienced

during the year ended March 31, 2007 as well as the refinement in determining the required allowance for loan loss based on loan purpose. Net recoveries for the year ended March 31, 2007 were $7,000, compared to net charge-offs of $562,000 for the same period of last year. Annualized net recoveries to average net loans for the year ended March 31, 2007 was 0.0% compared to annualized net charge-offs of 0.10% for the same period in the prior year. Non-accrual loans continued to decrease from $415,000 at March 31, 2006 to $226,000 at March 31, 2007. The allowance for loan losses was $8.7 million at March 31, 2007 compared to $7.2 million at March 31, 2006. The quality of the loan portfolio continues to be very stable, as the classified substandard loan balances have increased just $77,000 and non-accrual loans decreased by $189,000 at March 31, 2007 compared to March 31, 2006. The ratio of allowance for credit losses and loan commitments to total net loans at March 31, 2007 increased to 1.31% from 1.20% at March 31, 2006 with such increase reflecting the changing loan balance, mix of the Company's loan portfolio and the additional risk of these loans as described above.

Non-Interest Income. Non-interest income increased $197,000, or 2.2%, to $9.0 million for the year ended March 31, 2007 from $8.8 million for the same period in 2006 primarily as a result of a $393,000 increase in asset management fees. The increase in asset management fees reflects the increase in assets under management by Riverview Asset Management Corp. from $232.8 million at March 31, 2006 to $285.6 million at March 31, 2007. The $166,000 decrease in fees and service charges reflects the $240,000 decrease in credit card fees resulting from the sale of the credit card portfolio in the second quarter of fiscal 2006. The decrease in credit card fees was partially offset by increases in fees earned on deposit accounts and broker loan fees. The increase in loan servicing income for fiscal year 2007 includes the $25,000 decrease in servicing amortization as the servicing portfolio has decreased. Mortgage brokered loan production decreased from $276.6 million during the year ended March 31, 2006 to $250.7 million during the year ended March 31, 2007. Mortgage broker fees (included in fees and service charges) totaled $2.2 million for the year ended March 31, 2007 compared to $2.1 million for the previous year. Mortgage broker commission compensation expense was $1.3 million for the fiscal year ended March 31, 2007 compared to $1.3 million for the fiscal year ended March 31, 2006.

Non-Interest Expense. Non-interest expense increased $979,000 million, or 3.9%, to $26.4 million for fiscal year ended March 31, 2007 compared to $25.4 million for fiscal year ended March 31, 2006. The principal component of the increase in the Company's non-interest expense was salaries and employee benefits. For the year ended March 31, 2007, salaries and employee benefits, which includes mortgage broker commission compensation, was $15.0 million, a 3.3% increase over the prior year total of $14.5 million. Salaries increased as the number of full-time equivalent employees increased to 255 at March 31, 2007 from 239 at March 31, 2006, which was primarily the result of the expansion related to increased staffing in branches and operations.

One measure of a bank's ability to contain non-interest expense is the efficiency ratio, which is calculated by dividing total non-interest expense (less intangible asset amortization) by the sum of net interest income plus non-interest income (less intangible asset amortization, lower of cost or market adjustments and securities impairment charge). The Company's efficiency ratio excluding intangible asset amortization, lower of cost or market adjustments and securities impairment charge was 57.22% in fiscal 2007 compared to 60.79% in fiscal 2006.

During the third quarter of fiscal year 2007, the current ESOP expiration date was extended from December 31, 2011 to December 31, 2017. This extension resulted in the third quarter reduction of ESOP expense of $240,000 reflecting the release of 24,633 ESOP shares to the ESOP participants at December 31, 2006.

The acquisition of APB and the related acquisition of $80.0 million in deposit accounts created a $526,000 core deposit intangible ("CDI") representing the excess of cost over fair market value of the acquired deposits. The CDI is being amortized over a ten-year life using an accelerated method. The amortization expense was $86,000 for fiscal 2007, compared to $93,000 in fiscal 2006.

The acquisition of Today's Bancorp and the related acquisition of $105.1 million in deposit accounts created an $820,000 CDI. The CDI is being amortized over a ten-year life using an accelerated amortization method. The amortization expense was $98,000 for fiscal 2007, compared to $117,000 for fiscal 2006.

Provision for Income Taxes. The provision for income taxes was $6.2 million for the year ended March 31, 2007 compared to $4.6 million for the year ended March 31, 2006. The primary reason the tax provision is higher in the current year compared to the prior year is a result of the higher income in the current year. The effective tax rate for fiscal year 2007 was 34.6% compared to 31.9% for fiscal 2006. The primary reason for the increase in the effective tax rate was the entry into a new tax jurisdiction including the state of Oregon and Multnomah County in Oregon. Reference is made to Note 14 of the Notes to the Consolidated Financial Statements contained in Item 8 of this Form 10-K, for further discussion of the Company's income taxes.

Comparison of Operating Results for the Years Ended March 31, 2006 and 2005

Net Income. Net income was $9.7 million, or $0.86 per diluted earning share for the year ended March 31, 2006, compared to $6.5 million, or $0.67 per diluted share for the year ended March 31, 2005.

Net Interest Income. Net interest income for fiscal year 2006 was $32.4 million, representing a $9.8 million, or a 43.3% increase, from $22.6 million in fiscal year 2005. This improvement reflected a 34.5% increase in the average balance of interest earning assets (primarily as a result of increases in the average balance of mortgage and non-mortgage loans due primarily to the APB acquisition, partially offset by a decrease in the average balance of mortgage-backed and investment securities and daily interest bearing assets) to $645.1 million, which was offset by a 37.1% increase in the average balance of interest-bearing liabilities (an increase in all deposit categories reflecting deposits assumed as part of the APB acquisition and a $13.0 million increase in average FHLB borrowings) to $532.5 million. The ratio of average interest earning assets to average interest bearing liabilities decreased to 121.14% in fiscal 2006 from 123.45% in fiscal 2005 which indicates that the interest-earning asset growth is being funded more by interest-bearing liabilities as compared to capital and non-interest-bearing demand deposits.

Interest Income. Interest income was $47.2 million for the fiscal year ended March 31, 2006 compared to $30.0 million, for the fiscal year ended 2005. Increased interest income is the result of the increase in the average balance of interest earning assets and the increased yield on interest earning assets. Average interest-bearing assets increased $165.6 million to $645.1 million for fiscal 2006 from $479.5 million for fiscal 2005. The yield on interest-earning assets was 7.34% for fiscal year 2006 compared to 6.28% for fiscal 2005. The increased yield isprimarily the result of the higher yields on loans, investment securities and other interest earning assets reflecting the increasing interest rate environment. The increased interest income is the result of the increase in the average balance of interest earning assets and the increase in the yield on interest earning assets.

Interest Expense. Interest expense for the year ended March 31, 2006 totaled $14.9 million, a $7.5 million increase from $7.4 million for the year ended March 31, 2005. The increase in interest expense is the result of higher rates of interest that occurred during fiscal years 2005 and 2006. The weighted average interest rate of total deposits increased from 1.55% for the year ended March 31, 2005 to 2.58% for the year ended March 31, 2006. The weighted average interest rate of FHLB borrowings decreased from 5.00% for the year ended March 31, 2005 to 4.44% for the year ended March 31, 2006.

Provision for Loan Losses. The provision for loan losses for fiscal year 2006 was $1.5 million, compared to $410,000 for the same period in the prior year. For this time period the loan receivable balance increased $196.4 million to $630.2 million at March 31, 2006 from $433.8 million at March 31, 2005. Excluding the impact of the American Pacific Bank acquisition, organic loan growth during the fiscal year 2006 was $77.4 million, consisting primarily of commercial and construction loans. Management analyzes the probable loss factors that drive the loan loss reserve on a quarterly basis. These probable loss factors contemplate historical loss rates, adjusted for qualitative factors that are included in the Company's analysis. Such factors include the relative strength of the local economy, concentrations in certain categories, such as commercial real estate and construction loans, the impact of an increasing interest rate environment, as well as the overall impact of integrating APB's lending business with ours, along with other factors. As part of that ongoing process, we have continued to refine the Company's reserving methodologies with regard to larger and/or high-risk loans that we consider to be "nonhomogeneous", such as commercial, speculative, and commercial construction loans. Such loans have continued to be an increasing part of the Company's loan portfolio in recent quarters, which tends to result in an increased loan loss requirement. For example, as a percentage of total loans, the Company's other real estate mortgage loans increased from 50.84% to 52.30% and

construction loans from 13.51% to 21.83% at March 31, 2006 as compared to March 31, 2005. Based on the Company's continuing analysis of these loans, we increased certain loss factors assigned to some of these loan categories during the current fiscal year. For example, the estimated loan loss rate for land and lots for development was increased by 0.25% to 1.0%, commercial real estate loans was increased by 0.125% to 0.875%, commercial construction loans was increased by 0.125% to 0.875%, speculative construction loans was increased by 0.50% to 1.00%, multi-family loans was increased by 0.375% to 0.875% and raw land and lots was increased by 0.25% to 1.00% to cover the probable losses inherent in the loan portfolio. Such changes resulted in approximately $900,000 of increased provision for the fiscal year of 2006. The increased loan loss provision during the fiscal year 2006 was due to this combination of loan growth, as well as the higher percentage of loans falling into higher risk categories. Net charge-offs to average net loans was 0.10% for fiscal year 2006 as compared to 0.13% for prior year. Non-accrual loans continued to decrease from $456,000 at March 31, 2005 to $415,000 at March 31, 2006. The allowance for loan losses was $7.2 million at March 31, 2006 compared to $4.4 million at March 31, 2005. The quality of the loan portfolio continues to be very good, as the criticized classified loan balances have increased just $872,000 and non-accrual loans decreased by $41,000 at March 31, 2006 compared to March 31, 2005. Net charge-offs for the twelve months ended March 31, 2006 were $562,000, compared to $496,000 for the same period of last year. The ratio of allowance for credit losses and loan commitments to total net loans at March 31, 2006 increased to 1.20% from 1.07% at March 31, 2005 with such increase reflecting the changing mix of the Company's loan portfolio and the additional risk of these loans as described above. Management believes that its allowance for loan losses as of March 31, 2006 was adequate to absorb the known and inherent risks of loss in the loan portfolio at that date. While management believes the estimates and assumptions used in its determination of the adequacy of the allowance are reasonable, there can be no assurance that such estimates and assumptions will not be proven incorrect in the future, or that the actual amount of future provisions will not exceed the amount of past provisions or that any increased provisions that may be required will not adversely impact the Company's financial condition and results of operations. In addition, the determination of the amount of the Bank's allowance for loan losses is subject to review by bank regulators, as part of the routine examination process, which may result in the establishment of additional reserves based upon their judgment of information available to them at the time of their examination.

Non-Interest Income. Non-interest income increased $2.3 million, or 35.8%, to $8.8 million for the year ended March 31, 2006 from $6.5 million for the same period in 2005 primarily as a result of a $1.3 million increase in fees and service charges, an increase of $361,000 in asset management fees and the non-recurring $311,000 gain on sale of the credit card portfolio acquired in the APB acquisition. The $1.3 million increase in fees and service charges was primarily a result of the $544,000 or 34.6% growth in mortgage broker fees and the acquisition of APB in fiscal year 2006 as compared to fiscal year 2005. The increase in loan servicing income for fiscal year 2006 reflects the $68,000 decrease in servicing amortization as the servicing portfolio has decreased. For the year ended March 31, 2006, fees and service charges increased $1.3 million, or 28.9%, when compared to the year ended March 31, 2005. The increase in the number of mortgage brokers from 12 to 13 in fiscal year 2005 combined with the increasing mortgage interest rates experienced in fiscal 2006 increased the volume of mortgage refinance activity as compared to fiscal 2005. The increased mortgage refinance activity resulted in increased mortgage broker activity. The reduced gains on sale of loans held for sale reflected the mortgage broker activity having a higher proportion of brokered loans versus portfolio loans. Mortgage brokered loan production increased from $194.4 million in 2005 to $276.6 million in 2006. Mortgage broker fees (included in fees and service charges) totaled $2.1 million for the year ended March 31, 2006 compared to $1.6 million for the previous year. Mortgage broker commission compensation expense was $1.3 million for the fiscal ended March 31, 2006 compared to $1.0 million for the fiscal ended March 31, 2005. Asset management services income increased $1.5 million reflecting the increase in assets under management for the fiscal year 2006 compared to $1.1 million for the fiscal year 2005. Riverview Asset Management Corp. had $232.8 million in total assets under management at March 31, 2006 compared to $174.8

million at March 31, 2005

Non-Interest Expense. Non-interest expense increased $6.3 million, or 32.8%, to $25.4 million for fiscal year 2006 compared to $19.1 million for fiscal year 2005. One measure of a bank's ability to contain non-interest expense is the efficiency ratio, which is calculated by dividing total non-interest expense (less intangible asset amortization) by the sum of net interest income plus non-interest income (less intangible asset amortization, lower of cost or market adjustments and securities impairment charge). The Company's efficiency ratio excluding intangible asset amortization, lower of cost or market adjustments and securities impairment charge was 60.79% in fiscal 2006 compared to 61.63% in fiscal 2005.

The principal component of the increase in the Company's non-interest expense is salaries and employee benefits. For the year ended March 31, 2006, salaries and employee benefits, which includes mortgage broker commission compensation, was $14.5 million, a 34.9% increase over the prior year total of $10.8 million. Salaries increased as the number of full-time equivalent employees increased to 239 at March 31, 2006 from 197 at March 31, 2005, which was primarily the result of the expansion related to increased staffing in branches and operations.

The acquisition of APB and the related acquisition of $80.0 million in deposit accounts created a $526,000 core deposit intangible ("CDI") representing the excess of cost over fair market value of the acquired deposits. The CDI is being amortized over a ten-year life using an accelerated method. The amortization expense was $93,000 for fiscal 2006, compared to none in fiscal 2005.

The acquisition of Today's Bancorp and the related acquisition of $105.1 million in deposit accounts created an $820,000 CDI. The CDI is being amortized over a ten-year life using an accelerated amortization method. The amortization expense was $117,000 for fiscal 2006, compared to $138,000 for fiscal 2005.

The acquisition of the Hazel Dell and Longview branches from the Resolution Trust Corporation in fiscal 1995 (see Item 2. Properties), and the related acquisition of $42.0 million in customer deposits created a $3.2 million core deposit intangible asset, representing the excess of fair value of deposits over the acquired cost. CDI was $42,000 at March 31, 2005 and was fully amortized during the fiscal year 2005. The amortization expense of CDI was $42,000 for the fiscal year 2005.

Provision for Income Taxes. The provision for income taxes was $4.6 million for the year ended March 31, 2006 compared to $3.0 million for the year ended March 31, 2004. The primary reason the tax provision is higher in the current year compared to the prior year is a result of the higher income in the current year. The effective tax rate for fiscal year 2006 was 31.9% compared to 31.7% for fiscal 2005. The primary reason for the increase in the effective tax rate was the entry into a new tax jurisdiction including the state of Oregon and Multnomah County. Reference is made to Note 14 of the Notes to the Consolidated Financial Statements contained in Item 8 of this Form 10-K, for further discussion of the Company's income taxes.

Average Balance Sheet. The following table sets forth, for the periods indicated, information regarding average balances of assets and liabilities as well as the total dollar amounts of interest income from average interest-earning assets and interest expense on average interest-bearing liabilities, resultant yields, interest rate spread, ratio of interest-earning assets to interest-bearing liabilities and net interest margin. Average balances for a period have been calculated using monthly average balances during such period. Interest income on tax-exempt securities has been adjusted to a taxable-equivalent basis using the statutory federal income tax rate of 34%. Non-accruing loans were included in the average loan amounts outstanding. Loan fees of $3.7 million, $3.1 million and $2.5 million are included in interest income for the years ended March 31, 2007, 2006 and 2005, respectively.

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	Year Ended March 31,					
	2007			2006		
	Average Balance	Interest and Dividends	Yield/ Cost	Average Balance	Interest and Dividends	Yield/ Cost
				(Dollars in thousands)		
Interest-earning assets:						
Mortgage loans	$585,595	$ 50,981	8.71%	$485,554	$37,916	7.81%
Non-mortgage loans	100,031	8,515	8.51	96,472	7,123	7.38
Total net loans (1)	685,626	59,496	8.68	582,026	45,039	7.74
Mortgage-backed securities(2)	9,077	421	4.64	12,144	530	4.36
Investment securities (2)	22,260	1,101	4.95	24,101	1,106	4.59
Daily interest-bearing assets	6,559	337	5.14	19,480	649	3.33
Other earning assets	7,567	29	0.38	7,333	3	0.04
Total interest-earning assets	731,089	61,384	8.40	645,084	47,327	7.34
Non-interest-earning assets:						
Office properties and equipment, net	20,387			12,358		
Other non-interest-earning assets	61,623			60,294		
Total assets	$813,099			$717,736		
Interest-bearing liabilities:						
Regular savings accounts	$ 32,591	$ 179	0.55	$ 38,818	$ 213	0.55
Interest checking	139,600	4,421	3.17	126,045	2,248	1.78
Money market accounts	161,590	6,969	4.31	120,188	3,276	2.73
Certificates of deposit	202,506	8,938	4.41	194,253	6,646	3.42
Total interest-bearing deposits	536,287	20,507	3.82	479,304	12,383	2.58
Other interest-bearing liabilities	78,259	4,275	5.46	53,217	2,494	4.69
Total interest-bearing liabilities	614,546	24,782	4.03	532,521	14,877	2.79
Non-interest-bearing liabilities:						
Non-interest-bearing deposits	91,888			87,490		
Other liabilities	8,995			8,777		
Total liabilities	715,429			628,788		
Shareholders' equity	97,670			88,948		

Total liabilities and shareholders' equity	$813,099			$717,736		
Net interest income		$ 36,602			$ 32,450	
Interest rate spread			4.37%			4.55%
Net interest margin			5.01%			5.03%
Ratio of average interest-earning assets to average interest-bearing liabilities			118.96%			121.14%
Tax Equivalent Adjustment(3)		$ 84			$ 98	

(1) Includes non-accrual loans. Includes amortized loan fees of $3.7 million, $3.1 million and $ year 2007, 2006 and 2005, respectively.

(2) For purposes of the computation of average yield on investments available for sale, historica utilized, therefore, the yield information does not give effect to change in fair value that component of shareholders' equity.

(3) Tax-equivalent adjustment relates to non-taxable investment interest income and preferred equ income. The federal statutory tax rate was 34% for all years presented.

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Yields Earned and Rates Paid

The following table sets forth for the periods and at the date indicated the weighted average yields earned on the Company's assets, the weighted average interest rates paid on the Company's liabilities, together with the net yield on interest-earning assets on a tax equivalent basis.

	At March 31,	Year Ended March 31,		
	2007	2007	2006	2005
Weighted average yield earned on:				
Total net loans (1)	8.19%	8.14%	7.20%	6.36%
Mortgage-backed securities	4.71	4.64	4.36	4.06
Investment securities	5.18	4.95	4.59	3.51
All interest-earning assets (1)	7.96	7.89	6.85	5.76
Weighted average rate paid on:				
Deposits	3.54	3.82	2.58	1.55
FHLB advances and other borrowings	5.66	5.46	4.69	5.00
All interest-bearing liabilities	3.68	4.03	2.79	1.90
Interest rate spread (spread between weighted average rate on all interest-earning assets and all interest-bearing liabilities) (1)	4.28	3.86	4.06	3.86
Net interest margin (net interest income (expense) as a percentage of				

average interest-earning assets)(1)	N/A	4.50	4.55	4.22

(1) Weighted average yield on total net loans excludes deferred loan fees.

Rate/Volume Analysis

The following table sets forth the effects of changing rates and volumes on net interest income of the Company. Information is provided with respect to: (i) effects on interest income attributable to changes in volume (changes in volume multiplied by prior rate); (ii) effects on interest income attributable to changes in rate (changes in rate multiplied by prior volume); and (iii) changes in rate/volume (change in rate multiplied by change in volume). Rate/volume variance is allocated based on the percentage relationship of changes in volume and changes in rate to the total net change.

	Year Ended March 31,					
	2007 vs 2006			2006 vs 2005		
	Increase(Decrease) Due to			Increase(Decrease) Due To		
	Volume	Rate	Total Increase (Decrease)	Volume	Rate	Total Increase (Decrease)
	(In thousands)					
Interest Income:						
Mortgage loans	$8,392	$4,673	$13,065	$13,769	$1,802	$15,571
Non-mortgage loans	271	1,121	1,392	481	1,223	1,704
Mortgage-backed securities	(141)	32	(109)	(149)	45	(104)
Investment securities (1)	(88)	83	(5)	(233)	284	51
Daily interest-bearing	(559)	247	(312)	(263)	347	84
Other earning assets	-	26	26	19	(126)	(107)
Total interest income	7,875	6,182	14,057	13,624	3,575	17,199
Interest Expense:						
Regular savings accounts	(34)	-	(34)	35	-	35
Interest checking	263	1,910	2,173	250	1,075	1,325
Money market accounts	1,378	2,315	3,693	762	1,613	2,375
Certificates of deposit	293	1,999	2,292	1,659	1,609	3,268
Other interest-bearing liabilities	1,320	461	1,781	611	(132)	479
Total interest expense	3,220	6,685	9,905	3,317	4,165	7,482
Net interest income (1)	$4,655	$ (503)	$ 4,152	$10,307	$ (590)	$9,717

(1) Taxable equivalent

Asset and Liability Management

The Company's principal financial objective is to achieve long-term profitability while reducing its exposure to fluctuating market interest rates. The Company has sought to reduce the exposure of its earnings to changes in market interest rates by attempting to manage the difference between asset and liability maturities and interest rates. The principal element in achieving this objective is to increase the interest rate sensitivity of the Company's interest-earning assets and interest-bearing liabilities. Interest rate sensitivity increases by retaining portfolio loans with interest rates subject to periodic adjustment to market conditions and selling fixed-rate one-to-four family mortgage loans with terms to maturity of more than 15 years. The Company relies on retail deposits as its primary source of funds. Management believes retail deposits reduce the effects of interest rate fluctuations because they generally represent a stable source of funds. As part of its interest rate risk management strategy, the Company promotes transaction accounts and certificates of deposit with terms up to ten years.

The Company has adopted a strategy that is designed to maintain or improve the interest rate sensitivity of assets relative to its liabilities. The primary elements of this strategy involve: the origination of adjustable rate loans or purchase of adjustable rate mortgage-backed securities for its portfolio; increasing commercial, consumer loans that

are adjustable rate and short-term loans and residential construction loans as a portion of total net loans receivable because of their generally shorter terms and higher yields than other one-to-four family residential mortgage loans; matching asset and liability maturities; investing in short term securities; and the origination of fixed-rate loans for sale in the secondary market and the retention of the related loan servicing rights. The strategy for liabilities has been to shorten the maturities for both deposits and borrowings. This approach has remained consistent throughout the past year, as the Company has experienced a change in the mix of loans, deposits and FHLB advances.

At March 31, 2007, adjustable rate loans and adjustable rate mortgage-backed securities constituted $552.2 million, or 78.9%, of the Company's total combined loans and securities portfolio. This compares to adjustable rate loans and adjustable rate mortgage-backed securities at March 31, 2006 that totaled $524.5 million, or 81.9%, of the Company's total combined loan and securities portfolio. Although the Company has sought to originate adjustable rate loans, the ability to originate and purchase such loans depends to a great extent on market interest rates and borrowers' preferences. Particularly in lower interest rate environments, borrowers often prefer to obtain fixed rate loans.

The Company's mortgage servicing activities provide additional protection from interest rate risk. The Company retains servicing rights on all mortgage loans sold. As market interest rates rise, the fixed rate loans held in portfolio diminish in value. However, the value of the servicing portfolio tends to rise as market interest rates increase because borrowers tend not to prepay the underlying mortgages, thus providing an interest rate risk hedge versus the fixed rate loan portfolio. The mortgage loan servicing portfolio totaled $110.8 million at March 31, 2007, including $1.1 million of purchased mortgage servicing. The purchase of loan servicing replaced loan servicing balances extinguished through prepayment of the underlying loans. The average balance of the servicing portfolio was $112.9 million and produced loan servicing income of $155,000 for the year ended March 31, 2007. See "Item 1. Business -- Lending Activities -- Mortgage Loan Servicing."

Consumer loans, such as home equity line of credit and installment, commercial loans and construction loans typically have shorter terms and higher yields than permanent residential mortgage loans, and accordingly reduce the

Company's exposure to fluctuations in interest rates. Adjustable interest rate commercial, construction and consumer loans totaled $550.3 million or 79.6% of total gross loans at March 31, 2007 as compared to $521.9 million or 82.8% at March 31, 2006. See "Item 1. Business -- Lending Activities -- Construction Lending" and " -- Lending Activities -- Consumer Lending."

The Company also invests in short-term to medium-term U.S. Government securities as well as mortgage-backed securities issued or guaranteed by U.S. Government agencies. At March 31, 2007, the combined portfolio carried at $27.1 million had an average term to repricing or maturity of 2.29 years. See "Item 1. Business -- Investment Activities."

A measure of the Company's exposure to differential changes in interest rates between assets and liabilities is provided by the test required by OTS Thrift Bulletin No. 13a, "Interest Rate Risk Management." This test measures the impact on net interest income and on net portfolio value of an immediate change in interest rates in 100 basis point increments. Using data compiled by the OTS, the Company receives a report that measures interest rate risk by modeling the change in net portfolio value ("NPV") over a variety of interest rate scenarios. This procedure for measuring interest rate risk was developed by the OTS to replace the "gap" analysis (the difference between interest-earning assets and interest-bearing liabilities that mature or reprice within a specific time period). NPV is the present value of expected cash flows from assets, liabilities and off-balance sheet contracts. The following table provides the estimated impacts of immediate changes in interest rates at the specified levels based on the latest OTS report dated December 31, 2006.

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	At December 31, 2006				
	Net Portfolio Value			Net Portfolio Value as a Percent of Present Value of Assets	
Change In Rates	Dollar Amount	Dollar Change	Percent Change	NPV Ratio	Change
	(Dollars in thousands)				
300 bp	$128,789	$3,021	+2%	15.01%	+33 bp
200 bp	126,681	914	+1	14.80	+12 bp
100 bp	126,466	699	+1	14.77	+9 bp
0 bp	125,767	-	-	14.68	-
(100) bp	123,380	(2,387)	(2)	14.42	(26)bp
(200) bp	120,795	(4,972)	(4)	14.14	(54)bp

For example, the above table illustrates that an instantaneous 100 basis point increase in market interest rates at December 31, 2006 would increase the Company's NPV by approximately $699,000, or 1%, at that date. At December 31, 2005, an instantaneous 100 basis point increase in market interest rates would have increased the Company's NPV by approximately $1.6 million, or 1%, at that date. The $14.8 million increase in the NPV to $125.8 million at December 31, 2006 from $110.9 million at December 31, 2005 is the result of the impact of more adjustable loan balances in the loan portfolio at December 31, 2006 as compared to December 31, 2005.

The Company's balance sheet continues to be to a degree asset sensitive in its balance between interest sensitive assets and liabilities. In the current inverted/flat interest rate environment there continues to be pressure on the net interest margin. In a sustained rising interest rate environment the asset yields are expected to closely match rising funding costs. A sustained falling interest rate environment would negatively impact net interest rate margins.

Certain assumptions used by the OTS in assessing the interest rate risk of savings associations within its region were used in preparing the preceding table. These assumptions relate to interest rates, loan prepayment rates, deposit decay rates and the market values of certain assets under differing interest rate scenarios, among others.

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

Liquidity and Capital Resources

The Company's primary source of cash flows is its operations as a lender, which generates interest income on loans. This is supplemented by fee income, service charges, and interest on investment securities, and reduced by payment of interest expense and non-interest expenses. After payment of expenses, the Company has significant positive cash flow from operating activities. The Company's investing activities typically use cash, primarily for loan originations. For the year ended March 31, 2007 additional cash flows were provided by the Company's financing activities as a result of a significant increase in deposit accounts. For the year ended March 31, 2006 the increase in deposit accounts reflects the acquisition of APB $80.0 million in deposits.

The Company's primary source of funds are customer deposits, proceeds from principal and interest payments on loans, the sale of loans, maturing securities and FHLB advances. While maturities and scheduled amortization of loans are a predictable source of funds, deposit flows and mortgage prepayments are greatly influenced by general interest rates, economic conditions and competition.

The Company must maintain an adequate level of liquidity to ensure the availability of sufficient funds to fund loan originations and deposit withdrawals, satisfy other financial commitments and to take advantage of investment opportunities. The Company generally maintains sufficient cash and short-term investments to meet short-term liquidity needs. At March 31, 2007, cash totaled $31.4 million, or 3.8%, of total assets. The Bank has a 30% of total assets line of credit with the FHLB of Seattle to the extent the Bank provides qualifying collateral and holds sufficient FHLB stock. At March 31, 2007 the Bank had $35.1 million of outstanding advances from the FHLB of Seattle under an available credit facility of $249.9 million, limited to available collateral.

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 borrowing capacity with the FHLB and collateral for borrowing at the Federal Reserve Bank discount window. At March 31, 2007, the Bank's ratio of cash and eligible investments to the sum of withdrawable savings and borrowings due within one year was 5.23%.

The Company's primary investing activity is the origination of loans. During the years ended March 31, 2007, 2006 and 2005, the Company originated $578.5 million, $665.3 million and $428.8 million of loans held for investment and loans held for sale, respectively. At March 31, 2007, the Company had outstanding real estate one-to-four family loan commitments of $445,000 and unused lines of credit on real estate one-to-four family loans totaled $22.3 million. Other installment loan commitments totaled $99,000 and unused lines of credit on other installment loans totaled $1.3 million at March 31, 2007. Other real estate mortgage loan commitments totaled $2.1 million and the undisbursed balance of other real estate mortgage loans closed was $16.5 million at March 31, 2007. Commercial loan commitments totaled $3.6 million and unused commercial lines of credit totaled $55.7 million at March 31, 2007. Construction loan commitments totaled $8.7 million and unused construction lines of credit totaled $73.4 million at March 31, 2007. 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 from March 31, 2007 totaled $144.2 million. Historically, the Company has been able to retain a significant amount of its deposits as they mature.

At March 31, 2007, scheduled maturities of certificates of deposit, FHLB advance, debentures, commitments to originate loans, undisbursed loan funds, unused lines of credit, standby letters of credit and future operating minimum lease commitments were as follows:

	Within 1 Year	1-3 Years	4-5 Years	After 5 Years	Total Balance
		(Dollars in thousands)			
Certificates of deposit	$144,210	$46,884	$5,701	$3,079	$199,874
FHLB advances	35,050	-	-	-	35,050
Debentures	-	-	-	7,217	7,217
Commitments to originate loans					
Adjustable	9,223	-	-	-	9,223
Fixed	5,676	-	-	-	5,676
Undisbursed loan funds, unused lines of credit and standby letters of credit	136,967	30,190	-	4,329	171,486
Operating leases	1,698	3,059	1,587	4,348	10,692
Total other contractual obligations	$332,824	$80,133	$7,288	$18,973	$439,218

The table above does not include interest payments on borrowings, deposit liabilities or increases in common area charges on operating leases.

The Bank's primary sources of funds are deposits, FHLB borrowings, proceeds from the principal and interest payments on loans and securities. While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit flows, prepayment of mortgage loans and mortgage-backed securities are greatly influenced by general interest rates, economic conditions and competition.

The increase in interest rates during the fiscal year ended March 31, 2007 has created an interest rate environment that caused the demand for fixed rate one-to-four family loans and repayment of existing one-to-four family mortgage loans and mortgage-backed securities to be less than in the prior year. The Company's business plan emphasizes the sale of fixed rate mortgages as part of its interest rate risk strategy. The decrease in the cash flows from operating activities of loans sold to $17.1 million for the fiscal 2007 compared to $17.8 million for fiscal 2006 reflects this strategy under the changing interest rate environment.

The Bank has experienced growth in deposit accounts that is attributable to organic growth through operations. The information contained in "Item 1, Business Deposit Activities and Other Sources of Funds -- Deposit Flow" reflects this net increase in cash flows from deposits of $58.4 million for fiscal 2007 as compared to a $150.1 million increase in net cash flows for the same period in the prior year (which included $80.1 million of deposits acquired in the APB acquisition).

Should the Bank require funds beyond its ability to generate them internally, additional funds are available through the use of FHLB and Pacific Coast Banker's Bank borrowings. At March 31, 2007 advances from FHLB totaled $35.1 million and the Bank had additional borrowing capacity available of $214.8 million from the FHLB, subject to collateral limitations. At March 31, 2007 the Bank's available borrowing line subject to collateral limitations was $121.9 million. The Bank has a $10.0 million fed funds line with Pacific Coast Banker's Bank at March 31, 2007.

Sources of capital and liquidity for the Company on a stand-alone basis include distributions from the Bank and the issuance of debt or equity. Dividends and other capital distributions from the Bank are subject to regulatory restrictions.

OTS regulations require the Bank to maintain specific amounts of regulatory capital. As of March 31, 2007, the Bank complied with all regulatory capital requirements as of that date with tangible, core and risk-based capital ratios of 9.60%, 9.60% and 11.38%, respectively. For a detailed discussion of regulatory capital requirements, see "REGULATION - Federal Regulation of Savings Associations -- Capital Requirements."

Effect of Inflation and Changing Prices

The consolidated financial statements and related financial data presented herein have been prepared in accordance with GAAP, which require the measurement of financial position and operating results in terms of historical dollars without considering the change in the relative purchasing power of money over time due to inflation. The primary impact of inflation is reflected in the increased cost of the Company's operations. Unlike most industrial companies, virtually all the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates generally have a more significant impact on a financial institution's performance than do general levels of inflation. Interest rates do not necessarily move in the same direction or to the same extent as the prices of goods and services.

New Accounting Pronouncements

For a discussion of new accounting pronouncement and their impact on the Company, see Note 1 of the Notes to the Consolidated Financial Statement included in Item 8 of this Form 10-K.

Contractual Obligations

The following table shows the contractual obligations by expected period, as of March 31, 2007. Further discussion of these commitments is included in Note 20 to the Consolidated Financial Statements included in Item 8 of this report.

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At March 31, 2007, scheduled maturities of certificates of deposit, FHLB advances, future operating minimum lease commitments and subordinated Debentures were as follows (in thousands):

	Within 1 Year	1 to 3 Years	4-5 Years	After 5 Years	Total Balance
Certificates of deposit	$144,210	$46,884	$ 5,701	$ 3,079	$199,874
FHLB advances	35,050	-	-	-	35,050
Operating leases	1,698	3,059	1,587	4,348	10,